

URBAN OUTFITTERS INC
Form 10-K
March 30, 2007
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UNITED STATES
SECURITIES AND EXCHANGE COMMISSION

Washington, DC 20549

FORM 10-K

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

x ANNUAL REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934
For the fiscal year ended January 31, 2007

.. 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)

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

23-2003332
(I.R.S. Employer

Identification No.)

19112-1495
(Zip Code)

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

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Title of Each Class	Name of Exchange on Which Registered
Common Shares, \$.0001 par value	The NASDAQ Stock Market LLC
Securities registered pursuant to Section 12(g) of the Act: None	

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

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

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

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

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

Large accelerated filer Accelerated filer Non-accelerated filer

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 \$1,640,624,909.

The number of shares outstanding of the registrant's common stock on March 23, 2007 was 165,084,463.

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 2007 Annual Meeting of Shareholders.

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This Securities and Exchange Commission filing is being made pursuant to the safe harbor provisions of the Private Securities Litigation Reform Act of 1995. Certain matters contained in this filing may constitute forward-looking statements. When used in this Form 10-K, the words project, believe, plan, anticipate, expect and similar expressions are intended to identify forward-looking statements, although not all forward-looking statements contain these identifying words. Any one, or all, of the following factors could cause actual financial results to differ materially from those financial results mentioned in the forward-looking statements: the difficulty in predicting and responding to shifts in fashion trends, changes in the level of competitive pricing and promotional activity and other industry factors, overall economic and market conditions and the resultant impact on consumer spending patterns, any effects of terrorist acts or war, availability of suitable retail space for expansion, timing of store openings, seasonal fluctuations in gross sales, the departure of one or more key senior managers, import risks, including potential disruptions and changes in duties, tariffs and quotas and other risks identified in our filings with the United States Securities and Exchange Commission (SEC). We disclaim any intent or obligation to update forward-looking statements even if experience or future changes make it clear that actual results may differ materially from any projected results expressed or implied therein.

Unless the context otherwise requires, all references to Urban Outfitters, the Company, we, us or our company refer to Urban Outfitters, Inc., together with its subsidiaries.

PART I

Item 1. Business

General

We are an innovative lifestyle merchandising company that operates specialty retail stores under the Urban Outfitters, Anthropologie and Free People brands, as well as a wholesale segment under the Free People brand. We have over 35 years of experience creating and managing retail stores that offer highly differentiated collections of fashion apparel, accessories and home goods in inviting and dynamic store settings. Our core strategy is to provide unified store environments that establish emotional bonds with the customer. In addition to our retail stores, we offer our products and market our brands directly to the consumer through our e-commerce web sites, www.urbanoutfitters.com, www.anthropologie.com, www.freepeople.com and www.urbanoutfitters.co.uk and also through our Urban Outfitters, Anthropologie and Free People catalogs. We have achieved compounded annual sales growth of approximately 29.0% over the past five years, with sales of approximately \$1.2 billion in fiscal 2007.

We opened our first store in 1970 near the University of Pennsylvania campus in Philadelphia. We were incorporated in Pennsylvania in 1976, and opened our second store in Harvard Square, Cambridge, Massachusetts in 1980. The first Anthropologie store opened in a suburb of Philadelphia in October 1992. We started doing business in Europe in 1998, with our first European store located in London. We opened our first Free People store in the Garden State Plaza Mall in Paramus, New Jersey in November 2002.

Our fiscal year ends on January 31. All references in this discussion to our fiscal years refer to the fiscal years ended on January 31 in those years. For example, our fiscal 2007 ended on January 31, 2007.

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Our annual report on Form 10-K, quarterly reports on Form 10-Q, current reports on Form 8-K and amendments to those reports filed with, or furnished to, the SEC pursuant to Section 13(a) or 15(d) of the Securities Exchange Act of 1934, as amended, are available free of charge on our investor relations web site, www.urbanoutfittersinc.com, as soon as reasonably practicable after we electronically file such material with, or furnish such material to, the SEC. We will voluntarily provide electronic or paper copies (other than exhibits) of our filings free of charge upon written request. You may also obtain any materials we file with, or furnish to, the SEC on its web site at www.sec.gov.

