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P2-2

Page 88**Determining Financial Statement Effects of Various Transactions (AP2-2)****LO2-2, 2-3, 2-5**

East Hill Home Healthcare Services was organized on January 1, 2014, by four friends. Each organizer invested \$10,000 in the company and, in turn, was issued 8,000 shares of \$1.00 par value stock. To date, they are the only stockholders. At the end of 2015, the accounting records reflected total assets of \$700,000 (\$50,000 cash; \$500,000 land; \$50,000 equipment; and \$100,000 buildings), total liabilities of \$200,000 (short-term notes payable \$100,000 and long-term notes payable \$100,000), and stockholders' equity of \$500,000 (\$20,000 common stock, \$80,000 additional paid-in capital, and \$400,000 retained earnings). During the current year, 2016, the following summarized events occurred:



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- Sold 9,000 additional shares of stock to the original organizers for a total of \$90,000 cash.
- Purchased a building for \$60,000, equipment for \$15,000, and four acres of land for \$14,000; paid \$9,000 in cash and signed a note for the balance (due in 15 years). (*Hint: Five different accounts are affected.*)
- Sold one acre of land acquired in (b) for \$3,500 cash to another company.
- Purchased short-term investments for \$18,000 cash.
- One stockholder reported to the company that 300 shares of his East Hill stock had been sold and transferred to another stockholder for \$3,000 cash.
- Lent one of the shareholders \$5,000 for moving costs, receiving a signed six-month note from the shareholder.

Required:

- Was East Hill Home Healthcare Services organized as a sole proprietorship, a partnership, or a corporation? Explain the basis for your answer.
- During 2016, the records of the company were inadequate. You were asked to prepare the summary of the preceding transactions. To develop a quick assessment of their economic effects on East Hill Home Healthcare Services, you have decided to complete the tabulation that follows and to use plus (+) for increases and minus (−) for decreases for each account. The first event is used as an example.

ASSETS						=	LIABILITIES		+	STOCKHOLDERS' EQUITY		
Cash	Short-Term Investments	Notes Receivable	Land	Buildings	Equipment		Short-Term Notes Payable	Long-Term Notes Payable		Common Stock	Additional Paid-in Capital	Retained Earnings
Beg. 50,000			500,000	100,000	50,000	=	100,000	100,000		20,000	80,000	400,000
(a) +90,000						=				+9,000	+81,000	

3. Did you include the transaction between the two stockholders—event (e)—in the tabulation? Why?
4. Based only on the completed tabulation, provide the following amounts (show computations):
 - a. Total assets at the end of the year.
 - b. Total liabilities at the end of the year.
 - c. Total stockholders' equity at the end of the year.
 - d. Cash balance at the end of the year.
 - e. Total current assets at the end of the year.
5. Compute the current ratio for 2016. What does this suggest about the company?

P2-3**Recording Transactions in T-Accounts, Preparing the Balance Sheet from a Trial Balance, and Evaluating the Current Ratio (AP2-3)****LO2-2, 2-4, 2-5**

Cougar Plastics Company has been operating for three years. At December 31, 2014, the accounting records reflected the following:



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Cash	\$22,000	Accounts payable	\$15,000
Investments (short-term)	3,000	Accrued liabilities payable	4,000
Accounts receivable	3,000	Notes payable (short-term)	7,000
Inventory	20,000	Long-term notes payable	47,000
Notes receivable (long-term)	1,000	Common stock	10,000
Equipment	50,000	Additional paid-in capital	80,000
Factory building	90,000	Retained earnings	31,000
Intangibles	5,000		

During the year 2015, the company had the following summarized activities:

- a. Purchased short-term investments for \$10,000 cash.
- b. Lent \$5,000 to a supplier who signed a two-year note.
- c. Purchased equipment that cost \$18,000; paid \$5,000 cash and signed a one-year note for the balance.
- d. Hired a new president at the end of the year. The contract was for \$85,000 per year plus options to purchase company stock at a set price based on company performance.

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Issued an additional 2,000 shares of \$0.50 par value common stock for \$11,000 cash.

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- Borrowed \$9,000 cash from a local bank, payable in three months.
- Purchased a patent (an intangible asset) for \$3,000 cash.
- Built an addition to the factory for \$24,000; paid \$8,000 in cash and signed a three-year note for the balance.
- Returned defective equipment to the manufacturer, receiving a cash refund of \$1,000.

Required:

1. Create T-accounts for each of the accounts on the balance sheet and enter the balances at the end of 2014 as beginning balances for 2015.
2. Record each of the events for 2015 in T-accounts (including referencing) and determine the ending balances.
3. Explain your response to event (d).
4. Prepare a trial balance at December 31, 2015.
5. Prepare a classified balance sheet at December 31, 2015.
6. Compute the current ratio for 2015. What does this suggest about Cougar Plastics?

P2-4

Identifying Effects of Transactions on the Statement of Cash Flows (AP2-4)

LO2-6



Refer to P2-3.

Required:

Using the events (a) through (i) in P2-3, indicate whether each is an investing (I) or financing (F) activity for the year and the direction of the effect on cash flows (+ for increase and – for decrease). If there is no effect on cash flows, write NE.

P2-5

Recording Transactions, Preparing Journal Entries, Posting to T-Accounts, Preparing the Balance Sheet, and Evaluating the Current Ratio

LO2-2, 2-4, 2-5

Dell

Dell Inc., headquartered in Austin, Texas, is the global leader in selling computer products and services. The following is Dell's (simplified) balance sheet from a recent year (fiscal year ending on Friday nearest January 31).





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DELL INC.	
Balance Sheet	
at February 3, 2012	
(dollars in millions)	
ASSETS	
Current assets:	
Cash	\$13,852
Short-term investments	966
Receivables and other assets	9,803
Inventories	1,404
Other	3,423
Total current assets	29,448
Property, plant, and equipment	2,124
Long-term investments	3,404
Other noncurrent assets	9,557
Total assets	<u>\$44,533</u>
LIABILITIES AND STOCKHOLDERS' EQUITY	
Current Liabilities:	
Accounts payable	\$11,656
Other short-term obligations	10,345
Total current liabilities	22,001
Long-term liabilities	13,615
Total liabilities	35,616
Stockholders' equity:	
Common stock (\$0.01 par value)	34
Additional paid-in capital	12,153
Retained earnings	28,236
Other stockholders' equity items	(31,506)
Total stockholders' equity	8,917
Total stockholders' equity and liabilities	<u>\$44,533</u>

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APPENDIX A Page A-1

TABLE A.1 Present Value of \$1

Periods	2%	3%	3.75%	4%	4.25%	5%	6%	7%	8%
1	0.9804	0.9709	0.9639	0.9615	0.9592	0.9524	0.9434	0.9346	0.9259
2	0.9612	0.9426	0.9290	0.9246	0.9201	0.9070	0.8900	0.8734	0.8573
3	0.9423	0.9151	0.8954	0.8890	0.8826	0.8638	0.8396	0.8163	0.7938
4	0.9238	0.8885	0.8631	0.8548	0.8466	0.8227	0.7921	0.7629	0.7350
5	0.9057	0.8626	0.8319	0.8219	0.8121	0.7835	0.7473	0.7130	0.6806
6	0.8880	0.8375	0.8018	0.7903	0.7790	0.7462	0.7050	0.6663	0.6302
7	0.8706	0.8131	0.7728	0.7599	0.7473	0.7107	0.6651	0.6227	0.5835
8	0.8535	0.7894	0.7449	0.7307	0.7168	0.6768	0.6274	0.5820	0.5403
9	0.8368	0.7664	0.7180	0.7026	0.6876	0.6446	0.5919	0.5439	0.5002
10	0.8203	0.7441	0.6920	0.6756	0.6595	0.6139	0.5584	0.5083	0.4632
20	0.6730	0.5537	0.4789	0.4564	0.4350	0.3769	0.3118	0.2584	0.2145
Periods	9%	10%	11%	12%	13%	14%	15%	20%	25%
1	0.9174	0.9091	0.9009	0.8929	0.8850	0.8772	0.8696	0.8333	0.8000
2	0.8417	0.8264	0.8116	0.7972	0.7831	0.7695	0.7561	0.6944	0.6400
3	0.7722	0.7513	0.7312	0.7118	0.6931	0.6750	0.6575	0.5787	0.5120
4	0.7084	0.6830	0.6587	0.6355	0.6133	0.5921	0.5718	0.4823	0.4096
5	0.6499	0.6209	0.5935	0.5674	0.5428	0.5194	0.4972	0.4019	0.3277
6	0.5963	0.5645	0.5346	0.5066	0.4803	0.4556	0.4323	0.3349	0.2621
7	0.5470	0.5132	0.4817	0.4523	0.4251	0.3996	0.3759	0.2791	0.2097
8	0.5019	0.4665	0.4339	0.4039	0.3762	0.3506	0.3269	0.2326	0.1678
9	0.4604	0.4241	0.3909	0.3606	0.3329	0.3075	0.2843	0.1938	0.1342
10	0.4224	0.3855	0.3522	0.3220	0.2946	0.2697	0.2472	0.1615	0.1074
20	0.1784	0.1486	0.1240	0.1037	0.0868	0.0728	0.0611	0.0261	0.0115

