APPENDIX C

UNITED STATES
SECURITIES AND EXCHANGE COMMISSION
Washington, DC 20549

FORM 10-K

FOR ANNUAL AND TRANSITION REPORTS PURSUANT TO SECTIONS 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934

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

For the fiscal year ended January 31, 2009

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

For the transition period from to

Commission File No. 000-22754

URBAN OUTFITTERS, INC.
(Exact Name of Registrant as Specified in Its Charter)

Pennsylvania **(State or Other Jurisdiction of Incorporation or Organization)**	**23-2003332** **(I.R.S. Employer Identification No.)**
5000 South Broad Street, Philadelphia, PA **(Address of Principal Executive Offices)**	**19112-1495** **(Zip Code)**

Registrant's telephone number, including area code: (215) 454-5500

Securities registered pursuant to Section 12(b) of the Act:

Title of Each Class	Name of Exchange on Which Registered
Common Shares, $.0001 par value	**The NASDAQ Global Select Market LLC**

Securities registered pursuant to Section 12(g) of the Act: None

Indicate by checkmark if the registrant is a well-known seasoned issuer, as defined in Rule 405 of the Securities Act. Yes ☒ No ☐

Indicate by checkmark if the registrant is not required to file reports pursuant to Section 13 or Section 15(d) of the Act. Yes ☐ No ☒

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

Indicate by checkmark if disclosure of delinquent filers pursuant to Item 405 of Regulation S-K is not contained herein, and will not be contained, to the best of Registrant's knowledge, in definitive proxy or information statements incorporated by reference in Part III of this Form 10-K or any amendment to this Form 10-K. ☐

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

Large accelerated filer ☒	Accelerated filer ☐
Non-accelerated filer ☐ (Do not check if a smaller reporting company)	Smaller reporting company ☐

Indicate by a checkmark whether the registrant is a shell company (as defined in Rule 12b-2 of the Act). Yes ☐ No ☒

The aggregate market value of the voting and non-voting common equity held by non-affiliates computed by reference to the price at which the common equity was last sold, or the average bid and asked price of such common equity, as of the last business day of the registrant's most recently completed second fiscal quarter, was $4,219,837,641.

The number of shares outstanding of the registrant's common stock on March 26, 2009 was 167,729,688.

DOCUMENTS INCORPORATED BY REFERENCE

Certain information required by Items 10, 11, 12, 13 and 14 is incorporated by reference into Part III hereof from portions of the Proxy Statement for the registrant's 2009 Annual Meeting of Shareholders.

REPORT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM

To the Board of Directors and Shareholders of
Urban Outfitters, Inc.
Philadelphia, Pennsylvania

We have audited the accompanying consolidated balance sheets of Urban Outfitters, Inc. and subsidiaries (the "Company") as of January 31, 2009 and 2008, and the related consolidated statements of income, shareholders' equity, and cash flows for each of the three years in the period ended January 31, 2009. These financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audits in accordance with the standards of the Public Company Accounting Oversight Board (United States). Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, such consolidated financial statements present fairly, in all material respects, the financial position of Urban Outfitters, Inc. and subsidiaries as of January 31, 2009 and 2008, and the results of their operations and their cash flows for each of the three years in the period ended January 31, 2009, in conformity with accounting principles generally accepted in the United States of America.

We have also audited, in accordance with the standards of the Public Company Accounting Oversight Board (United States), the Company's internal control over financial reporting as of January 31, 2009, based on the criteria established in *Internal Control—Integrated Framework* issued by the Committee of Sponsoring Organizations of the Treadway Commission and our report dated March 31, 2009 expressed an unqualified opinion on the Company's internal control over financial reporting.

/s/ DELOITTE & TOUCHE LLP

Philadelphia, Pennsylvania
March 31, 2009

URBAN OUTFITTERS, INC.

Consolidated Balance Sheets
(in thousands, except share and per share data)

	January 31, 2009	January 31, 2008
ASSETS		
Current assets:		
Cash and cash equivalents	$ 316,035	$ 105,271
Marketable securities	49,948	80,127
Accounts receivable, net of allowance for doubtful accounts of $1,229 and $966, respectively	36,390	26,365
Inventories	169,698	171,925
Prepaid expenses and other current assets	46,412	46,238
Deferred taxes	5,919	3,684
Total current assets	624,402	433,610
Property and equipment, net	505,407	488,889
Marketable securities	155,226	188,252
Deferred income taxes and other assets	43,974	32,040
Total Assets	$1,329,009	$1,142,791
LIABILITIES AND SHAREHOLDERS' EQUITY		
Current liabilities:		
Accounts payable	$ 62,955	$ 74,020
Accrued compensation	11,975	10,128
Accrued expenses and other current liabilities	66,220	83,230
Total current liabilities	141,150	167,378
Deferred rent and other liabilities	134,084	121,982
Total Liabilities	275,234	289,360
Commitments and contingencies (see Note 11)		
Shareholders' equity:		
Preferred shares; $.0001 par value, 10,000,000 shares authorized, none issued	—	—
Common shares; $.0001 par value, 200,000,000 shares authorized, 167,712,088 and 166,104,615 issued and outstanding, respectively	17	17
Additional paid-in capital	170,166	144,204
Retained earnings	901,339	701,975
Accumulated other comprehensive (loss) income	(17,747)	7,235
Total Shareholders' Equity	1,053,775	853,431
Total Liabilities and Shareholders' Equity	$1,329,009	$1,142,791

The accompanying notes are an integral part of these consolidated financial statements.

URBAN OUTFITTERS, INC.

Consolidated Statements of Income
(in thousands, except share and per share data)

	Fiscal Year Ended January 31,		
	2009	2008	2007
Net sales	$ 1,834,618	$ 1,507,724	$ 1,224,717
Cost of sales, including certain buying, distribution and occupancy costs	1,121,140	930,952	772,796
Gross profit	713,478	576,772	451,921
Selling, general and administrative expenses	414,043	351,827	287,932
Income from operations	299,435	224,945	163,989
Interest income	11,504	9,390	6,531
Other income	694	575	353
Other expenses	(2,143)	(515)	(715)
Income before income taxes	309,490	234,395	170,158
Income tax expense	110,126	74,164	53,952
Net income	$ 199,364	$ 160,231	$ 116,206
Net income per common share:			
Basic	$ 1.20	$ 0.97	$ 0.71
Diluted	$ 1.17	$ 0.94	$ 0.69
Weighted average common shares outstanding:			
Basic	166,793,062	165,305,207	164,679,786
Diluted	170,860,605	169,640,585	168,652,005

The accompanying notes are an integral part of these consolidated financial statements.

URBAN OUTFITTERS, INC.

Consolidated Statements of Shareholders' Equity
(in thousands, except share data)

	Comprehensive Income	Common Shares: Number of Shares	Common Shares: Par Value	Additional Paid-in Capital	Unearned Compensation	Retained Earnings	Accumulated Other Comprehensive Income (Loss)	Total
Balances as of February 1, 2006		164,831,477	$ 16	$138,050	$(3,905)	$426,190	$ 528	$ 560,880
Net income	$116,206	—	—	—	—	116,206	—	116,206
Foreign currency translation	3,614	—	—	—	—	—	3,614	3,614
Unrealized gains on marketable securities, net of tax	142	—	—	—	—	—	142	142
Comprehensive income	$119,962							
Share-based compensation		—	—	3,497	—	—	—	3,497
Unearned compensation reclass		—	—	(3,905)	3,905	—	—	—
Exercise of stock options		1,375,986	1	6,350	—	—	—	6,351
Tax effect of share exercises		—	—	5,394	—	—	—	5,394
Share Repurchase		(1,220,000)	—	(20,801)	—	—	—	(20,801)
Balances as of January 31, 2007		164,987,463	17	128,586	—	542,396	4,284	675,283
Net income	$160,231	—	—	—	—	160,231	—	160,231
Foreign currency translation	703	—	—	—	—	—	703	703
FIN48 adjustment	—	—	—	—	—	(652)	—	(652)
Unrealized gains on marketable securities, net of tax	2,248	—	—	—	—	—	2,248	2,248
Comprehensive income	$163,182							
Share-based compensation		—	—	3,277	—	—	—	3,277
Exercise of stock options		1,117,152	—	5,000	—	—	—	5,000
Tax effect of share exercises		—	—	7,341	—	—	—	7,341
Balances as of January 31, 2008		166,104,615	17	144,204	—	701,975	7,235	853,431
Net income	$199,364	—	—	—	—	199,364	—	199,364
Foreign currency translation	(19,866)	—	—	—	—	—	(19,866)	(19,866)
Unrealized losses on marketable securities, net of tax	(5,116)	—	—	—	—	—	(5,116)	(5,116)
Comprehensive income	$174,382							
Share-based compensation		—	—	3,637	—	—	—	3,637
Exercise of stock options		1,607,473	—	8,891	—	—	—	8,891
Tax effect of share exercises		—	—	13,434	—	—	—	13,434
Balances as of January 31, 2009		167,712,088	$ 17	$170,166	$ —	$901,339	$(17,747)	$1,053,775

The accompanying notes are an integral part of these consolidated financial statements.