Retail Segment

Urban Outfitters. Urban Outfitters targets young adults aged 18 to 30 through its unique merchandise mix and compelling store environment. We have established a reputation with these young adults, who are culturally sophisticated, self-expressive and concerned with acceptance by their peer group. The product offering includes women's and men's fashion apparel, footwear and accessories, as well as an eclectic mix of apartment wares and gifts. Apartment wares range from rugs, pillows and shower curtains to books, candles and novelties. Stores average approximately 9,700 square feet of selling space, and typically carry 30,000 to 35,000 stock keeping units, or SKUs. Our stores are located in large metropolitan areas, select university communities, specialty centers and enclosed malls. Our stores accommodate our customers' propensity not only to shop, but also to congregate with their peers. In fiscal 2007, we circulated approximately 11.4 million Urban Outfitters catalogs in an effort to expand our distribution channels and increase brand awareness. We plan to expand circulation to approximately 12.0 million catalogs in fiscal 2008. As of January 31, 2007, we operated 106 Urban Outfitters stores in North America and Europe, as well as the www.urbanoutfitters.com and www.urbanoutfitters.co.uk web sites and the Urban Outfitters catalog. We plan to open approximately 16 new Urban Outfitters stores in fiscal 2008. Urban Outfitters' North American and European store sales accounted for approximately 38.9% and 5.8% of consolidated net sales, respectively, for fiscal 2007.

Anthropologie. Anthropologie tailors its merchandise and inviting store environment to sophisticated and contemporary women aged 30 to 45. Anthropologie's unique and eclectic product assortment includes women's casual apparel and accessories, home furnishings and a diverse array of gifts and decorative items. The home furnishings range from furniture, rugs, lighting and antiques to table top items, bedding and gifts. Stores average approximately 7,600 square feet of selling space, typically carry 20,000 to 25,000 SKUs and are located in specialty retail centers, upscale street locations and enclosed malls. During fiscal 2007, we circulated approximately 21.8 million catalogs and plan to modestly expand circulation to approximately 21.9 million catalogs in fiscal 2008. As of January 31, 2007, we operated 93 Anthropologie stores in the United States, as well as the www.anthropologie.com web site and the Anthropologie catalog. We plan to open approximately 16 new Anthropologie stores in fiscal 2008. Anthropologie's store sales accounted for approximately 35.9% of consolidated net sales for fiscal 2007.

Free People. Our Free People retail stores primarily offer Free People branded merchandise targeted to young contemporary women aged 25 to 30. Free People offers a unique merchandise mix of casual women's apparel, accessories and gifts. Our first Free People retail store opened in November 2002 and is located in the Garden State Plaza Mall in Paramus, New Jersey. We opened two new Free People stores during fiscal 2007. Free People retail stores average approximately 1,600 square feet and carry approximately 1,600 SKUs. The retail channels of Free People expose both

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our wholesale accounts and retail customers to the full Free People product assortment and store environment. During fiscal 2007, we circulated approximately 3.3 million catalogs and plan to expand circulation to approximately 4.3 million catalogs in fiscal 2008. As of January 31, 2007, we operated eight Free People stores in the United States, as well as the *www.freepeople.com* web site and the Free People catalog. Free People retail store sales accounted for less than 1% of our consolidated net sales for fiscal 2007.

Catalogs and Web Sites

In March 1998, Anthropologie introduced a direct-to-consumer catalog offering select merchandise most of which is also available in our Anthropologie stores. During fiscal 2007, Anthropologie catalog circulation was approximately 21.8 million. We believe that this catalog has been instrumental in helping to build the Anthropologie brand identity with our target customers. We plan to modestly expand catalog circulation to approximately 21.9 million during fiscal 2008 and intend to increase the level of catalog circulation over the next few years.

Anthropologie operates a web site that accepts orders directly from consumers. The web site, *www.anthropologie.com*, debuted in December 1998. The web site captures the spirit of the store by offering a similar array of apparel, accessories, household and gift merchandise as found in the stores. As with our catalog, we believe that the web site increases Anthropologie's reputation and brand recognition with its target customers and helps support the traffic of Anthropologie's store operations.

In March 2003, Urban Outfitters introduced a direct-to-consumer catalog offering selected merchandise, much of which is also available in our Urban Outfitters stores. During fiscal 2007, Urban Outfitters catalog circulation was approximately 11.4 million. We believe this catalog has expanded our distribution channels and increased brand awareness. We plan to modestly expand catalog circulation to approximately 12.0 million during fiscal 2008 and intend to increase the level of catalog circulation over the next few years.

Urban Outfitters also operates a web site that accepts orders directly from consumers. The web site, *www.urbanoutfitters.com*, was launched in May 2000. The web site captures the spirit of the store by offering a similar selection of merchandise as found in the stores. As with the Urban Outfitters catalog, we believe the web site increases the reputation and recognition of the brand with its target customers, as well as helps to support the traffic of Urban Outfitters store operations.