TABLE A.2 Present Value of Annuity of \$1

Periods*	2%	3%	3.75%	4%	4.25%	5%	6%	7%	8%
1	0.9804	0.9709	0.9639	0.9615	0.9592	0.9524	0.9434	0.9346	0.9259
2	1.9416	1.9135	1.8929	1.8861	1.8794	1.8594	1.8334	1.8080	1.7833
3	2.8839	2.8286	2.7883	2.7751	2.7620	2.7232	2.6730	2.6243	2.5771
4	3.8077	3.7171	3.6514	3.6299	3.6086	3.5460	3.4651	3.3872	3.3121
5	4.7135	4.5797	4.4833	4.4518	4.4207	4.3295	4.2124	4.1002	3.9927
6	5.6014	5.4172	5.2851	5.2421	5.1997	5.0757	4.9173	4.7685	4.6229
7	6.4720	6.2303	6.0579	6.0021	5.9470	5.7864	5.5824	5.3893	5.2064
8	7.3255	7.0197	6.8028	6.7327	6.6638	6.4632	6.2098	5.9713	5.7466
9	8.1622	7.7861	7.5208	7.4353	7.3513	7.1078	6.8017	6.5152	6.2469
10	8.9826	8.5302	8.2128	8.1109	8.0109	7.7217	7.3601	7.0236	6.7101
20	16.3514	14.8775	13.8962	13.5903	13.2944	12.4622	11.4699	10.5940	9.8181

*There is one payment each period.

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Periods*	9%	10%	11%	12%	13%	14%	15%	20%	25%
1	0.9174	0.9091	0.9009	0.8929	0.8550	0.8772	0.8696	0.8333	0.8000
2	1.7591	1.7355	1.7125	1.6901	1.6681	1.6467	1.6257	1.5278	1.4400
3	2.5313	2.4869	2.4437	2.4018	2.3612	2.3216	2.2832	2.1065	1.9520
4	3.2397	3.1699	3.1024	3.0373	2.9745	2.9137	2.8550	2.5887	2.3616
5	3.8897	3.7908	3.6959	3.6048	3.5172	3.4331	3.3522	2.9906	2.6893
6	4.4859	4.3553	4.2305	4.1114	3.9975	3.8887	3.7845	3.3255	2.9514
7	5.0330	4.8684	4.7122	4.5638	4.4226	4.2883	4.1604	3.6046	3.1611
8	5.5348	5.3349	5.1461	4.9676	4.7988	4.6389	4.4873	3.8372	3.3289
9	5.9952	5.7590	5.5370	5.3282	5.1317	4.9464	4.7716	4.0310	3.4631
10	6.4177	6.1446	5.8892	5.6502	5.4262	5.2161	5.0188	4.1925	3.5705
20	9.1285	8.5136	7.9633	7.4694	7.0248	6.6231	6.2593	4.8696	3.9539

*There is one payment each period.

TABLE A.3 Future Value of \$1

Periods	2%	3%	3.75%	4%	4.25%	5%	6%	7%	8%
0	1.	1.	1.	1.	1.	1.	1.	1.	1.
1	1.02	1.03	1.0375	1.04	1.0425	1.05	1.06	1.07	1.08
2	1.0404	1.0609	1.0764	1.0816	1.0868	1.1025	1.1236	1.1449	1.1684
3	1.0612	1.0927	1.1168	1.1249	1.1330	1.1576	1.1910	1.2250	1.2597
4	1.0824	1.1255	1.1587	1.1699	1.1811	1.2155	1.2625	1.3108	1.3605
5	1.1041	1.1593	1.2021	1.2167	1.2313	1.2763	1.3382	1.4026	1.4693
6	1.1262	1.1941	1.2472	1.2653	1.2837	1.3401	1.4185	1.5007	1.5869
7	1.1487	1.2299	1.2939	1.3159	1.3382	1.4071	1.5036	1.6058	1.7138
8	1.1717	1.2668	1.3425	1.3686	1.3951	1.4775	1.5938	1.7182	1.8509
9	1.1951	1.3048	1.3928	1.4233	1.4544	1.5513	1.6895	1.8385	1.9990
10	1.2190	1.3439	1.4450	1.4802	1.5162	1.6289	1.7908	1.9672	2.1589
20	1.4859	1.8061	2.0882	2.1911	2.2989	2.6533	3.2071	3.8697	4.6610

Periods	9%	10%	11%	12%	13%	14%	15%	20%	25%
0	1.	1.	1.	1.	1.	1.	1.	1.	1.
1	1.09	1.10	1.11	1.12	1.13	1.14	1.15	1.20	1.25
2	1.1881	1.2100	1.2321	1.2544	1.2769	1.2996	1.3225	1.4400	1.5625
3	1.2950	1.3310	1.3676	1.4049	1.4429	1.4815	1.5209	1.7280	1.9531
4	1.4116	1.4641	1.5181	1.5735	1.6305	1.6890	1.7490	2.0736	2.4414
5	1.5386	1.6105	1.6851	1.7623	1.8424	1.9254	2.0114	2.4883	3.0518
6	1.6771	1.7716	1.8704	1.9738	2.0820	2.1950	2.3131	2.9860	3.8147
7	1.8280	1.9487	2.0762	2.2107	2.3526	2.5023	2.6600	3.5832	4.7684
8	1.9926	2.1436	2.3045	2.4760	2.6584	2.8526	3.0590	4.2998	5.9605
9	2.1719	2.3579	2.5580	2.7731	3.0040	3.2519	3.5179	5.1598	7.4506
10	2.3674	2.5937	2.8394	3.1058	3.3946	3.7072	4.0456	6.1917	9.3132
20	5.6044	6.7275	8.0623	9.6463	11.5231	13.7435	16.3665	38.3376	86.7362

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TABLE A.4 Future Value of Annuity of \$1

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Periods*	2%	3%	3.75%	4%	4.25%	5%	6%	7%	8%
1	1.	1.	1.	1.	1.	1.	1.	1.	1.
2	2.02	2.03	2.0375	2.04	2.0425	2.05	2.06	2.07	2.08
3	3.0604	3.0909	3.1139	3.1216	3.1293	3.1525	3.1836	3.2149	3.2464
4	4.1216	4.1836	4.2307	4.2465	4.2623	4.3101	4.3746	4.4399	4.5061
5	5.2040	5.3091	5.3893	5.4163	5.4434	5.5256	5.6371	5.7507	5.8666
6	6.3081	6.4684	6.5914	6.6330	6.6748	6.8019	6.9753	7.1533	7.3359
7	7.4343	7.6625	7.8386	7.8983	7.9585	8.1420	8.3938	8.6540	8.9228
8	8.5830	8.8923	9.1326	9.2142	9.2967	9.5491	9.8975	10.2598	10.6366
9	9.7546	10.1591	10.4750	10.5828	10.6918	11.0266	11.4913	11.9780	12.4876
10	10.9497	11.4639	11.8678	12.0061	12.1462	12.5779	13.1808	13.8164	14.4866
20	24.2974	26.8704	29.0174	29.7781	30.5625	33.0660	36.7856	40.9955	45.7620
Periods*	9%	10%	11%	12%	13%	14%	15%	20%	25%
1	1.	1.	1.	1.	1.	1.	1.	1.	1.
2	2.09	2.10	2.11	2.12	2.13	2.14	2.15	2.20	2.25
3	3.2781	3.3100	3.3421	3.3744	3.4069	3.4396	3.4725	3.6400	3.8125
4	4.5731	4.6410	4.7097	4.7793	4.8498	4.9211	4.9934	5.3680	5.7656
5	5.9847	6.1051	6.2278	6.3528	6.4803	6.6101	6.7424	7.4416	8.2070
6	7.5233	7.7156	7.9129	8.1152	8.3227	8.5355	8.7537	9.9299	11.2588
7	9.2004	9.4872	9.7833	10.0890	10.4047	10.7305	11.0668	12.9159	15.0735
8	11.0285	11.4359	11.8594	12.2997	12.7573	13.2328	13.7268	16.4991	19.8419
9	13.0210	13.5975	14.1640	14.7757	15.4157	16.0853	16.7858	20.7989	25.8023
10	15.1929	15.9374	16.7220	17.5487	18.4197	19.3373	20.3037	25.9587	33.2529
20	51.1601	57.2750	64.2028	72.0524	80.9468	91.0249	102.4436	186.6880	342.9447

*There is one payment each period.

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List the types of current obligations this company has. You need not provide the amounts.

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- Compute the company's current ratio and explain its meaning.
- How much cash did the company spend on purchasing property and equipment each year (capital expenditures)? Where did you find the information?