URBAN OUTFITTERS, INC.

Consolidated Statements of Cash Flows
(in thousands)

	Fiscal Year Ended January 31,		
	2009	2008	2007
Cash flows from operating activities:			
Net income	$ 199,364	$ 160,231	$ 116,206
Adjustments to reconcile net income to net cash provided by operating activities:			
Depreciation and amortization	81,949	70,017	55,713
Provision for deferred income taxes	(9,351)	(2,782)	(4,959)
Excess tax benefit of share–based compensation	(13,434)	(7,341)	(5,394)
Share-based compensation expense	3,637	3,277	3,497
Loss on disposition of property and equipment, net	61	317	1,393
Changes in assets and liabilities:			
Receivables	(10,726)	(5,462)	(6,371)
Inventories	(272)	(17,430)	(13,416)
Prepaid expenses and other assets	9,210	(22,441)	6,848
Accounts payable, accrued expenses and other liabilities	(8,868)	75,967	33,600
Net cash provided by operating activities	251,570	254,353	187,117
Cash flows from investing activities:			
Cash paid for property and equipment	(112,553)	(115,370)	(212,029)
Cash paid for marketable securities	(809,039)	(293,633)	(182,653)
Sales and maturities of marketable securities	864,685	220,101	193,274
Net cash used in investing activities	(56,907)	(188,902)	(201,408)
Cash flows from financing activities:			
Exercise of stock options	8,891	5,000	6,351
Excess tax benefit of stock option exercises	13,434	7,341	5,394
Share repurchases	—	—	(20,801)
Net cash provided by (used in) financing activities	22,325	12,341	(9,056)
Effect of exchange rate changes on cash and cash equivalents	(6,224)	212	702
Increase (decrease) in cash and cash equivalents	210,764	78,004	(22,645)
Cash and cash equivalents at beginning of period	105,271	27,267	49,912
Cash and cash equivalents at end of period	$ 316,035	$ 105,271	$ 27,267
Supplemental cash flow information:			
Cash paid during the year for:			
Income taxes	$ 115,040	$ 70,765	$ 52,535
Non-cash investing activities—Accrued capital expenditures	$ 6,561	$ 6,645	$ 14,618

The accompanying notes are an integral part of these consolidated financial statements.

URBAN OUTFITTERS, INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
(in thousands, except share and per share data)

1. Nature of Business

Urban Outfitters, Inc. (the "Company" or "Urban Outfitters"), which was founded in 1970 and originally operated by a predecessor partnership, was incorporated in the Commonwealth of Pennsylvania in 1976. The principal business activity of the Company is the operation of a general consumer product retail and wholesale business selling to customers through various channels including retail stores, three catalogs and four web sites. As of January 31, 2009 and 2008, the Company operated 294 and 245 stores, respectively. Stores located in the United States totaled 270 as of January 31, 2009 and 229 as of January 31, 2008. Operations in Europe and Canada included 17 stores and 7 stores as of January 31, 2009, respectively and 12 stores and 4 stores as of January 31, 2008, respectively. In addition, the Company's wholesale segment sold and distributed apparel to approximately 1,800 better specialty retailers worldwide.

2. Summary of Significant Accounting Policies

Fiscal Year-End

The Company operates on a fiscal year ending January 31 of each year. All references to fiscal years of the Company refer to the fiscal years ended on January 31 in those years. For example, the Company's fiscal 2009 ended on January 31, 2009.

Principles of Consolidation

The consolidated financial statements include the accounts of Urban Outfitters, Inc. and its wholly owned subsidiaries. All inter-company transactions and accounts have been eliminated in consolidation.

Use of Estimates

The preparation of financial statements in conformity with accounting principles generally accepted in the United States requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of net sales and expenses during the reporting period. Actual results could differ from those estimates.

Cash and Cash Equivalents

Cash and cash equivalents are defined as cash and highly liquid investments with maturities of less than three months at the time of purchase. As of January 31, 2009 and 2008, cash and cash equivalents included cash on hand, cash in banks and money market accounts. A significant portion of the Company's cash held in money market accounts is insured under the Federal Government's Troubled Assets Relief Program ("TARP").

URBAN OUTFITTERS, INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS—(Continued)

Marketable Securities

The Company's marketable securities may be classified as either held-to-maturity or available-for-sale. Held-to-maturity securities represent those securities that the Company has both the intent and ability to hold to maturity and are carried at amortized cost. Interest on these securities, as well as amortization of discounts and premiums, is included in interest income. Available-for-sale securities represent debt securities that do not meet the classification of held-to-maturity, are not actively traded and are carried at fair value, which approximates amortized cost. Unrealized gains and losses on these securities are excluded from earnings and are reported as a separate component of shareholders' equity until realized. When available-for-sale securities are sold, the cost of the securities is specifically identified and is used to determine the realized gain or loss. Securities classified as current have maturity dates of less than one year from the balance sheet date. Securities classified as long-term have maturity dates greater than one year from the balance sheet date. Available for sale securities such as ARS that fail at auction and do not liquidate under normal course are classified as long term assets, any successful auctions would be classified as current assets. Marketable securities as of January 31, 2009 and 2008 were classified as available-for-sale.

Approximately 7% of the Company's cash, cash equivalents and marketable securities are invested in "A" or better rated Auction Rate Securities ("ARS") that represent interests in municipal and student loan related collateralized debt obligations, all of which are guaranteed by either government agencies and/or insured by private insurance agencies at 97% or greater of par value. The Company's ARS had a fair value of $38.7 million as of January 31, 2009 and $95.2 million as of January 31, 2008. As of and subsequent to the end of the current fiscal year, all of the ARS held by the Company failed to liquidate at auction due to a lack of market demand. Liquidity for these ARS is typically provided by an auction process that resets the applicable interest rate at pre-determined intervals, usually 7, 28, 35 or 90 days. The principal associated with these failed auctions will not be available until a successful auction occurs, the bond is called by the issuer, a buyer is found from outside the auction process, or the debt obligation reaches its maturity. Based on review of credit quality, collateralization, final stated maturity, estimates of the probability of being called or becoming illiquid prior to final maturity, redemptions of similar ARS, previous market activity for same investment security, impact due to extended periods of maximum auction rates and valuation models, the Company has recorded $5.3 million of temporary impairment on its ARS as of January 31, 2009. To date the Company has collected all interest receivable on outstanding ARS when due and have not been informed by the issuers that accrued interest payments are currently at risk. The Company has the ability to hold the investments until their maturity. As a result of the current illiquidity, the Company has classified all ARS as long term assets under marketable securities. The Company continues to monitor the market for ARS and consider the impact, if any, on the fair value of its investments.

The Company also includes disclosure about its investments that are in an unrealized loss position for which other-than-temporary impairments have not been recognized in accordance with the Emerging Issues Task Force ("EITF") Issue No. 03-01, "The Meaning of Other-Than-Temporary Impairment and its Applications to Certain Investments".