In August 2006, Urban Outfitters launched a web site targeting our European customers. The web site, *www.urbanoutfitters.co.uk*, captures the spirit of our European stores by offering a similar selection of merchandise as found in the stores. Fulfillment is provided from a third-party distribution center located in the United Kingdom. We believe the web site increases the reputation and recognition of the brand with its European target customers as well as helps to support our Urban Outfitters European store operations.

We successfully launched the Free People web site, *www.freepeople.com*, in September 2004. The web site exposes consumers to the product assortment found at Free People retail stores as well as all of the Free People wholesale offerings. The Free People catalog was introduced in October 2005. We circulated approximately 3.3 million catalogs during fiscal 2007. We plan to modestly expand catalog circulation to approximately 4.3 million during fiscal 2008 and intend to increase the level of catalog circulation over the next few years.

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Increases in our catalog circulation are driven by our evaluation of the response rate to each individual catalog. Based upon that evaluation, we will adjust the frequency and circulation of our catalog portfolio as needed. In addition, we evaluate the buying pattern of our direct customers to determine those customers who respond to our catalog mailings. We also utilize the services of list rental companies to identify potential customers that will receive future catalogs.

Direct-to-consumer sales were approximately 12.6% of consolidated net sales for fiscal 2007.

Wholesale Segment

The Free People wholesale division was established in 1984 to develop, in conjunction with Urban Outfitters, private label apparel lines of young women's casual wear that could be effectively sold at attractive prices in Urban Outfitters stores. In order to achieve minimum production lots, Free People wholesale began selling to other retailers throughout the United States. Free People's range of tops, bottoms, sweaters and dresses are sold worldwide through approximately 1,500 better department and specialty stores, including Bloomingdale's, Lord & Taylor, Nordstrom, Parisian, Urban Outfitters and its own Free People stores. Free People currently sells its merchandise under the *Free People* label. We also distribute our Free People products in certain department stores using a shop-within-shops sales model. We believe that the shop-within-shops model allows for a more complete merchandising of our Free People products and will give us greater freedom in differentiating the presentation of our products and further strengthening our brand image. We monitor the styles and products that are popular with our wholesale customers to give us insight into current fashion trends that help us better serve our retail customers. Free People presently maintains wholesale sales and showroom facilities in New York City, Los Angeles and Chicago. Free People wholesale sales accounted for approximately 6% of consolidated net sales for fiscal 2007.

In addition to selling its merchandise to specialty retailers, Free People wholesale also contributes production sourcing to our retail segment. Free People employs its own senior and creative management staff, but shares support services with the retail segment.

Store Environment

We create a unified environment in our stores that establishes an emotional bond with the customer. Every element of the environment is tailored to the aesthetic preferences of our target customers. Through creative design, much of the existing retail space is modified to incorporate a mosaic of fixtures, finishes and revealed architectural details. In our stores, merchandise is integrated into a variety of creative vignettes and displays designed to offer our customers an entire look at a distinct lifestyle. This dynamic visual merchandising and display technique provides the connection among the store design, the merchandise and the customer. Essential components of the ambience of each store may include playing music that appeals to our target customers, using unique signage and employing a staff that understands and identifies with the target customer.

Anthropologie considers it important to create an individualized and tailored store shopping experience for each customer. By providing an inviting and pleasant shopping atmosphere and an attentive sales staff, including in-store customer care managers, we strive to create a sense of community in our Anthropologie stores that encourages our target customers to linger and spend time exploring our stores and product offerings. Anthropologie stores are often placed in unique and

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non-traditional retail locations. A majority of our Anthropologie stores opened during fiscal 2007 were located in specialty retail centers and upscale street locations. We plan a similar Anthropologie location expansion strategy in fiscal 2008.

Our Urban Outfitters stores are often located in unconventional retail spaces, including a former movie theater, bank and stock exchange. A majority of our Urban Outfitters stores that opened in fiscal 2007 were located in specialty retail centers, upscale street locations and enclosed shopping malls. We are planning a similar Urban Outfitters location expansion strategy in fiscal 2008.

Our Free People retail stores opened to date are located in enclosed shopping malls and specialty retail centers. We expect Free People stores opening in fiscal 2008 to be located in traditional enclosed shopping malls, upscale street locations and specialty retail centers.