CP2-2

Finding Financial Information

LO2-1, 2-2, 2-5, 2-6

Refer to the financial statements of Urban Outfitters in Appendix C at the end of this book.



Required:

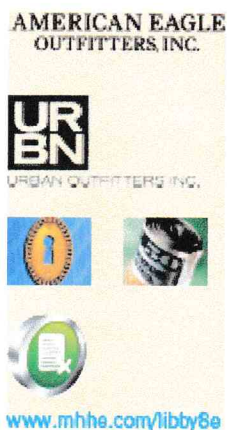
1. Use the company's balance sheet to determine the amounts in the accounting equation ($A = L + SE$) as of January 31, 2012.
2. If the company were liquidated at the end of the current year (January 31, 2012), are the shareholders guaranteed to receive \$1,066,268,000?
3. What are the company's noncurrent liabilities?
4. What is the company's current ratio?
5. Did the company have a cash inflow or outflow from investing activities? Of how much?

CP2-3

Comparing Companies within an Industry

LO2-2, 2-5, 2-6

Refer to the financial statements of American Eagle Outfitters in Appendix B, Urban Outfitters in Appendix C, and the Industry Ratio Report in Appendix D at the end of this book.



Required:

1. Compute the current ratio for both companies. Compared to the industry average (from the Industry Ratio Report), are these two companies more or less able to satisfy short-term obligations with current assets? How is the current ratio influenced by these companies' choice to rent space instead of buying it?
2. In the most recent year, how much cash, if any, was spent buying back (repurchasing) each company's own common stock?
3. How much, if any, did each company pay in dividends for the most recent year?
4. What account title or titles does each company use to report any land, buildings, and equipment it may have?

Financial Reporting and Analysis Cases

CP2-4

Broadening Financial Research Skills: Locating Financial Information on the SEC's Database

LO2-2, 2-5, 2-6



The Securities and Exchange Commission (SEC) regulates companies that issue stock on the stock market. It receives financial reports from public companies electronically under a system called EDGAR (Electronic Data Gathering and Retrieval Service). Using the Internet, anyone may search the database for the reports that have been filed.

Using your Web browser, access the EDGAR database at www.sec.gov. To search the database, type in “chipotle” for the company name in the search window at the top of the page, and press enter.

Required:

To look at SEC filings, type in “10-Q” in the space indicating “Filing Type” and press enter. Skim down the left side until you locate the Form 10-Q (quarterly report) filed July 20, 2012. Click on the “Documents” for that report, click on the 10-Q document (first item), and skim to the Table of Contents.

1. Click on “Financial Statements” and skim to the “Condensed Consolidated Balance Sheets.”
 - a. What was the amount of Chipotle's total assets for the most recent quarter reported?
 - b. Did current liabilities increase or decrease since December 31, 2011?
 - c. Compute the current ratio. How does it compare to the ratio indicated for Chipotle Mexican Grill in the chapter? What does this suggest about the company?

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APPENDIX C Page C-1

**UNITED STATES
SECURITIES AND EXCHANGE COMMISSION**
Washington, DC 20549

FORM 10-K

- ANNUAL REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934
For the fiscal year ended January 31, 2012
- 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)

5000 South Broad Street, Philadelphia, PA
(Address of Principal Executive Offices)

23-2003332
(I.R.S. Employer
Identification No.)

19112-1495
(Zip Code)

Registrant's telephone number, including area code: (215) 454-5500
Securities registered pursuant to Section 12(b) of the Act:

<u>Title of Each Class</u>	<u>Name of Exchange on Which Registered</u>
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 check mark whether the registrant has submitted electronically and posted on its corporate website, if any, every Interactive Data File required to be submitted and posted pursuant to Rule 405 of Regulation S-T during the preceding 12 months (or for such shorter period that the registrant was required to submit and post such files). Yes No

Indicate by 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 \$3,956,641,654.

The number of shares outstanding of the registrant's common stock on March 27, 2012, was 144,706,907.

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 2012 Annual Meeting of Shareholders.

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REPORT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM**Page C-2**

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, 2012, and 2011, and the related consolidated statements of income, shareholders' equity, and cash flows for each of the three years in the period ended January 31, 2012. 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, 2012, and 2011, and the results of their operations and their cash flows for each of the three years in the period ended January 31, 2012, 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, 2012, 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 April 2, 2012, expressed an unqualified opinion on the Company's internal control over financial reporting.

/s/ DELOITTE & TOUCHE LLP

Philadelphia, Pennsylvania
April 2, 2012

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URBAN OUTFITTERS, INC.
Consolidated Balance Sheets
(in thousands, except share and per share data)

	<u>January 31,</u>	
	<u>2012</u>	<u>2011</u>
ASSETS		
Current assets:		
Cash and cash equivalents	\$ 145,273	\$ 340,257
Marketable securities	89,854	116,420
Accounts receivable, net of allowance for doubtful accounts of \$1,614 and \$1,015, respectively	36,673	36,502
Inventories	250,073	229,561
Prepaid expenses and other current assets	69,876	66,886
Deferred taxes	5,243	14,351
Total current assets	<u>596,992</u>	<u>803,977</u>
Property and equipment, net	684,979	586,346
Marketable securities	126,913	351,988
Deferred income taxes and other assets	74,824	52,010
Total Assets	<u>\$1,483,708</u>	<u>\$1,794,321</u>
LIABILITIES AND SHAREHOLDERS' EQUITY		
Current liabilities:		
Accounts payable	\$ 95,754	\$ 82,904
Accrued compensation	15,630	20,212
Accrued expenses and other current liabilities	122,082	107,908
Total current liabilities	<u>233,466</u>	<u>211,024</u>
Deferred rent and other liabilities	183,974	171,749
Total Liabilities	<u>417,440</u>	<u>382,773</u>
Commitments and contingencies (see Note 12)		
Shareholders' equity:		
Preferred shares; \$.0001 par value, 10,000,000 shares authorized, none issued	—	—
Common shares; \$.0001 par value, 200,000,000 shares authorized, 144,633,007 and 164,413,427 issued and outstanding, respectively	15	17
Additional paid-in capital	—	27,603
Retained earnings	1,077,765	1,394,190
Accumulated other comprehensive loss	(11,512)	(10,262)
Total Shareholders' Equity	<u>1,066,268</u>	<u>1,411,548</u>
Total Liabilities and Shareholders' Equity	<u>\$1,483,708</u>	<u>\$1,794,321</u>

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

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URBAN OUTFITTERS, INC.
Consolidated Statements of Income
(in thousands, except share and per share data)

	Fiscal Year Ended January 31,		
	2012	2011	2010
Net sales	\$ 2,473,801	\$ 2,274,102	\$ 1,937,815
Cost of sales, including certain buying, distribution and occupancy costs	1,613,265	1,337,482	1,151,670
Gross profit	860,536	936,620	786,145
Selling, general and administrative expenses	575,811	522,417	447,161
Income from operations	284,725	414,203	338,984
Interest income	5,120	4,669	6,290
Other income	553	486	463
Other expenses	(1,567)	(2,150)	(1,331)
Income before income taxes	288,831	417,208	344,406
Income tax expense	103,580	144,250	124,513
Net income	<u>\$ 185,251</u>	<u>\$ 272,958</u>	<u>\$ 219,893</u>
Net income per common share:			
Basic	<u>\$ 1.20</u>	<u>\$ 1.64</u>	<u>\$ 1.31</u>
Diluted	<u>\$ 1.19</u>	<u>\$ 1.60</u>	<u>\$ 1.28</u>
Weighted average common shares outstanding:			
Basic	<u>154,025,589</u>	<u>166,896,322</u>	<u>168,053,502</u>
Diluted	<u>156,191,289</u>	<u>170,333,550</u>	<u>171,230,245</u>

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

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URBAN OUTFITTERS, INC.