URBAN OUTFITTERS, INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS—(Continued)

Accounts Receivable

Accounts receivable primarily consists of amounts due from our wholesale customers as well as credit card receivables. The activity of the allowance for doubtful accounts for the years ended January 31, 2009, 2008 and 2007 is as follows:

	Balance at beginning of year	Additions	Deductions	Balance at end of year
Year ended January 31, 2009	$966	$4,375	$(4,112)	$1,229
Year ended January 31, 2008	$849	$2,628	$(2,511)	$ 966
Year ended January 31, 2007	$445	$2,192	$(1,788)	$ 849

Inventories

Inventories, which consist primarily of general consumer merchandise held for sale, are valued at the lower of cost or market. Cost is determined on the first-in, first-out method and includes the cost of merchandise and import related costs, including freight, import taxes and agent commissions. A periodic review of inventory quantities on hand is performed in order to determine if inventory is properly stated at the lower of cost or market. Factors related to current inventories such as future consumer demand and fashion trends, current aging, current and anticipated retail markdowns or wholesale discounts, and class or type of inventory are analyzed to determine estimated net realizable value. Criteria utilized by the Company to quantify aging trends include factors such as average selling cycle and seasonality of merchandise, the historical rate at which merchandise has sold below cost during the average selling cycle, and the value and nature of merchandise currently priced below original cost. A provision is recorded to reduce the cost of inventories to the estimated net realizable values, if appropriate. The majority of inventory at January 31, 2009 and 2008 consisted of finished goods. Unfinished goods and work-in-process were not material to the overall net inventory value.

Property and Equipment

Property and equipment are stated at cost and primarily consist of store related leasehold improvements, buildings and furniture and fixtures. Depreciation is typically computed using the straight-line method over five years for furniture and fixtures, the lesser of the lease term or useful life for leasehold improvements, three to ten years for other operating equipment and 39 years for buildings. Major renovations or improvements that extend the service lives of our assets are capitalized over the extension period or life of the improvement, whichever is less.

The Company reviews long-lived assets for possible impairment whenever events or changes in circumstances indicate the carrying amount may not be recoverable. This determination includes evaluation of factors such as future asset utilization and future net undiscounted cash flows expected to result from the use of the assets. Management believes there has been no impairment of the Company's long-lived assets as of January 31, 2009.

URBAN OUTFITTERS, INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS—(Continued)

Deferred Rent

Rent expense from leases is recorded on a straight-line basis over the lease period. The net excess of rent expense over the actual cash paid is recorded as deferred rent. In addition, certain store leases provide for contingent rentals when sales exceed specified break-point levels that are weighted based upon historical cyclicality. For leases where achievement of these levels is considered probable based on cumulative lease year revenue versus the established breakpoint at any given point in time, contingent rent is accrued. This is expensed in addition to minimum rent which is recorded on a straight-line basis over the lease period.

Operating Leases

The Company leases its retail stores under operating leases. Many of the lease agreements contain rent holidays, rent escalation clauses and contingent rent provisions or some combination of these items. The Company recognizes rent expense on a straight-line basis over the accounting lease term.

The Company records rent expense on a straight-line basis over the lease period commencing on the date that the premise is available from the landlord. The lease period includes the construction period to make the leased space suitable for operating during which time the Company is not permitted to occupy the space. For purposes of calculating straight-line rent expense, the commencement date of the lease term reflects the date the Company takes possession of the building for initial construction and setup.

The Company classifies tenant improvement allowances on its consolidated financial statements within deferred rent that will be amortized as a reduction of rent expense over the straight-line period. Tenant improvement allowance activity is presented as part of cash flows from operating activities in the accompanying consolidated statements of cash flows.

Revenue Recognition

Revenue is recognized at the point-of-sale for retail store sales or when merchandise is shipped to customers for wholesale and direct-to-consumer sales, net of estimated customer returns. Revenue is recognized at the completion of a job or service for landscape sales. Revenue is presented on a net basis and does not include any tax assessed by a governmental or municipal authority. Payment for merchandise at stores and through the Company's direct-to-consumer business is tendered by cash, check, credit card, debit card or gift card. Therefore, the Company's need to collect outstanding accounts receivable for its retail and direct-to-consumer business is negligible and mainly results from returned checks or unauthorized credit card transactions. The Company maintains an allowance for doubtful accounts for its wholesale and landscape service accounts receivable, which management reviews on a regular basis and believes is sufficient to cover potential credit losses and billing adjustments. Deposits for custom orders are recorded as a liability and recognized as a sale upon delivery of the merchandise to the customer. These custom orders, typically for upholstered furniture, are not material. Deposits for landscape services are recorded as a liability and recognized as a sale upon completion of service. Landscape services and related deposits are not material.

URBAN OUTFITTERS, INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS—(Continued)

The Company accounts for a gift card transaction by recording a liability at the time the gift card is issued to the customer in exchange for consideration from the customer. A liability is established and remains on the Company's books until the card is redeemed by the customer, at which time the Company records the redemption of the card for merchandise as a sale or when it is determined the likelihood of redemption is remote. The Company determines the probability of the gift cards being redeemed to be remote based on historical redemption patterns. Revenues attributable to gift card liabilities relieved after the likelihood of redemption becomes remote are included in sales and are not material. The Company's gift cards do not expire.

Sales Return Reserve

The Company records a reserve for estimated product returns where the sale has occurred during the period reported, but the return is likely to occur subsequent to the period reported and may otherwise be considered in-transit. The reserve for estimated in-transit product returns is based on the Company's most recent historical return trends. If the actual return rate or experience is materially higher than the Company's estimate, additional sales returns would be recorded in the future. The activity of the sales returns reserve for the years ended January 31, 2009, 2008 and 2007 is as follows:

	Balance at beginning of year	Additions	Deductions	Balance at end of year
Year ended January 31, 2009	$6,776	$28,408	$(27,637)	$7,547
Year ended January 31, 2008	$8,916	$35,952	$(38,092)	$6,776
Year ended January 31, 2007	$6,390	$29,376	$(26,850)	$8,916

Cost of Sales, Including Certain Buying, Distribution and Occupancy Costs

Cost of sales, including certain buying, distribution and occupancy costs includes the following: the cost of merchandise; merchandise markdowns; obsolescence and shrink; store occupancy costs including rent and depreciation; customer shipping expense for direct-to-consumer orders; in-bound and outbound freight; U.S. Customs related taxes and duties; inventory acquisition and purchasing costs; warehousing and handling costs and other inventory acquisition related costs.

Selling, General and Administrative Expenses

Selling, general and administrative expenses includes expenses such as (i) direct selling and selling supervisory expenses; (ii) various corporate expenses such as information systems, finance, loss prevention, talent acquisition, and executive management expenses; and (iii) other associated general expenses.

Shipping and Handling Fees and Costs

The Company includes shipping and handling revenues in net sales and shipping and handling costs in cost of sales. The Company's shipping and handling revenues consist of amounts billed to customers for shipping and handling merchandise. Shipping and handling costs include shipping supplies, related labor costs and third-party shipping costs.

URBAN OUTFITTERS, INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS—(Continued)

Advertising

The Company expenses the costs of advertising when the advertising occurs, except for direct-to-consumer advertising, which is capitalized and amortized over its expected period of future benefit. Advertising costs primarily relate to our direct-to-consumer marketing expenses which are composed of catalog printing, paper, postage and other costs related to production of photographic images used in our catalogs and on our web sites. These costs are amortized over the period in which the customer responds to the marketing material determined based on historical customer response trends to a similar season's advertisement. Amortization rates are reviewed on a regular basis during the fiscal year and may be adjusted if the predicted customer response appears materially different than the historical response rate. The Company has the ability to measure the response rate to direct marketing early in the course of the advertisement based on its customers' reference to a specific catalog or by product placed and sold. The average amortization period for a catalog or web promotion is typically three months. If there is no expected future benefit, the cost of advertising is expensed when incurred. Advertising costs reported as prepaid expenses were $2,585 and $2,496 as of January 31, 2009 and 2008, respectively. Advertising expenses were $45,561, $40,828 and $35,882 for fiscal 2009, 2008 and 2007, respectively.

Start-up Costs

The Company expenses all start-up and organization costs as incurred, including travel, training, recruiting, salaries and other operating costs.

Web Site Development Costs

The Company capitalizes applicable costs incurred during the application and infrastructure development stage and expenses costs incurred during the planning and operating stage. During fiscal 2009, 2008 and 2007, the Company did not capitalize any internal-use software development costs because substantially all costs were incurred during the planning stage, and costs incurred during the application and infrastructure development stage were not material.

Income Taxes

The Company applies Statement of Financial Accounting Standards ("SFAS") No. 109, "Accounting for Income Taxes," which principally utilizes a balance sheet approach to provide for income taxes. Under this method, deferred tax assets and liabilities are recognized for the expected future tax consequences of net operating loss carryforwards and temporary differences between the carrying amounts and the tax bases of assets and liabilities. The Company files a consolidated United States federal income tax return (see Note 8).

The Company adopted the provisions of FIN 48, "Accounting for Uncertainty in Income Taxes – an Interpretation of FASB Statement No. 109" on February 1, 2007. FIN 48 prescribes the recognition threshold and measurement attribute for the financial statement recognition and measurement of uncertain tax positions taken or expected to be taken in a tax return (see Note 8).

URBAN OUTFITTERS, INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS—(Continued)

Net Income Per Common Share

Basic net income per common share is computed by dividing net income available to common shareholders by the weighted average number of common shares outstanding. Diluted net income per common share is computed by dividing net income available to common shareholders by the weighted average number of common shares outstanding, after giving effect to the potential dilution from the exercise of securities, such as stock options and non-vested shares, into shares of common stock as if those securities were exercised (see Note 10).

Accounting for Stock-Based Compensation

Effective February 1, 2006, the Company adopted SFAS No. 123R, "Share Based Payment", ("SFAS 123R"), using the modified prospective approach. Under the modified prospective approach, the amount of compensation cost recognized includes: (i) compensation cost for all share-based payments granted before but not yet vested as of January 31, 2006, based on the grant date fair value estimated in accordance with the provisions of SFAS No. 123, and (ii) compensation cost for all share-based payments granted or modified subsequent to January 31, 2006, based on the estimated fair value at the date of grant or subsequent modification date in accordance with the provisions of SFAS 123R.

SFAS 123R also required the Company to change the classification in our consolidated statement of cash flows, of any income tax benefits realized upon the exercise of stock options or issuance of restricted share unit awards in excess of that which is associated with the expense recognized for financial reporting purposes. These amounts are presented as financing inflows in our consolidated statement of cash flows.

Prior to February 1, 2006 the Company accounted for our share-based compensation plans in accordance with the provisions of Accounting Principles Board Opinion No. 25, "Accounting for Stock Issued to Employees", as permitted by SFAS 123, and accordingly did not recognize compensation expense for stock options with an exercise price equal to or greater than the market price of the underlying stock at the date of the grant (see Note 9).

Accumulated Other Comprehensive Income

Comprehensive income is comprised of two subsets—net income and other comprehensive income. Amounts in accumulated other comprehensive income relate to foreign currency translation adjustments and unrealized gains or losses on marketable securities. The foreign currency translation adjustments are not adjusted for income taxes because these adjustments relate to indefinite investments in non-U.S. subsidiaries. As of January 31, 2009, accumulated other comprehensive income consisted of a foreign currency translation loss of $14,496. As of January 31, 2008, accumulated other comprehensive income consisted of a foreign currency translation gain of $5,370. As of January 31, 2009, other comprehensive income included an unrealized loss, net of tax, on marketable securities of $3,251 and as of January 31, 2008, an unrealized gain of $1,865, net of tax, on marketable securities. Gross realized gains are included in other income and were not material to the Company's financial statements for all three years presented.

URBAN OUTFITTERS, INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS—(Continued)

Foreign Currency Translation

The financial statements of the Company's foreign operations are translated into U.S. dollars. Assets and liabilities are translated at current exchange rates while income and expense accounts are translated at the average rates in effect during the year. Translation adjustments are not included in determining net income, but are included in accumulated other comprehensive income within shareholders' equity. As of January 31, 2009, 2008 and 2007, foreign currency translation adjustments resulted in a loss of $14,496, and gains of $5,370 and $4,667, respectively.

Fair Value of Financial Instruments

Effective February 1, 2008, the Company adopted the provisions of SFAS No. 157, "Fair Value Measurements" ("SFAS No. 157") that relate to its financial assets and financial liabilities as discussed in Note 4. SFAS No. 157 establishes a hierarchy that prioritizes fair value measurements based on the types of inputs used for the various valuation techniques (market approach, income approach and cost approach).

Management's assessment of the significance of a particular input to the fair value measurement requires judgment and may affect the valuation of financial assets and liabilities and their placement within the fair value hierarchy.

Concentration of Credit Risk

Financial instruments that potentially subject the Company to concentrations of credit risk consist principally of cash, cash equivalents, marketable securities and accounts receivable. The Company manages the credit risk associated with cash, cash equivalents and marketable securities by investing high-quality securities held with reputable trustees and, by policy, limiting the amount of credit exposure to any one issue. The Company's investment policy requires that the majority of its cash, cash equivalents and marketable securities are invested in federally insured or guaranteed investment vehicles such as; money market accounts up to applicable TARP limits, FDIC insured corporate bonds, federal government agencies and irrevocable pre-refunded municipal bonds. Receivables from third-party credit cards are processed by financial institutions, which are monitored for financial stability. The Company periodically evaluates the financial condition of its wholesale segment customers. The Company's allowance for doubtful accounts reflects current market conditions and management's assessment regarding the likelihood of collecting its accounts receivable. The Company maintains cash accounts that, at times, may exceed federally insured limits. The Company has not experienced any losses from maintaining cash accounts in excess of such limits. Management believes that it is not exposed to any significant risks related to its cash accounts.

URBAN OUTFITTERS, INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS—(Continued)

Recently Issued Accounting Pronouncements

In November 2007, the Financial Accounting Standards Board ("FASB") issued SFAS No. 141R "Business Combinations" ("SFAS No 141R"), which requires that all business combinations be accounted for by applying the acquisition method. Under the acquisition method, the acquirer recognizes and measures the identifiable assets acquired, the liabilities assumed, and any contingent consideration and contractual contingencies, as a whole at their fair value as of the acquisition date. Under SFAS No. 141R, all transaction costs are expensed as incurred. SFAS No. 141R rescinds EITF 93-7. Under EITF 93-7, the effect of any subsequent adjustments to uncertain tax positions were generally applied to goodwill, except for post-acquisition interest on uncertain tax positions, which was recognized as an adjustment to income tax expense. Under SFAS No. 141R, all subsequent adjustments to these uncertain tax positions that otherwise would have impacted goodwill will be recognized in the income statement. The guidance in SFAS No. 141R will be applied prospectively to business combinations for which the acquisition date is on or after the beginning of the first annual reporting period beginning after December 15, 2008. The Company does not expect the application of SFAS No. 141R to have a material impact on our consolidated financial statements.

In February 2007, the FASB issued SFAS No. 159, "The Fair Value Option for Financial Assets and Financial Liabilities: Including an Amendment of FASB Statement No. 115" ("SFAS No. 159"). SFAS No. 159 provides companies with an option to report selected financial assets and liabilities at fair value and requires entities to display the fair value of those assets and liabilities for which the Company has chosen to use fair value on the face of the balance sheet. SFAS No. 159 is effective for financial statements issued for fiscal years beginning after November 15, 2007. Effective February 1, 2008, the Company adopted SFAS No. 159 and has elected not to apply the provisions of SFAS No. 159 to report certain of its assets and liabilities at fair value.