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

	Compre- hensive Income	Common Shares			Retained Earnings	Accumulated Other Compre- hensive Loss	Total
		Number of Shares	Par Value	Additional Paid-in Capital			
Balances as of January 31, 2009		167,712,088	\$ 17	\$ 170,166	\$ 901,339	\$ (17,747)	\$1,053,775
Net income	\$219,893	—	—	—	219,893	—	219,893
Foreign currency translation	7,173	—	—	—	—	7,173	7,173
Unrealized gains on marketable securities, net of tax	1,480	—	—	—	—	1,480	1,480
Comprehensive income	<u>\$228,546</u>						
Share-based compensation	—	—	—	4,766	—	—	4,766
Stock options and awards	—	846,283	—	3,250	—	—	3,250
Tax effect of share exercises	—	—	—	6,438	—	—	6,438
Balances as of January 31, 2010		168,558,371	\$ 17	\$ 184,620	\$1,121,232	\$ (9,094)	\$1,296,775
Net income	\$272,958	—	—	—	272,958	—	272,958
Foreign currency translation	(429)	—	—	—	—	(429)	(429)
Unrealized losses on marketable securities, net of tax	(739)	—	—	—	—	(739)	(739)
Comprehensive income	<u>\$271,790</u>						
Share-based compensation	—	—	—	10,725	—	—	10,725
Stock options and awards	—	2,256,273	—	24,129	—	—	24,129
Tax effect of share exercises	—	—	—	12,847	—	—	12,847
Share repurchases	—	(6,401,217)	—	(204,718)	—	—	(204,718)
Balances as of January 31, 2011		164,413,427	\$ 17	\$ 27,603	\$1,394,190	\$ (10,262)	\$1,411,548
Net income	\$185,251	—	—	—	185,251	—	185,251
Foreign currency translation	(2,285)	—	—	—	—	(2,285)	(2,285)
Unrealized gains on marketable securities, net of tax	1,035	—	—	—	—	1,035	1,035
Comprehensive income	<u>\$184,001</u>						
Share-based compensation	—	—	—	3,068	—	—	3,068
Stock options and awards	—	993,923	—	4,134	—	—	4,134
Tax effect of share exercises	—	—	—	8,995	—	—	8,995
Share repurchases	—	(20,774,343)	(2)	(43,800)	(501,676)	—	(545,478)
Balances as of January 31, 2012		<u>144,633,007</u>	<u>\$ 15</u>	<u>\$ —</u>	<u>\$1,077,765</u>	<u>\$ (11,512)</u>	<u>\$1,066,268</u>

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

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URBAN OUTFITTERS, INC.
Consolidated Statements of Cash Flows
(in thousands)

	Fiscal Year Ended January 31,		
	2012	2011	2010
Cash flows from operating activities:			
Net income	\$ 185,251	\$ 272,958	\$ 219,893
Adjustments to reconcile net income to net cash provided by operating activities:			
Depreciation and amortization	108,112	101,105	92,350
Provision for deferred income taxes	(12,150)	(8,727)	2,161
Excess tax benefit on share-based compensation	(8,995)	(12,847)	(6,438)
Share-based compensation expense	3,068	10,725	4,766
Loss on disposition of property and equipment, net	857	119	339
Changes in assets and liabilities:			
Receivables	(251)	1,835	(1,825)
Inventories	(20,817)	(43,372)	(15,544)
Prepaid expenses and other assets	6,317	14,825	(25,619)
Accounts payable, accrued expenses and other liabilities	21,310	48,492	55,311
Net cash provided by operating activities	<u>282,702</u>	<u>385,113</u>	<u>325,394</u>
Cash flows from investing activities:			
Cash paid for property and equipment	(190,010)	(143,642)	(109,260)
Cash paid for marketable securities	(169,467)	(463,129)	(806,546)
Sales and maturities of marketable securities	414,769	571,236	421,040
Net cash provided by (used in) investing activities	<u>55,292</u>	<u>(35,535)</u>	<u>(494,766)</u>
Cash flows from financing activities:			
Exercise of stock options	4,136	24,129	3,250
Excess tax benefit from stock option exercises	8,995	12,847	6,438
Share repurchases	(545,478)	(204,718)	—
Net cash (used in) provided by financing activities	<u>(532,347)</u>	<u>(167,742)</u>	<u>9,688</u>
Effect of exchange rate changes on cash and cash equivalents	(631)	(603)	2,673
(Decrease) increase in cash and cash equivalents	(194,984)	181,233	(157,011)
Cash and cash equivalents at beginning of period	340,257	159,024	316,035
Cash and cash equivalents at end of period	<u>\$ 145,273</u>	<u>\$ 340,257</u>	<u>\$ 159,024</u>
Supplemental cash flow information:			
Cash paid during the year for:			
Income taxes	<u>\$ 120,847</u>	<u>\$ 121,341</u>	<u>\$ 137,490</u>
Non-cash investing activities—Accrued capital expenditures	<u>\$ 21,955</u>	<u>\$ 8,077</u>	<u>\$ 12,960</u>

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

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URBAN OUTFITTERS, INC.

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

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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, nine websites and five catalogs. As of January 31, 2012, and 2011, the Company operated 429 and 372 stores, respectively. Stores located in the United States totaled 381 as of January 31, 2012, and 334 as of January 31, 2011. Operations in Europe and Canada included 33 stores and 15 stores as of January 31, 2012, respectively and 24 stores and 14 stores as of January 31, 2011, respectively. In addition, the Company's wholesale segment sold and distributed apparel to approximately 1,400 better department and 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 2012 ended on January 31, 2012.

Principles of Consolidation

The Consolidated Financial Statements include the accounts of Urban Outfitters, Inc., and all of its 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 short-term highly liquid investments with maturities of less than three months at the time of purchase. These short-term highly liquid investments are both readily convertible to known amounts of cash and so near their maturity that they present insignificant risk of changes in value because of changes in interest rates. As of January 31, 2012, and 2011, cash and cash equivalents included cash on hand, cash in banks and money market accounts.

Marketable Securities

All of the Company's marketable securities as of January 31, 2012, and 2011, are classified as available-for-sale and are carried at fair value, which approximates amortized cost. Interest on these securities, as well as the amortization of discounts and premiums, is included in interest income in the Consolidated Statements of Income. Unrealized gains and losses on these securities are considered temporary and therefore are excluded from earnings and are reported in accumulated other comprehensive loss in shareholders' equity until realized. Other than temporary impairment losses related to credit losses are considered to be realized losses. 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 non-current have maturity dates greater than one year from the balance sheet date. Available-for-sale securities, such as Auction Rate Securities (“ARS”) that fail at auction and do not liquidate in the normal course, are classified as non-current assets.

The Company's ARS represent interests in municipal and student loan related collateralized debt obligations, all of which are rated “A” or better and are guaranteed by either government agencies and/or insured by private insurance agencies up to 97% or greater of par value. The Company's ARS had a fair value of \$20.2 million as of January 31, 2012, and \$29.5 million as of January 31, 2011. 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 was historically 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

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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 \$2.8 million and \$3.8 million of temporary impairment on its ARS as of January 31, 2012, and January 31, 2011, respectively. To date the Company has collected all interest receivable on outstanding ARS when due and has not been informed by the issuers that accrued interest payments are currently at risk. The Company does not have the intent to sell the underlying securities prior to their recovery and the Company believes it is not likely that it will be required to sell the underlying securities prior to their anticipated recovery of full amortized cost. As a result of the current illiquidity, the Company has classified all ARS as non-current 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.

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Accounts Receivable

Accounts receivable primarily consists of amounts due from our wholesale customers as well as credit card receivables outstanding with third-party credit card vendors. The activity of the allowance for doubtful accounts for the years ended January 31, 2012, 2011, and 2010 was as follows:

	Balance at beginning of year	Additions	Deductions	Balance at end of year
Year ended January 31, 2012	\$1,015	3,920	(3,321)	\$1,614
Year ended January 31, 2011	\$1,284	2,397	(2,666)	\$1,015
Year ended January 31, 2010	\$1,229	1,791	(1,736)	\$1,284

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 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 expected 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, 2012, and 2011 consisted of finished goods. Unfinished goods and work-in-process were not material to the overall net inventory value.

Adjustments to reserves related to the net realizable value of inventories are primarily based on the market value of the Company's physical inventories, cycle counts and recent historical trends. The Company's physical inventories for fiscal 2012 were performed as of June 2011 and January 2012. The Company's estimates generally have been accurate and its reserve methods have been applied on a consistent basis. The Company expects the amount of its reserves and related inventories to increase over time as it expands its store base and increases direct-to-consumer sales.

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.

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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 material impairment of the Company's long-lived assets as of January 31, 2012.

Page C-9*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 cyclicity. 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, the Company accrues a contingent rent liability and a corresponding rent expense.

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 lease period commencing on the date that the premise is available from the landlord. The lease period includes the construction period required 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 in its consolidated financial statements under deferred rent and amortizes them on a straight-line basis over the related lease 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 channel 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 channel 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.

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, 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.

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Sales Return Reserve

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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, 2012, 2011, and 2010 was as follows:

	<u>Balance at beginning of year</u>	<u>Additions</u>	<u>Deductions</u>	<u>Balance at end of year</u>
Year ended January 31, 2012	\$ 11,367	41,034	(41,434)	\$ 10,967
Year ended January 31, 2011	\$ 9,912	41,692	(40,237)	\$ 11,367
Year ended January 31, 2010	\$ 7,547	33,889	(31,524)	\$ 9,912

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 provisions; store occupancy costs including rent and depreciation; customer shipping costs 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: direct selling and selling supervisory expenses; marketing expenses; various corporate expenses such as information systems, finance, loss prevention, talent acquisition, and executive management expenses; and 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.

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 comprised of web marketing, catalog printing, paper, postage and other costs related to production of photographic images used in our catalogs and on our websites. The catalog printing, paper, postage and other 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 and related items are 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 \$3,586 and \$3,323 as of January 31, 2012, and 2011, respectively. Advertising expenses were \$71,684, \$58,336 and \$46,827 for fiscal 2012, 2011 and 2010, respectively.

Start-up Costs

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

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Website Development Costs

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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 2012, 2011 and 2010, the Company did not capitalize any internal-use software development costs because substantially all costs were incurred during the planning and operating stages, and costs incurred during the application and infrastructure development stage were not material.

Income Taxes

The Company 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 for a further discussion of income taxes).

Net Income Per Common Share

Basic net income per common share is computed by dividing net income by the weighted average number of common shares outstanding. Diluted net income per common share is computed by dividing net income by the weighted average number of common shares and common share equivalents outstanding. Common share equivalents include the effect of stock options, stock appreciation rights ("SARs"), restricted stock units ("RSUs") and performance share units ("PSUs").

Accumulated Other Comprehensive Loss

Comprehensive income is comprised of two subsets—net income and accumulated other comprehensive loss. Amounts included in accumulated other comprehensive loss 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 non—U.S. subsidiaries for which foreign earnings have been designated as permanently reinvested. Accumulated other comprehensive loss consisted of foreign currency translation losses of \$10,037 and \$7,752 as of January 31, 2012, and January 31, 2011, respectively, and unrealized losses, net of tax, on marketable securities of \$1,475 and \$2,510 as of January 31, 2012, and January 31, 2011, respectively. Gross realized gains and losses are included in other income in the Consolidated Statements of Income and were not material to the Company's Consolidated Financial Statements for all three years presented.

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 as of the balance sheet date, equity accounts at historical exchange rates, while revenue 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 loss within shareholders' equity. As of January 31, 2012, 2011 and 2010, foreign currency translation adjustments resulted in accumulated losses of \$10,037 and \$7,752, respectively.

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 in high-quality securities held with reputable trustees and, by policy, limiting the amount of credit exposure to any one issuer or issue, as well as providing limitations on investment maturities. The Company's investment policy requires that the majority of its cash, cash equivalents and marketable securities are invested in corporate and municipal bonds rated "A" or better and federally insured or guaranteed investment vehicles such as federal government agencies, irrevocable

pre-refunded municipal bonds and United States treasury bills. 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 collectability of 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.

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Recently Issued Accounting Pronouncements

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In January 2010, the Financial Accounting Standards Board (“FASB”) issued an accounting standards update that amended fair value measurements and disclosures and aimed to improve the transparency of financial reporting of assets and liabilities measured at fair value. The update required new disclosures for transfers in and out of Level 1 and Level 2 and the basis for such transfers. Also required are disclosures for activity in Level 3, including purchase, sale, issuance and settlement information. Lastly, it clarified guidance regarding disaggregation and disclosure of information about valuation techniques and inputs used to measure fair value for both recurring and non-recurring fair value measurements in Level 2 and Level 3 categories. The Company adopted the provisions of this accounting standards update effective February 1, 2010, except for the requirement to disclose purchases, sales, issuances, and settlements related to Level 3 measurements, which we adopted February 1, 2011. This adoption had no impact on the Company's financial condition, results of operations or cash flows.

In May 2011, the FASB issued an additional update that amended fair value measurements and disclosures. This amendment provides that the inputs and measures used to value assets that fall within Level 3 of the valuation hierarchy be quantitatively presented. Application is required prospectively for interim and annual periods beginning after December 15, 2011. The Company is required to adopt the provisions of this update in the first quarter of fiscal 2013. Other than the change in presentation, this accounting standards update will not have an impact on the Company's financial position and results of operations.

In June 2011, the FASB issued an accounting standards update that requires an increase in the prominence of other comprehensive income and its components within the financial statements. The update provides entities the option to present the components of net income and other comprehensive income in either one or two consecutive financial statements. It also eliminates the option to present other comprehensive income in the statements of shareholders' equity. Application is to be applied retrospectively and is effective for interim and annual periods beginning after December 15, 2011. The Company is required to adopt the provisions of this update in the first quarter of fiscal 2013. Other than the change in presentation, this accounting standards update will not have an impact on the Company's financial position and results of operations.

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3. Marketable Securities

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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, 2012, and 2011 are as follows:

	Amortized Cost	Unrealized Gains	Unrealized (Losses)	Fair Value
As of January 31, 2012				
Short-term Investments:				
Corporate bonds	\$ 34,899	\$ 7	\$ (28)	\$ 34,878
Municipal and pre-refunded municipal bonds	41,519	135	(10)	41,644
Certificate of deposit	5,225	—	—	5,225
Federal government agencies	4,513	2	—	4,515
Commercial paper	3,580	12	—	3,592
	<u>89,736</u>	<u>156</u>	<u>(38)</u>	<u>89,854</u>
Long-term Investments:				
Corporate bonds	60,852	277	(72)	61,057
Municipal and pre-refunded municipal bonds	18,410	186	(6)	18,590
Auction rate securities	22,975	—	(2,778)	20,197
Treasury bills	14,982	6	—	14,988
Certificate of deposit	6,970	—	(1)	6,969
Federal government agencies	5,111	2	(1)	5,112
	<u>129,300</u>	<u>471</u>	<u>(2,858)</u>	<u>126,913</u>
	<u>\$219,036</u>	<u>\$ 627</u>	<u>\$ (2,896)</u>	<u>\$216,767</u>
As of January 31, 2011				
Short-term Investments:				
Municipal and pre-refunded municipal bonds	\$ 42,996	\$ 48	\$ (9)	\$ 43,035
Treasury bills	7,004	4	—	7,008
Federal government agencies	40,842	80	—	40,922
FDIC insured corporate bonds	23,489	66	—	23,555
Variable rate demand notes	1,900	—	—	1,900
	<u>116,231</u>	<u>198</u>	<u>(9)</u>	<u>116,420</u>
Long-term Investments:				
Corporate bonds	137,540	173	(154)	137,559
Municipal and pre-refunded municipal bonds	143,711	216	(558)	143,369
Auction rate securities	33,250	—	(3,788)	29,462
Treasury bills	23,311	34	—	23,345
Federal government agencies	18,225	30	(2)	18,253
	<u>356,037</u>	<u>453</u>	<u>(4,502)</u>	<u>351,988</u>
	<u>\$472,268</u>	<u>\$ 651</u>	<u>\$ (4,511)</u>	<u>\$468,408</u>

Proceeds from the sale and maturities of available-for-sale securities were \$414,769, \$571,236 and \$421,040 in fiscal 2012, 2011 and 2010, respectively. The Company included in interest income, in the Consolidated Statements of Income, a net realized gain of \$1,171 during fiscal 2012, a net realized loss of \$30 during fiscal 2011 and a net realized gain of \$1,075 during fiscal 2010. Amortization of discounts and premiums, net, resulted in a reduction to interest income of \$7,373, \$8,702 and \$6,204 for fiscal years 2012, 2011, and 2010, respectively.

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The following tables show the gross unrealized losses and fair value of the Company's marketable securities with unrealized losses that are not deemed to be other-than-temporarily impaired aggregated by the length of time that individual securities have been in a continuous unrealized loss position, at January 31, 2012, and January 31, 2011, respectively.

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Description of Securities	January 31, 2012					
	Less Than 12 Months		12 Months or Greater		Total	
	Fair Value	Unrealized Losses	Fair Value	Unrealized Losses	Fair Value	Unrealized Losses
Corporate bonds	45,089	(100)	—	—	45,089	(100)
Municipal and pre-refunded municipal bonds	9,985	(9)	2,954	(7)	12,939	(16)
Auction rate securities	—	—	20,197	(2,778)	20,197	(2,778)
Treasury bills	1,039	—	—	—	1,039	—
Certificates of deposit	1,489	(1)	—	—	1,489	(1)
Federal government agencies	1,099	(1)	—	—	1,099	(1)
Total	58,701	(111)	23,151	(2,785)	81,852	(2,896)

Description of Securities	January 31, 2011					
	Less Than 12 Months		12 Months or Greater		Total	
	Fair Value	Unrealized Losses	Fair Value	Unrealized Losses	Fair Value	Unrealized Losses
FDIC-insured corporate bonds	67,359	(154)	—	—	67,359	(154)
Municipal and pre-refunded municipal bonds	103,090	(567)	—	—	103,090	(567)
Auction rate securities	—	—	29,462	(3,788)	29,462	(3,788)
Federal government agencies	1,397	(2)	—	—	1,397	(2)
Total	171,846	(723)	29,462	(3,788)	201,308	(4,511)

As of January 31, 2012, and 2011, there were a total of 76 and 128 issued securities with unrealized loss positions within the Company's portfolio, respectively. The total unrealized loss position due to the impairment of ARS held by the Company that have experienced auction failures as of January 31, 2012, and 2011 was \$2,778 and \$3,788, respectively. 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.