In September 2006, the FASB issued SFAS No. 157, "Fair Value Measurements." SFAS No. 157 defines fair value, establishes a framework for measuring fair value in U.S. Generally Accepted Accounting Principles, and expands disclosures about fair value measurements. SFAS No. 157 is effective for financial assets and financial liabilities in fiscal years beginning after November 15, 2007 and for certain nonfinancial assets and certain nonfinancial liabilities in fiscal years beginning after November 15, 2008. Effective February 1, 2008, we have adopted the provisions of SFAS No. 157 that relate to our financial assets and financial liabilities (see Note 4). We are currently evaluating the impact of the provisions of SFAS No. 157 that relate to our nonfinancial assets and nonfinancial liabilities, which are effective for us as of February 1, 2009.

URBAN OUTFITTERS, INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS—(Continued)

3. Marketable Securities

During all periods shown, marketable securities are classified as available-for-sale. The amortized cost, gross unrealized gains (losses) and fair values of available-for-sale securities by major security type and class of security as of January 31, 2009 and 2008 are as follows:

	Amortized Cost	Unrealized Gains	Unrealized (Losses)	Fair Value
As of January 31, 2009				
Short-term Investments:				
Municipal bonds	$ 15,814	$ 123	$ —	$ 15,937
Mutual funds	5,046	—	—	5,046
Federal government agencies	24,975	—	—	24,975
Demand notes and equities	4,840	2	(852)	3,990
	50,675	125	(852)	49,948
Long-term Investments:				
Municipal bonds	76,517	1,239	(10)	77,746
Auction rate instruments (1)	44,025	—	(5,283)	38,742
Federal government agencies	25,640	—	(141)	25,499
FDIC insured corporate bonds	13,318	—	(79)	13,239
	159,500	1,239	(5,513)	155,226
	$210,175	$1,364	$(6,365)	$205,174
As of January 31, 2008				
Short-term Investments:				
Municipal bonds	$ 24,675	$ 142	$ —	$ 24,817
Auction rate instruments	33,825	—	—	33,825
Demand notes	21,485	—	—	21,485
	79,985	142	—	80,127
Long-term Investments:				
Municipal bonds	124,148	2,729	—	126,877
Auction rate instruments (1)	61,375	—	—	61,375
	185,523	2,729	—	188,252
	$265,508	$2,871	—	$268,379

(1) ARS have been classified as long-term assets in marketable securities in the Company's Consolidated Balance Sheet as of January 31, 2009 and 2008 due to ARS failures.

Proceeds from the sale and maturities of available-for-sale securities were $864,685, $220,101 and $193,274 in fiscal 2009, 2008 and 2007, respectively. The Company included in other income, a net realized loss of $896 during fiscal 2009, a net realized gain of $1 during fiscal 2008 and a net realized loss of $8 during fiscal 2007. Amortization of discounts and premiums, net, resulted in charges of $2,444, $1,734 and $1,818 for fiscal years 2009, 2008, and 2007, respectively.

URBAN OUTFITTERS, INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS—(Continued)

As of January 31, 2009, there were a total of 50 issued securities with unrealized loss positions within the Company's portfolio with a total unrealized loss position of $6,365. The total unrealized loss position due to write-downs of ARS held by the Company that have experienced auction failures was $5,283. The Company deemed all of these securities as temporarily impaired. The unrealized loss positions were primarily due to auction failures of the ARS held and fluctuations in the market interest rates for remaining securities. The Company believes it has the ability to realize the full value of all of these investments upon maturity or redemption. At January 31, 2008, there were no issued securities with an unrealized loss position within the Company's portfolio.

As of January 31, 2009, the par value of our ARS was $44,025 and the estimated fair value was $38,742. Our ARS portfolio consists of "A" or better rated ARS that represent interests in municipal and student loan related collateralized debt obligations, all of which are guaranteed by either government agencies and/or insured by private insurance agencies at 97% or greater of par value. To date, we have collected all interest payable on outstanding ARS when due and have not been informed by the issuers that accrued interest payments are currently at risk. We have the ability to hold the underlying securities until their maturity.

4. Fair Value of Financial Assets and Financial Liabilities

Effective February 1, 2008, the Company adopted the provisions of SFAS No. 157 that relate to its financial assets and financial liabilities. SFAS No. 157 establishes a hierarchy that prioritizes fair value measurements based on the types of inputs used for the various valuation techniques (market approach, income approach and cost approach). The levels of the hierarchy are described as follows:

- Level 1: Observable inputs such as quoted prices in active markets for identical assets or liabilities.
- Level 2: Inputs other than quoted prices that are observable for the asset or liability, either directly or indirectly; these include quoted prices for similar assets or liabilities in active markets and quoted prices for identical or similar assets or liabilities in markets that are not active.
- Level 3: Unobservable inputs that reflect the reporting entity's own assumptions.

URBAN OUTFITTERS, INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS—(Continued)

Management's assessment of the significance of a particular input to the fair value measurement requires judgment and may affect the valuation of financial assets and liabilities and their placement within the fair value hierarchy. The Company's financial assets that are accounted for at fair value on a recurring basis are presented in the table below:

	Marketable Securities Fair Value as of January 31, 2009			
	Level 1	**Level 2**	**Level 3**	**Total**
Assets:				
Municipal bonds	$ —	$93,683	$ —	$ 93,683
Mutual funds	5,046	—	—	5,046
Auction rate securities	—	—	38,742	38,742
Federal government agencies	50,474	—	—	50,474
FDIC insured corporate bonds	13,239	—	—	13,239
Demand notes and equities	988	3,002	—	3,990
	$69,747	$96,685	$38,742	$205,174

Level 1 assets consist of financial instruments whose value has been based on quoted market prices for identical financial instruments in an active market.

Level 2 assets consist of financial instruments whose value has been based on quoted prices for similar assets and liabilities in active markets as well as quoted prices for identical or similar assets or liabilities in markets that are not active.

Level 3 consists of financial instruments where there was no active market as of January 31, 2009. As of January 31, 2009 all of the Company's level 3 financial instruments consisted of failed ARS of which there was insufficient observable market information to determine fair value. The Company estimated the fair values for these securities by incorporating assumptions that market participants would use in their estimates of fair value. Some of these assumptions included credit quality, collateralization, final stated maturity, estimates of the probability of being called or becoming liquid prior to final maturity, redemptions of similar ARS, previous market activity for the same investment security, impact due to extended periods of maximum auction rates and valuation models. As a result of this review, the Company determined its ARS to have a temporary impairment of $5,283 as of January 31, 2009. The estimated fair values could change significantly based on future market conditions. The Company will continue to assess the fair value of its ARS for substantive changes in relevant market conditions, changes in its financial condition or other changes that may alter its estimates described above. Failed ARS represent approximately 7.4% of the Company's total cash, cash equivalents and marketable securities.

URBAN OUTFITTERS, INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS—(Continued)

Below is a reconciliation of the beginning and ending ARS securities balances that the Company valued using a Level 3 valuation for the fiscal year ended January 31, 2009.

	Fiscal Year Ended January 31, 2009
Balance at beginning of period	$ 61,375
Total (losses) realized/unrealized:	
Included in earnings	(2,880)
Included in other comprehensive income	(5,283)
Purchases, issuances and settlements	(17,350)
Transfers in and/or out of Level 3	2,880
Ending Balance as of January 31, 2009	$ 38,742
Total (losses) for the period included in other comprehensive income attributable to the change in unrealized (losses) related to assets still held at reporting date	$ (5,283)

5. Property and Equipment

Property and equipment is summarized as follows:

	January 31, 2009	January 31, 2008
Land	$ 543	$ 543
Buildings	96,205	94,547
Furniture and fixtures	214,178	184,910
Leasehold improvements	486,959	432,831
Other operating equipment	48,021	38,433
Construction-in-progress	15,458	19,796
	861,364	771,060
Accumulated depreciation	(355,957)	(282,171)
Total	$ 505,407	$ 488,889

Depreciation expense for property and equipment for fiscal years ended 2009, 2008 and 2007 was $79,505, $68,282 and $53,895, respectively.