As of January 31, 2012, the par value of our ARS was \$22,975 and the estimated fair value was \$20,197. 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. The Company does not have the intent to sell the underlying securities prior to their recovery and the Company believes it is not likely that it will be required to sell the underlying securities prior to their anticipated recovery of full amortized cost.

4. Fair Value

The Company utilizes 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 that relate to its financial assets and financial liabilities). 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 Company's own assumptions.

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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:

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	Marketable Securities Fair Value as of			
	January 31, 2012			
	Level 1	Level 2	Level 3	Total
Assets:				
Corporate bonds	\$ 95,935	\$ —	\$ —	\$ 95,935
Municipal and pre-refunded municipal bonds	—	60,234	—	60,234
Auction rate securities	—	—	20,197	20,197
Treasury bills	14,988	—	—	14,988
Certificates of deposit	—	12,194	—	12,194
Federal government agencies	9,627	—	—	9,627
Commercial paper	—	3,592	—	3,592
	<u>\$120,550</u>	<u>\$76,020</u>	<u>\$20,197</u>	<u>\$216,767</u>

	Marketable Securities Fair Value as of			
	January 31, 2011			
	Level 1	Level 2	Level 3	Total
Assets:				
Corporate bonds	\$137,559	\$ —	\$ —	\$137,559
Municipal and pre-refunded municipal bonds	—	186,404	—	186,404
Auction rate securities	—	—	29,462	29,462
Treasury bills	30,353	—	—	30,353
Federal government agencies	59,175	—	—	59,175
FDIC insured corporate bonds	23,555	—	—	23,555
Variable rate demand notes	—	1,900	—	1,900
	<u>\$250,642</u>	<u>\$188,304</u>	<u>\$29,462</u>	<u>\$468,408</u>

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, 2012, and 2011. As of January 31, 2012, and 2011 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 \$2,778 and \$3,788 as of January 31, 2012, and January 31, 2011, respectively. 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.

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Below is a reconciliation of the beginning and ending ARS securities balances that the Company valued using a Level 3 valuation for the fiscal years ended January 31, 2012, and 2011.

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	Fiscal Year Ended January 31, 2012	Fiscal Year Ended January 31, 2011
Balance at beginning of period	\$ 29,462	\$ 33,505
Total gains (losses) realized/unrealized:		
Included in earnings	—	—
Included in comprehensive income	1,010	332
Settlements	(10,275)	(4,375)
Transfers in and/or out of Level 3	—	—
Balance at end of period	<u>\$ 20,197</u>	<u>\$ 29,462</u>
Unrealized losses included in accumulated other comprehensive loss related to assets still held at reporting date	\$ (2,778)	\$ (3,788)
Total gains for the period included in earnings attributable to the change in unrealized gains or losses related to assets still held at reporting date	\$ —	\$ —

5. Property and Equipment

Property and equipment is summarized as follows:

	January 31,	
	2012	2011
Land	\$ 5,801	\$ 2,387
Buildings	118,050	117,982
Furniture and fixtures	306,020	273,621
Leasehold improvements	676,644	606,020
Other operating equipment	103,818	81,856
Construction-in-progress	91,433	29,295
	<u>1,301,766</u>	<u>1,111,161</u>
Accumulated depreciation	(616,787)	(524,815)
Total	<u>\$ 684,979</u>	<u>\$ 586,346</u>

Depreciation expense for property and equipment for fiscal years ended 2012, 2011 and 2010 was \$100,739, \$92,403 and \$86,146, respectively.

6. Accrued Expenses and Other Current Liabilities

Accrued expenses and other current liabilities consist of the following:

	January 31,	
	2012	2011
Gift certificates and merchandise credits	\$ 34,331	\$ 30,866
Accrued construction	21,866	8,103
Accrued income taxes	14,462	22,466
Sales return reserve	10,967	11,367
Accrued rents and estimated property taxes	9,118	9,329
Accrued sales taxes	9,089	7,780
Other current liabilities	22,249	17,997
Total	<u>\$122,082</u>	<u>\$107,908</u>

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7. Line of Credit Facility

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On April 25, 2011, the Company amended its line of credit facility (the "Line") with Wells Fargo Bank, National Association. This amendment extended the term of the Line for three years, increased the accordion feature from \$100 million to \$175 million, reduced the interest rate margin for certain cash advances and modified certain financial covenants and terms. 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 1.50% 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 such as adjusted debt. The covenants also include limitations on the Company's capital expenditures, ability to repurchase shares and the payment of cash dividends. On October 31, 2011, the Company further amended the Line to revise certain financial covenants which included removing the limitation on share repurchases, as well as to join certain subsidiaries of the Company as additional borrowers and guarantors and release certain others. As of and for the year ended January 31, 2012, there were no borrowings under the Line. Outstanding letters of credit and stand-by letters of credit under the Line totaled approximately \$59,685 as of January 31, 2012. The available credit, including the accordion feature, under the Line was \$115,315 as of January 31, 2012.

8. Income Taxes

The components of income before income taxes are as follows:

	Fiscal Year Ended January 31,		
	2012	2011	2010
Domestic	\$261,214	\$374,777	\$333,824
Foreign	27,617	42,431	10,582
	<u>\$288,831</u>	<u>\$417,208</u>	<u>\$344,406</u>

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

	Fiscal Year Ended January 31,		
	2012	2011	2010
Current:			
Federal	\$ 93,244	\$127,390	\$107,350
State	14,199	19,492	13,216
Foreign	8,287	6,095	1,786
	<u>115,730</u>	<u>152,977</u>	<u>122,352</u>
Deferred:			
Federal	(11,292)	(6,698)	2,960
State	124	(1,906)	(365)
Foreign	(982)	(123)	(434)
	<u>(12,150)</u>	<u>(8,727)</u>	<u>2,161</u>
	<u>\$103,580</u>	<u>\$144,250</u>	<u>\$124,513</u>

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,		
	2012	2011	2010
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	3.2	3.2	2.3
Foreign taxes	(2.1)	(2.1)	(0.6)
Federal rehabilitation tax credits	—	(0.8)	—
Other	(0.2)	(0.7)	(0.5)
Effective tax rate	<u>35.9%</u>	<u>34.6%</u>	<u>36.2%</u>

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The significant components of deferred tax assets and liabilities as of January 31, 2012, and 2011 are as follows:

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	January 31,	
	2012	2011
Deferred tax liabilities:		
Prepaid expenses	\$(1,402)	\$ (1,551)
Depreciation	(4,761)	(15,922)
Gross deferred tax liabilities	<u>(6,163)</u>	<u>(17,473)</u>
Deferred tax assets:		
Deferred rent	37,024	43,005
Inventories	3,093	5,434
Accounts receivable	1,166	747
Net operating loss carryforwards	5,684	5,123
Tax uncertainties	7,651	4,433
Accrued salaries and benefits	13,786	13,496
Other temporary differences	4,437	—
Gross deferred tax assets, before valuation allowances	<u>72,841</u>	<u>72,238</u>
Valuation allowances	<u>(2,754)</u>	<u>(2,622)</u>
Net deferred tax assets	<u>\$63,924</u>	<u>\$ 52,143</u>

Net deferred tax assets are attributed to the jurisdictions in which the Company operates. As of January 31, 2012, and 2011, respectively, \$48,762 and \$37,170 were attributable to U.S. federal, \$12,374 and \$13,546 were attributed to state jurisdictions and \$2,788 and \$1,427 were attributed to foreign jurisdictions.

As of January 31, 2012, certain non—U.S. subsidiaries of the Company had net operating loss carryforwards for tax purposes of approximately \$10,503 that do not expire and certain U.S. subsidiaries of the Company had state net operating loss carryforwards for tax purposes of approximately \$9,114 that expire from 2016 through 2032. As of January 31, 2011, the Company had a full valuation allowance for certain foreign and state net operating loss carryforwards where it was uncertain the carryforwards would be utilized. The Company had no valuation allowance for certain other foreign and state 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, 2012, and 2011, the non-current portion of net deferred tax assets aggregated \$58,681 and \$37,789, 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 \$130,219 as of January 31, 2012. These earnings are deemed to be permanently re-invested to finance growth programs.

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

	January 31,		
	2012	2011	2010
Balance at the beginning of the period	\$ 7,758	\$7,532	\$ 7,509
Increases in tax positions for prior years	3,466	43	948
Decreases in tax positions for prior years	(310)	(592)	(116)
Increases in tax positions for current year	360	1,000	1,894
Settlements	(2,259)	(40)	(924)
Lapse in statute of limitations	(351)	(185)	(1,779)
Balance at the end of the period	<u>\$ 8,664</u>	<u>\$7,758</u>	<u>\$ 7,532</u>

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The total amount of net unrecognized tax benefits that, if recognized, would impact the Company's effective tax rate were \$3,874 and \$6,677 at January 31, 2012, and 2011, 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, 2012, 2011 and 2010, the Company recognized a benefit of \$1,334, \$437 and \$427 in interest and penalties. The Company accrued \$2,529 and \$3,620 for the payment of interest and penalties as of January 31, 2012, and 2011, respectively.

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The Company files income tax returns in the U.S. federal jurisdiction and various state and foreign jurisdictions. During the year ended January 31, 2012, the Company settled its Internal Revenue Service examination for the periods ended January 31, 2005, through 2008. The Company has recognized the tax effect of this settlement for previous and future periods in the end of year balances. The Company also began a new Internal Revenue audit for periods ended January 31, 2009, and 2010. State and foreign jurisdictions that remain subject to examination range from fiscal 2002 to 2011 with few exceptions. It is possible that the Federal or any state examination may be resolved within twelve months. Due to the potential for resolution of Federal audit and state examinations, and the expiration of various statutes of limitation, it is possible that the Company's gross unrecognized tax benefits balance may change within the next twelve months by a range of zero to \$3,340.

9. Share-Based Compensation

The Company's 2008 and 2004 Stock Incentive Plans each authorize up to 10,000,000 common shares, which can be granted as RSUs, unrestricted shares, incentive stock options, nonqualified stock options, PSUs or as SARs. Awards under these plans generally expire seven or ten years from the date of grant, thirty days after termination of employment or six months after the date of death or termination due to disability of the grantee. As of January 31, 2012, there were 6,951,650 and 902,516 common shares available to grant under the 2008 and 2004 Stock Incentive Plans, respectively.

A Lattice Binomial pricing model ("Model") was used to estimate the fair value of stock options and SARs. The 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 risk-free rate of interest for periods within the contractual life of the award is based on U.S. Government Securities Treasury Constant Maturities over the expected term of the equity instrument. The expected volatility is based on a weighted average of the implied volatility and the Company's most recent historical volatility.

Based on the Company's historical experience, it has assumed an annualized forfeiture rate of 5% for its non-vested share based awards granted during the fiscal years ended January 31, 2012, and 2011. For share based awards granted in previous years that remain non-vested, an annualized forfeiture rate of 2% has been assumed. 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.

Share based compensation expense, included in the Consolidated Statements of Income, for the fiscal years ended January 31, 2012, 2011 and 2010 was as follows:

	Fiscal Year Ended January 31,		
	2012	2011	2010
Stock Options	\$2,886	\$ 4,331	\$2,975
Stock Appreciation Rights	1,111	463	—
Performance Share Units (1)	(959)	5,929	1,349
Restricted Shares	30	2	442
Total	<u>\$3,068</u>	<u>\$10,725</u>	<u>\$4,766</u>

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Stock Options**Page C-20**

The Company grants stock options which generally vest over a period of three to five years. Stock options become exercisable over the vesting period in installments determined by the administrator, which can vary depending upon each individual grant. Stock options granted to non-employee directors generally vest over a period of one year. The following weighted average assumptions were used in the Model to estimate the fair value of stock options at the date of grant:

	<u>Fiscal 2012</u>	<u>Fiscal 2011</u>	<u>Fiscal 2010</u>
Expected life, in years	3.5	4.3	4.2
Risk-free interest rate	0.9%	1.8%	2.0%
Volatility	50.0%	49.9%	51.4%
Dividend rate	—	—	—

The following table summarizes the Company's stock option activity:

	<u>Fiscal Year Ended January 31, 2012</u>		
	<u>Shares</u>	<u>Weighted Average Exercise Price</u>	<u>Weighted Average Remaining Contractual Term (years)</u>
Awards outstanding at beginning of year	8,330,683	\$ 24.31	
Granted	100,000	36.07	
Exercised	(1,912,967)	14.17	
Forfeited or Expired	(487,066)	35.01	
Awards outstanding at end of year	<u>6,030,650</u>	26.86	3.5
Awards outstanding expected to vest	<u>5,980,827</u>	26.86	3.5
Awards exercisable at end of year	<u>5,140,725</u>	\$ 25.63	3.3
			Aggregate Intrinsic Value
			\$23,918
			\$23,344
			\$23,377

The following table summarizes other information related to stock options during the years ended January 31, 2012, 2011 and 2010:

	<u>Fiscal Year Ended January 31,</u>		
	<u>2012</u>	<u>2011</u>	<u>2010</u>
Weighted-average grant date fair value—per share	\$ 10.36	\$ 12.07	\$ 8.35
Intrinsic value of awards exercised	\$22,615	\$55,100	\$16,613
Net cash proceeds from the exercise of stock options	\$ 4,136	\$24,129	\$ 3,250
Actual income tax benefit realized from stock option exercises	\$ 8,995	\$12,847	\$ 6,390

The Company recognized tax benefits, related to stock options of \$953, \$1,336 and \$1,034, in the accompanying Consolidated Statements of Income for the fiscal years ended January 31, 2012, 2011 and 2010, respectively. Total unrecognized compensation cost of stock options granted but not yet vested, as of January 31, 2012, was \$6,044, which is expected to be recognized over the weighted average period of 2.09 years.

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The following table summarizes information concerning outstanding and exercisable stock options as of January 31, 2012:

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Range of Exercise Prices	Awards Outstanding			Awards Exercisable	
	Amount Outstanding	Wtd. Avg. Remaining Contractual Life	Wtd. Avg. Exercise Price	Amount Exercisable	Wtd. Avg. Exercise Price
\$ 0.00-\$ 3.96	41,900	0.2	\$ 2.86	41,900	\$ 2.86
\$ 3.97-\$ 7.92	630,500	1.4	4.72	630,500	4.72
\$11.87-\$15.83	579,000	2.4	14.38	579,000	14.38
\$15.84-\$19.79	138,750	4.2	19.12	80,000	19.77
\$19.80-\$23.75	119,000	4.0	22.06	115,000	22.07
\$23.76-\$27.71	497,000	3.6	25.62	472,000	25.65
\$27.72-\$31.66	2,512,500	3.7	31.06	2,505,375	31.06
\$31.67-\$35.62	494,600	4.5	32.98	161,960	32.62
\$35.63-\$39.58	1,017,400	4.0	37.60	554,990	37.78
	<u>6,030,650</u>	3.5	\$26.86	<u>5,140,725</u>	\$25.63

Stock Appreciation Rights

The Company granted SARs during fiscal 2012 and 2011. There were no SARs issued or outstanding during fiscal 2010. These SARs generally vest over a five year period. Each vested SAR entitles the holder the right to the differential between the value of the Company's common share price at the date of exercise and the value of the Company's common share price at the date of grant. As of January 31, 2012, none of these SARs had vested. The following weighted average assumptions were used in the Model to estimate the fair value of SARs at the date of grant:

	Fiscal Year Ended January 31,	
	2012	2011
Expected life, in years	4.8	5.3
Risk-free interest rate	0.8%	1.6%
Volatility	48.8%	47.9%
Dividend rate	—	—

The following table summarizes the Company's SAR activity:

	Fiscal Year Ended January 31, 2012			
	Awards	Weighted Average Exercise Price	Weighted Average Remaining Contractual Term (years)	Aggregate Intrinsic Value
Awards outstanding at beginning of year	488,800	\$ 32.84		
Granted	208,500	26.89		
Exercised	—	—		
Forfeited or Expired	(46,500)	32.80		
Awards outstanding at end of year	650,800	30.91	7.0	\$ —
Awards outstanding expected to vest	618,260	\$ 30.91	7.0	\$ —
Awards exercisable at end of year	—	—	—	\$ —
Weighted average grant date fair value—per share	\$ 9.50			

Total unrecognized compensation cost of SARs granted, but not yet vested as of January 31, 2012, was \$5,589, which is expected to be recognized over the weighted average period of 3.7 years.

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Performance Share Units**Page C-22**

The Company grants PSUs which vest based on the achievement of various company performance targets and external market conditions. The fair value of the PSUs are determined using a Monte Carlo simulation. Once the Company determines that it is probable that the performance targets will be met, compensation expense is recorded for these awards. If any of these performance targets are not met, the awards are forfeited. Each PSU is equal to one common share with varying maximum award value limitations. PSUs typically vest over a five year period.

The following table summarizes the Company's PSU activity for the fiscal year ended January 31, 2012:

	Shares	Weighted Average Fair Value
Non-vested awards outstanding at beginning of year	1,441,366	\$ 24.57
Granted	2,198,450	16.21
Vested	—	—
Forfeited	<u>(1,115,866)</u>	24.76
Non-vested awards outstanding at end of year	<u>2,523,950</u>	17.23

The aggregate grant date fair value of PSUs awarded during fiscal 2012, 2011 and 2010 was \$35,629, \$9,621 and \$26,932, respectively. No PSUs vested during fiscal year 2012. The aggregate grant date fair value of PSUs vested during fiscal year 2011 was \$1,060. No PSUs vested during fiscal year 2010. Unrecognized compensation cost related to non-vested PSUs as of January 31, 2012, was \$35,978, which is expected to be recognized over a weighted average period of 4.3 years.