URBAN OUTFITTERS, INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS—(Continued)

6. Accrued Expenses and Other Current Liabilities

Accrued expenses and other current liabilities consist of the following:

	January 31,	
	2009	2008
Accrued rents and estimated property taxes	$10,074	$ 8,707
Gift certificates and merchandise credits	22,307	19,518
Accrued construction	6,261	6,629
Accrued income taxes	301	20,569
Accrued sales taxes	5,174	4,024
Sales return reserve	7,547	6,018
Other current liabilities	14,556	17,765
Total	$66,220	$83,230

7. Line of Credit Facility

On December 11, 2007, the Company renewed and amended its line of credit facility with Wachovia Bank, National Association (the "Line"). The Line is a three-year revolving credit facility with an accordion feature allowing an increase in available credit up to $100 million at the Company's discretion, subject to a seven day request period. As of January 31, 2009, the credit limit under the Line was $60 million. The Line contains a sub-limit for borrowings by the Company's European subsidiaries that are guaranteed by the Company. Cash advances bear interest at LIBOR plus 0.50% to 1.60% based on the Company's achievement of prescribed adjusted debt ratios. The Line subjects the Company to various restrictive covenants, including maintenance of certain financial ratios and covenants such as fixed charge coverage and adjusted debt. The covenants also include limitations on the Company's capital expenditures, ability to repurchase shares and the payment of cash dividends. As of January 31, 2009, there were no borrowings under the Line. Outstanding letters of credit and stand-by letters of credit under the Line totaled approximately $35,139 as of January 31, 2009. The available credit, including the accordion feature under the Line was $64,861 as of January 31, 2009. The Company believes the renewed Line will satisfy its letter of credit needs through fiscal 2011. Wachovia Bank, National Association was acquired by Wells Fargo, effective January 1, 2009. The Wells Fargo acquisition does not affect the original line agreement.

URBAN OUTFITTERS, INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS—(Continued)

8. Income Taxes

The components of income before income taxes are as follows:

	Fiscal Year Ended January 31,		
	2009	2008	2007
Domestic	$297,747	$229,600	$161,985
Foreign	11,743	4,795	8,173
	$309,490	$234,395	$170,158

The components of the provision for income tax expense are as follows:

	Fiscal Year Ended January 31,		
	2009	2008	2007
Current:			
Federal	$103,907	$66,000	$48,893
State	15,037	9,936	8,442
Foreign	533	1,010	1,576
	119,477	76,946	58,911
Deferred:			
Federal	(7,917)	(2,189)	6
State	(462)	(2,499)	(2,333)
Foreign	(1,128)	891	284
	(9,507)	(3,797)	(2,043)
Change in valuation allowances	156	1,015	(2,916)
	$110,126	$74,164	$53,952

The Company's effective tax rate was different than the statutory U.S. federal income tax rate for the following reasons:

	Fiscal Year Ended January 31,		
	2009	2008	2007
Expected provision at statutory U.S. federal tax rate	35.0%	35.0%	35.0%
State and local income taxes, net of federal tax benefit	2.6	2.1	2.3
Foreign taxes	(1.5)	0.5	(2.3)
Federal rehabilitation tax credits	0	(5.0)	(2.8)
Other	(0.5)	(1.0)	(0.5)
Effective tax rate	35.6%	31.6%	31.7%

URBAN OUTFITTERS, INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS—(Continued)

The significant components of deferred tax assets and liabilities as of January 31, 2009 and 2008 are as follows:

	January 31, 2009	January 31, 2008
Deferred tax liabilities:		
Prepaid expenses	$ (1,407)	$ (1,977)
Depreciation	(17,762)	(17,399)
Gross deferred tax liabilities	(19,169)	(19,376)
Deferred tax assets:		
Deferred rent	47,945	42,620
Inventories	5,582	4,176
Accounts receivable	626	563
Net operating loss carryforwards	2,760	1,666
FIN 48	4,368	4,090
Accrued salaries and benefits, and other	5,586	2,553
Gross deferred tax assets, before valuation allowances	66,867	55,668
Valuation allowances	(1,402)	(1,246)
Net deferred tax assets	$ 46,296	$ 35,046

Net deferred tax assets are attributed to the jurisdictions in which the Company operates. As of January 31, 2009 and 2008, respectively, $32,923 and $23,187 were attributable to U.S. federal, $11,392 and $10,815 were attributed to state jurisdictions and $1,981 and $1,044 were attributed to foreign jurisdictions.

As of January 31, 2009, certain non-U.S. subsidiaries of the Company had net operating loss carryforwards for tax purposes of approximately $7,942 that do not expire and certain U.S. subsidiaries of the Company had state net operating loss carryforwards for tax purposes of approximately $5,462 that expire from 2014 through 2029. At January 31, 2009, The Company had a full valuation allowance for certain foreign net operating loss carryforwards where it was uncertain the carryforwards would be utilized. The Company had no valuation allowance for certain other foreign net operating loss carryforwards where management believes it is more likely than not the tax benefit of these carryforwards will be realized. As of January 31, 2009 and 2008, the non-current portion of net deferred tax assets aggregated $40,378 and $31,362, respectively.

The cumulative amount of the Company's share of undistributed earnings of non-U.S. subsidiaries for which no deferred taxes have been provided was $53,553 as of January 31, 2009. These earnings are deemed to be permanently re-invested to finance growth programs.

URBAN OUTFITTERS, INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS—(Continued)

A reconciliation of the beginning and ending balances of the total amounts of gross unrecognized tax benefits is as follows:

	January 31, 2009	January 31, 2008
Balance at the beginning of the period	$7,805	$ 8,717
Increases in tax positions for prior years	24	227
Decreases in tax positions for prior years	(380)	(1,414)
Increases in tax positions for current year	838	917
Settlements	(554)	(345)
Lapse in statute of limitations	(224)	(297)
Balance at the end of the period	$7,509	$ 7,805

The total amount of net unrecognized tax benefits that, if recognized, would impact the Company's effective tax rate were $6,389 and $6,036 at January 31, 2009 and 2008 respectively. The Company accrues interest and penalties related to unrecognized tax benefits in income tax expense in the Consolidated Statements of Income, which is consistent with the recognition of these items in prior reporting periods. During the years ended January 31, 2009 and 2008, the Company recognized $985 and $465 in interest and penalties. The Company had $3,609 and $2,625 for the payment of interest and penalty accrued at January 31, 2009 and 2008, respectively.

The Company files income tax returns in the U.S. federal jurisdiction and various state and foreign jurisdictions. The Company is currently under examination of its federal income tax return for the period ended January 31, 2005. The Company is not subject to U.S. federal tax examinations for years before fiscal 2004. State jurisdictions that remain subject to examination range from fiscal 2001 to 2008, with few exceptions. It is possible that these examinations may be resolved within twelve months. Due to the potential for resolution of Federal and state examinations, and the expiration of various statutes of limitation, it is reasonably possible that the Company's gross unrecognized tax benefits balance may change within the next twelve months by a range of zero to $2,096.

9. Share-Based Compensation

The Company's 2008, 2004 and 2000 Stock Incentive Plans each authorize up to 10,000,000 common shares, which can be granted as restricted shares, unrestricted shares, incentive stock options, nonqualified stock options, performance shares or as stock appreciation rights. Grants under these plans generally expire seven or ten years from the date of grant, thirty days after termination, or six months after the date of death or termination due to disability. Stock options generally vest over a period of three or five years, with options becoming exercisable in installments determined by the administrator over the vesting period. However, options granted to non-employee directors generally vest over a period of one year. The Company's 1997 Stock Option Plan (the "1997 Plan"), which replaced the previous 1987, 1992 and 1993 Stock Option Plans (the "Superseded Plans"), expired during the year ended January 31, 2004. Individual grants outstanding under the 1997 Plan and certain of the Superseded Plans have expiration dates, which extend into the year 2010. Grants under the 1997

URBAN OUTFITTERS, INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS—(Continued)

Plan and the Superseded Plans generally expire ten years from the date of grant, thirty days after termination, or six months after the date of death or termination due to disability. Stock options generally vest over a five year period, with options becoming exercisable in equal installments of twenty percent per year. As of January 31, 2009 there were 10,000,000, 1,194,700 and 24,450 common shares available for grant under the 2008, 2004 and 2000 Stock Incentive Plans, respectively.

Under the provisions of SFAS No. 123R, the Company recorded $2,481, $2,124 and $2,344 of stock compensation related to stock option awards as well as related tax benefits of $851, $644 and $499 in the Company's Consolidated Statements of Income for the fiscal years ended January 31, 2009, 2008 and 2007, respectively or less than $0.01 for both basic and diluted earnings per share. During fiscal 2009, the Company granted 1,235,800 stock options. The estimated fair value of the grants was calculated using a Lattice Binomial option pricing model for the options granted during the fiscal year ended January 31, 2009. For stock options granted during the fiscal year ended January 31, 2008, the fair value of these grants was calculated using the Black Scholes option pricing model. Both the Lattice Binomial and Black Scholes option pricing models incorporate certain economic assumptions to value these stock-based awards. The prevailing difference between the two models is the Lattice Binomial model's ability to enhance the simple assumptions that underlie the Black Scholes model. The Lattice Binomial model allows for assumptions such as the risk-free rate of interest, volatility and exercise rate to vary over time reflecting a more realistic pattern of economic and behavioral occurrences. The Company uses historical data on exercise timing to determine the expected life assumption. The decrease in the expected life in fiscal year 2009 is due to the fact that the majority of the grants issued in fiscal 2009 expire in seven years. The risk-free rate of interest for periods within the contractual life of the option is based on U.S. Government Securities Treasury Constant Maturities over the expected term of the equity instrument. In the current fiscal year, utilizing the Lattice Binomial option pricing model, the expected volatility is based on a weighted average of the implied volatility and the Company's most recent historical volatility. In previous fiscal years under the Black Scholes option pricing model, the expected volatility was based on the historical volatility of the Company's stock. The table below outlines the weighted average assumptions for these grants:

	Fiscal 2009	Fiscal 2008	Fiscal 2007
Expected life, in years	4.3	6.2	6.8
Risk-free interest rate	2.5%	4.5%	4.8%
Volatility	41.4%	49.8%	54.4%
Dividend rate	—	—	—

Based on the Company's historical experience, the Company has assumed an annualized forfeiture rate of 2% for its unvested options. Under the true-up provisions of SFAS No. 123R, the Company will record additional expense if the actual forfeiture rate is lower than it estimated, and will record a recovery of prior expense if the actual forfeiture is higher than estimated.

Total compensation cost of stock options granted but not yet vested, as of January 31, 2009, was $11,627, which is expected to be recognized over the weighted average period of 2.71 years.

URBAN OUTFITTERS, INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS—(Continued)

The following tables summarize activity under all stock option plans for the respective periods:

	Fiscal Year Ended January 31,		
	2009	2008	2007
	(In thousands, except per share data)		
Weighted-average fair value of options granted per share	$ 10.56	$ 12.76	$ 11.62
Intrinsic value of options exercised	$41,622	$23,610	$20,822
Cash received from option exercises	$ 8,891	$ 5,000	$ 6,351
Actual tax benefit realized for tax deductions from option exercises	$13,434	$ 7,341	$ 5,394

Information regarding options under these plans is as follows:

	Fiscal Year Ended January 31, 2009			
	Shares	Weighted Average Exercise Price	Weighted Average Remaining Contractual Term (years)	Aggregate Intrinsic Value (1)
Options outstanding at beginning of year	11,568,723	$16.04		
Options granted	1,235,800	36.12		
Options exercised	(1,607,473)	5.53		
Options forfeited	(62,300)	24.48		
Options expired	(80,500)	29.78		
Options outstanding at end of year	11,054,250	19.64	5.5	$217,119
Options outstanding expected to vest	10,833,165	19.64	5.5	$212,777
Options exercisable at end of year	9,698,950	17.53	5.3	$170,010
Weighted average fair value of options granted per share	$ 10.56			

URBAN OUTFITTERS, INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS—(Continued)

The following table summarizes information concerning currently outstanding and exercisable options as of January 31, 2009:

	Options Outstanding			Options Exercisable	
Range of Exercise Prices	**Amount Outstanding**	**Wtd. Avg. Remaining Contractual Life**	**Wtd. Avg. Exercise Price**	**Amount Exercisable**	**Wtd. Avg. Exercise Price**
\$ 0.00 - \$ 3.75	1,280,450	2.2	\$ 1.76	1,280,450	\$ 1.76
\$ 3.76 - \$ 7.50	1,513,050	4.2	4.46	1,513,050	4.46
\$ 7.51 - \$11.25	208,000	2.9	9.21	208,000	9.21
\$11.26 - \$15.00	2,548,700	5.4	14.26	2,536,700	14.27
\$15.01 - \$18.76	195,000	5.7	15.60	160,000	15.38
\$18.77 - \$22.51	146,500	7.7	20.22	80,000	19.77
\$22.52 - \$26.26	371,000	6.7	24.20	320,000	24.19
\$22.27 - \$30.01	308,000	6.5	28.15	298,000	28.11
\$30.02 - \$33.76 (1)	3,394,250	6.9	31.09	3,302,750	31.11
\$33.77 - \$37.51	1,089,300	6.6	37.33	—	—
	11,054,250	5.5	19.64	9,698,950	17.53

(1) Options included in this range contain certain restrictions on the sale of the stock which expire in November 2010.

Non-vested Shares

The Company may make non-vested share awards to employees, non-employee directors and consultants. A non-vested share award is an award of common shares that is subject to certain restrictions during a specified period, such as an employee's continued employment combined with the Company achieving certain financial goals. The Company holds the common shares during the restriction period, and the grantee cannot transfer the shares before the termination of that period. The grantee is, however, generally entitled to vote the common shares and receive any dividends declared and paid on the Company's common shares during the restriction period.

Restricted Shares

During the fiscal year ended January 31, 2005, the Company granted 400,000 shares of restricted common stock with a grant date fair value of \$5,766 or \$14.42 per share. Share-based compensation expense of \$1,156, \$1,153 and \$1,153 is included in the accompanying Consolidated Statements of Income for each fiscal year ended January 31, 2009, 2008 and 2007, respectively. Total unrecognized compensation expense of non-vested, non-performance shares granted, as of January 31, 2009 was \$442, which is expected to be recognized over the period of 0.4 years. As of January 31, 2009 this was the only grant of non-vested, non-performance shares.

URBAN OUTFITTERS, INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS—(Continued)

Performance Shares

On April 28, 2008, the Company granted two awards of 30,184 Performance Stock Units ("PSU's"). These PSU's are subject to a vesting period of two years for the first grant ("Grant A"), and three years for the second grant ("Grant B"). Each PSU grant is subject to various performance criteria. If any of these criteria are not met, the grants are forfeited. Each PSU is equal to one share of common stock with a total award value not to exceed 30% appreciation. Grant A had a grant date fair value of $21.55 per share and Grant B had a grant date fair value of $19.47 per share, with both grants having a total grant date fair value of $1,238. The grant date fair value was calculated using a Lattice Binomial Model. In accordance with FAS 123R, there was no compensation expense recognized in the Company's Consolidated Statements of Income during the year ended January 31, 2009 because vesting was deemed highly improbable due to the unlikely achievement of the performance criteria governing the grant. The performance criteria achievement is re-measured at each reporting period, and if it is deemed likely that the performance targets will be achieved, any unrecognized compensation expense will be recognized prospectively as of the end of the then current reporting.