Restricted Stock Units

The Company grants RSUs which vest based on the achievement of specified service and external market conditions. RSUs typically vest over a three to five year period.

The following table summarizes the Company's RSUs activity for the fiscal year ended January 31, 2012:

	Shares	Weighted Average Fair Value
Non-vested awards outstanding at beginning of year	1,000	\$ 36.64
Granted	10,000	20.08
Vested	(334)	36.64
Exercised	—	—
Forfeited / Cancelled	—	—
Non-vested awards outstanding at end of year	<u>10,666</u>	21.11

The aggregate grant date fair value of RSUs awarded during fiscal 2012 and 2011 was \$201 and \$37, respectively. There were no RSUs awarded in fiscal 2010. The aggregate grant date fair value of RSUs vested during fiscal year 2012 was \$12. No RSUs vested during fiscal years 2011 and 2010. Total unrecognized compensation cost for non-vested RSUs granted as of January 31, 2012, was \$195, which is expected to be recognized over the weighted average period of 4.2 years.

10. Shareholders' Equity

On February 28, 2006, the Company's Board of Directors approved a stock repurchase program which authorized the Company to repurchase up to 8,000,000 common shares. On November 16, 2010, and August 25, 2011, the Company's Board of Directors approved two separate stock repurchase authorizations of 10,000,000

additional common shares. These additional authorizations supplemented the Company's 2006 stock repurchase program.

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During the fiscal years ended January 31, 2012, and 2011 the Company repurchased and subsequently retired 20,491,530 and 6,288,447 common shares at a total cost of \$538,311 and \$200,732, respectively. There were no share repurchases during the fiscal year ended January 31, 2010. The average cost per share of the repurchases for the fiscal years ended January 31, 2012, and 2011 was \$26.27 and \$31.92, respectively, including commissions. As of January 31, 2012, there were no common shares available for repurchase under the program.

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In addition to shares repurchased under the stock repurchase program, during the fiscal years ended January 31, 2012, and 2011, the Company settled and subsequently retired 282,813 and 112,770 common shares at a total cost of \$7,167 and \$3,986, respectively, from employees to meet minimum statutory tax withholding requirements.

As a result of the share repurchase activity noted above, the Company reduced the balance of additional paid-in-capital to zero. Subsequent share repurchase activity was recorded as a reduction of retained earnings. During the fiscal year ended January 31, 2012, the Company reduced retained earnings by \$501,676 related to these share repurchases.

11. Net Income per Common Share

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

	Fiscal Year Ended January 31,		
	2012	2011	2010
Basic weighted average shares outstanding	154,025,589	166,896,322	168,053,502
Effect of dilutive options, non-vested shares and stock appreciation rights	2,165,700	3,437,228	3,176,743
Diluted weighted average common shares outstanding	<u>156,191,289</u>	<u>170,333,550</u>	<u>171,230,245</u>

For the fiscal years ended January 31, 2012, 2011 and 2010, awards to purchase 3,836,838 common shares ranging in price from \$26.85 to \$39.58, 1,324,238 awards to purchase common shares ranging in price from \$32.89 to \$39.58 and 4,331,650 awards to purchase common shares ranging in price from \$16.58 to \$37.51, were excluded from the calculation of diluted net income per common share because the impact would be anti-dilutive.

As of January 31, 2012, 2,533,950 contingently issuable awards were excluded from the calculation of diluted net income per common share as they did not meet certain performance criteria.

12. 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:

<u>Fiscal Year</u>	
2013	\$ 185,047
2014	183,374
2015	175,947
2016	160,574
2017	139,948
Thereafter	544,113
Total minimum lease payments	<u>\$1,389,003</u>

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Amounts noted above include commitments for 36 executed leases for stores not opened as of January 31, 2012. 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.

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Rent expense consisted of the following:

	Fiscal Year Ended January 31,		
	2012	2011	2010
Minimum and percentage rentals	\$165,901	\$143,919	\$125,651
Contingent rentals	5,403	5,836	3,327
Total	<u>\$171,304</u>	<u>\$149,755</u>	<u>\$128,978</u>

The Company also has commitments for unfulfilled purchase orders for merchandise ordered from our vendors in the normal course of business, which are liquidated within 12 months, of \$315,890. 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 construction contractors, fully liquidated upon the completion of construction, which is typically within 12 months, of \$16,292.

Benefit Plan

Full and part-time U.S.—based employees who are at least 18 years of age are eligible after three 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 \$1,365, \$1,308 and \$1,171 for fiscal years 2012, 2011 and 2010, 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.

13. Related Party Transactions

Drinker Biddle & Reath LLP (“DBR”), a law firm, provided general legal services to the Company. Fees paid to DBR during fiscal 2012, 2011 and 2010 were \$2,509, \$2,707 and \$1,732, respectively. Harry S. Cherken, Jr., a director of the Company, is a partner at DBR. Fees due to DBR for the fiscal years ended January 31, 2012, 2011 and 2010 were approximately \$273, \$251 and \$251, 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 2012, 2011 and 2010. The Company has not paid any compensation to The McDevitt Company for such services, 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 A. Belair, one of the Company's directors. There were no amounts due to The McDevitt Company as of January 31, 2012, and January 31, 2011. Mr. McDevitt's wife, Wendy B. McDevitt, is an executive officer of the Company, serving as President of the Terrain Brand.

The Addis Group (“Addis”), an insurance brokerage and risk management consulting company, acted as the Company's commercial insurance broker and risk management consultant for the years ended January 31, 2012, 2011 and 2010. 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. Scott Addis, the brother-in-law of Richard A. Hayne, Chief Executive Officer, President and Chairman of the Board of the Company, is the President of The Addis Group. There were no amounts due to or from Addis as of January 31, 2012, and January 31, 2011.

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14. Segment Reporting

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The Company is a global retailer of lifestyle-oriented general merchandise with two reporting segments—"Retail" and "Wholesale." The Company's Retail segment consists of the aggregation of its five brands operating through 429 stores under the retail names "Urban Outfitters," "Anthropologie," "Free People," "Terrain" and "BHLDN" and includes their direct marketing campaigns which consist of five catalogs and nine websites as of January 31, 2012. Our Retail stores and their direct marketing campaigns are considered an operating segment. Net sales from the Retail segment accounted for more than 94% of total consolidated net sales for the years ended January 31, 2012, 2011 and 2010. The remainder is derived from the Company's Wholesale segment that distributes apparel to its retail segment and to approximately 1,400 better department and specialty retailers worldwide.

The Company has aggregated its retail stores and associated direct marketing campaigns into a Retail segment based upon their shared 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.

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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:

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	Fiscal Year		
	2012	2011	2010
Net sales			
Retail operations	\$2,340,794	\$2,153,792	\$1,833,733
Wholesale operations	140,657	124,768	109,269
Intersegment elimination	(7,650)	(4,458)	(5,187)
Total net sales	<u>\$2,473,801</u>	<u>\$2,274,102</u>	<u>\$1,937,815</u>
Income from operations			
Retail operations	\$ 276,581	\$ 418,403	\$ 338,114
Wholesale operations	26,919	23,372	22,164
Intersegment elimination	(709)	(389)	(202)
Total segment operating income	302,791	441,386	360,076
General corporate expenses	(18,066)	(27,183)	(21,092)
Total income from operations	<u>\$ 284,725</u>	<u>\$ 414,203</u>	<u>\$ 338,984</u>
Depreciation expense for property and equipment			
Retail operations	\$ 99,645	\$ 91,267	\$ 85,077
Wholesale operations	1,094	1,136	1,069
Total depreciation expense for property and equipment	<u>\$ 100,739</u>	<u>\$ 92,403</u>	<u>\$ 86,146</u>
Inventories			
Retail operations	\$ 237,825	\$ 213,420	
Wholesale operations	12,248	16,141	
Total inventories	<u>\$ 250,073</u>	<u>\$ 229,561</u>	
Property and equipment, net			
Retail operations	\$ 681,501	\$ 582,241	
Wholesale operations	3,478	4,105	
Total property and equipment, net	<u>\$ 684,979</u>	<u>\$ 586,346</u>	
Cash paid for property and equipment			
Retail operations	\$ 189,311	\$ 142,791	\$ 107,941
Wholesale operations	699	851	1,319
Total cash paid for property and equipment	<u>\$ 190,010</u>	<u>\$ 143,642</u>	<u>\$ 109,260</u>

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

	Fiscal Year		
	2012	2011	2010
Net sales			
Domestic operations	\$2,169,976	\$2,027,074	\$1,752,787
Foreign operations	303,825	247,028	185,028
Total net sales	<u>\$2,473,801</u>	<u>\$2,274,102</u>	<u>\$1,937,815</u>
Property and equipment, net			
Domestic operations	\$ 557,512	\$ 497,521	
Foreign operations	127,467	88,825	
Total property and equipment, net	<u>\$ 684,979</u>	<u>\$ 586,346</u>	