10. Net Income Per Common Share

The following is a reconciliation of the weighted average shares outstanding used for the computation of basic and diluted net income per common share:

	Fiscal Year Ended January 31,		
	2009	**2008**	**2007**
Basic weighted average shares outstanding	166,793,062	165,305,207	164,679,786
Effect of dilutive options and restricted stock	4,067,543	4,335,378	3,972,219
Diluted weighted average shares outstanding	170,860,605	169,640,585	168,652,005

For the fiscal years ended January 31, 2009, 2008 and 2007, options to purchase 3,351,338 shares ranging in price from $16.58 to $37.51, options to purchase 4,063,875 shares ranging in price from $22.11 to $31.11 and options to purchase 4,763,375 shares ranging in price from $15.48 to $31.11, were excluded from the calculation of diluted net income per common share for the respective fiscal years because the effect was anti-dilutive.

URBAN OUTFITTERS, INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS—(Continued)

11. Commitments and Contingencies

Leases

The Company leases its stores under non-cancelable operating leases. The following is a schedule by year of the future minimum lease payments for operating leases with original terms in excess of one year:

Fiscal Year	
2010	$ 132,497
2011	133,527
2012	132,021
2013	127,000
2014	121,079
Thereafter	440,062
Total minimum lease payments	$1,086,186

Amounts noted above include commitments for 34 executed leases for stores not opened as of January 31, 2009. The majority of our leases allow for renewal options between five and ten years upon expiration of the initial lease term. The store leases generally provide for payment of direct operating costs including real estate taxes. Certain store leases provide for contingent rentals when sales exceed specified levels. Additionally, the Company has entered into store leases that require a percentage of total sales to be paid to landlords in lieu of minimum rent.

Rent expense consisted of the following:

	Fiscal Year Ended January 31,		
	2009	2008	2007
Minimum and percentage rentals	$112,907	$100,020	$73,058
Contingent rentals	1,993	3,282	1,991
Total	$114,900	$103,302	$75,049

The Company also has commitments for un-fulfilled purchase orders for merchandise ordered from our vendors in the normal course of business, which are liquidated within 12 months, of $302,961. The majority of the Company's merchandise commitments are cancellable with no or limited recourse available to the vendor until merchandise shipping date. The Company also has commitments related to contracts with store construction contractors, fully liquidated upon the completion of construction, which is typically within 12 months, of $1,684.

URBAN OUTFITTERS, INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS—(Continued)

Benefit Plan

Full and part-time U.S. based employees who are at least 18 years of age are eligible after six months of employment to participate in the Urban Outfitters 401(k) Savings Plan (the "Plan"). Under the Plan, employees can defer 1% to 25% of compensation as defined. The Company makes matching contributions in cash of $0.25 per employee contribution dollar on the first 6% of the employee contribution. The employees' contribution is 100% vested while the Company's matching contribution vests at 20% per year of employee service. The Company's contributions were $1,090, $969 and $812 for fiscal years 2009, 2008 and 2007, respectively.

Contingencies

The Company is party to various legal proceedings arising from normal business activities. Management believes that the ultimate resolution of these matters will not have a material adverse effect on the Company's financial position, results of operations or cash flows.

12. Related Party Transactions

Harry S. Cherken, Jr., a director of the Company, is a partner in the law firm of Drinker Biddle & Reath LLP ("DBR"), which provides general legal services to the Company. Fees paid to DBR during fiscal 2009, 2008 and 2007 were $2,670, $3,662 and $1,493, respectively. Fees due to DBR as of January 31, 2009 and January 31, 2008 for services rendered were approximately $442 and $556, respectively.

The McDevitt Company, a real estate company, acted as a broker in substantially all of the Company's new real estate transactions during fiscal 2009, 2008 and 2007. The Company has not paid any compensation to The McDevitt Company, but the Company has been advised that The McDevitt Company has received commissions from other parties to such transactions. Wade L. McDevitt is the president and the sole shareholder of The McDevitt Company and brother-in-law of Scott Belair, one of the Company's directors. There were no amounts due to The McDevitt Company as of January 31, 2009 and January 31, 2008.

The Addis Group ("Addis"), an insurance brokerage company, acted as the Company's commercial insurance broker for the years ended January 31, 2009, 2008 and 2007. The Company has not paid any compensation to Addis for such services, but has been advised that Addis has received commissions from other parties to such transactions, to serve as risk manager under one line of coverage. Scott Addis is the President of The Addis Group and the brother-in-law of Richard A. Hayne, Chairman of the Board of the Company. There were no amounts due to or from Addis as of January 31, 2009 and January 31, 2008.

URBAN OUTFITTERS, INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS—(Continued)

13. Segment Reporting

The Company is a national retailer of lifestyle-oriented general merchandise with two reporting segments—"Retail" and "Wholesale". The Company's Retail segment consists of the aggregation of its four brands operating through 294 stores under the retail names "Urban Outfitters," "Anthropologie," "Free People" and "Terrain" and includes their direct marketing campaigns which consist of three catalogs and four web sites as of January 31, 2009. Our Retail stores and their direct marketing campaigns are considered operating segments. Net sales from the Retail segment accounted for more than 93% of total consolidated net sales for the years ended January 31, 2009, 2008 and 2007. The remainder is derived from the Company's Wholesale segment that manufactures and distributes apparel to the retail segment and to approximately 1,800 better specialty retailers worldwide.

The Company has aggregated its retail stores and associated direct marketing campaigns into a Retail segment based upon their unique management, customer base and economic characteristics. Reporting in this format provides management with the financial information necessary to evaluate the success of the segments and the overall business. The Company evaluates the performance of the segments based on the net sales and pre-tax income from operations (excluding inter-company charges) of the segment. Corporate expenses include expenses incurred and directed by the corporate office that are not allocated to segments. The principal identifiable assets for each operating segment are inventories and property and equipment. Other assets are comprised primarily of general corporate assets, which principally consist of cash and cash equivalents, marketable securities, and other assets, and which are typically not allocated to the Company's segments. The Company accounts for inter-segment sales and transfers as if the sales and transfers were made to third parties making similar volume purchases.

URBAN OUTFITTERS, INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS—(Continued)

The accounting policies of the operating segments are the same as the policies described in Note 2, "Summary of Significant Accounting Policies." Both the retail and wholesale segments are highly diversified. No customer comprises more than 10% of sales. A summary of the information about the Company's operations by segment is as follows:

	Fiscal Year		
	2009	2008	2007
Net sales			
Retail operations	$1,724,558	$1,413,251	$1,150,511
Wholesale operations	120,364	102,479	79,687
Intersegment elimination	(10,304)	(8,006)	(5,481)
Total net sales	$1,834,618	$1,507,724	$1,224,717
Income from operations			
Retail operations	$ 297,572	$ 219,248	$ 159,338
Wholesale operations	28,170	21,438	18,319
Intersegment elimination	(11,209)	(1,325)	(1,504)
Total segment operating income	314,533	239,361	176,153
General corporate expenses	(15,098)	(14,416)	(12,164)
Total income from operations	$ 299,435	$ 224,945	$ 163,989
Depreciation expense for property and equipment			
Retail operations	$ 78,892	$ 68,123	$ 53,458
Wholesale operations	613	615	437
Total depreciation expense for property and equipment	$ 79,505	$ 68,738	$ 53,895
Inventories			
Retail operations	$ 157,030	$ 159,015	
Wholesale operations	12,668	12,910	
Total inventories	$ 169,698	$ 171,925	
Property and equipment, net			
Retail operations	$ 500,650	$ 486,031	
Wholesale operations	4,757	2,858	
Total property and equipment, net	$ 505,407	$ 488,889	
Cash paid for property and equipment			
Retail operations	$ 111,658	$ 113,914	$ 211,533
Wholesale operations	895	1,456	496
Total cash paid for property and equipment	$ 112,533	$ 115,370	$ 212,029

The Company has foreign operations in Europe and Canada. Revenues and long-lived assets, based upon our domestic and foreign operations, are as follows:

	Fiscal Year		
	2009	2008	2007
Net sales			
Domestic operations	$1,663,616	$1,373,162	$1,132,053
Foreign operations	171,002	134,562	92,664
Total net sales	$1,834,618	$1,507,724	$1,224,717
Property and equipment, net			
Domestic operations	$ 460,551	$ 434,776	
Foreign operations	44,856	54,113	
Total property and equipment, net	$ 505,407	$ 488,889	