Buying Operations

Maintaining a constant flow of fashionable merchandise for our retail segment is critically important to the on-going performance of our stores and direct-to-consumer operations. We maintain our own buying groups that select and develop products to satisfy our target customers and provide us with the appropriate amount of products at the correct time. Merchandise managers may supervise several buyers and assistant buyers. Our buyers stay in touch with the evolving tastes of their target customers by shopping at major trade markets, attending national and regional trade shows and staying current with mass media influences, including music, video, film, magazines and pop culture.

Merchandise

Our Urban Outfitters stores, web sites and catalog offer a wide array of eclectic merchandise, including women's and men's fashion apparel, footwear and accessories, and apartment wares and gifts. Product offerings at our Anthropologie stores, web site and catalog include women's casual apparel and accessories, as well as home furnishings and an eclectic array of gifts and decorative accessories for the home, garden, bed and bath. Our Free People retail stores, web site and catalog offer a showcase for casual apparel, accessories and gifts, primarily developed and designed by our Free People wholesale division. Our merchandise is continuously updated to appeal to our target customers' changing tastes and is supplied by a large number of domestic and foreign vendors, with new shipments of merchandise arriving at our stores several times a week. The wide breadth of merchandise offered by our retail segment includes national brands, as well as exclusive private label merchandise developed and designed by Free People, Urban Outfitters and Anthropologie. This selection allows us to offer fashionable merchandise and to differentiate our product mix from that of traditional department stores, as well as that of other specialty and direct-to-consumer retailers. Private label merchandise generally yields higher gross profit margins than brand name merchandise, and helps to keep our product offerings current and unique.

The ever-changing mix of products available to our customers allows us to adapt our merchandise to prevailing fashion trends, and, together with the inviting atmosphere of our stores, encourages our core customers to visit our stores frequently.

We seek to select price points for our merchandise that are consistent with the spending patterns of our target customers. As such, our stores carry merchandise at a wide array of price points that may vary considerably within product categories.

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Store Operations

We have organized our retail store operations by brand into geographic areas or districts, each with a district manager. District managers are responsible for several stores and monitor and supervise individual store managers. Each store manager is responsible for overseeing the daily operations of one of our stores. In addition to a store manager, the staff of a typical Urban Outfitters and Anthropologie store includes a visual manager, several department managers and a full and part-time sales and visual staff. The staff of a typical Anthropologie store may also include a customer care manager who helps tailor the shopping experience to the needs of Anthropologie's target customers. Our Free People retail stores include a store manager, a visual coordinator and full and part-time sales staff.

An essential requirement for the success of our stores is our ability to attract, train and retain talented, highly motivated store managers, visual managers and other key employees. In addition to management training programs for both newly hired and existing employees, we have a number of retention programs that offer qualitative and quantitative performance-based incentives to district-level managers, store-level managers and full-time sales associates.

Marketing and Promotion

We believe that highly visible store locations, creative store design, broad merchandise selection and visual presentation are key enticements for customers to enter and explore our stores and buy merchandise. Consequently, we rely on these factors, as well as the brand recognition created by our direct marketing activities, to draw customers into our stores, rather than on traditional forms of advertising such as print, radio and television media. Marketing activities for each of our retail concepts include special event promotions and a variety of public relations activities designed to create community awareness of our stores and products.

Suppliers

To serve our target customers and to recognize changes in fashion trends and seasonality, we purchase merchandise from numerous foreign and domestic vendors. To the extent that our vendors are located overseas or rely on overseas sources for a large portion of their merchandise, any event causing a disruption of imports, such as the imposition of import restrictions, financial or political instability in any of the countries in which goods we purchase are manufactured, or trade restrictions in the form of tariffs or quotas, or both, could adversely affect our business. During fiscal 2007, we did business with approximately 2,000 vendors. No single vendor accounted for more than 10.0% of merchandise purchased during that time. While certain of our vendors have limited financial resources and production capabilities, we do not believe that the loss of any one vendor would have a material effect on our business.

Company Operations

Distribution. The majority of merchandise purchased by our retail businesses is shipped directly to our 191,000 square foot distribution center in Lancaster County, Pennsylvania. We own the Pennsylvania facility, which has an advanced computerized materials handling system, and is approximately 65 miles from our home offices in Philadelphia.

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In March 2005, we executed a long-term operating lease to utilize an additional 459,000 square foot distribution center located in Edgefield County, South Carolina. Currently, this facility houses the majority of merchandise purchased by our wholesale and direct-to-consumer operations. This building significantly expands our distribution capacity and provides us with future opportunities for additional growth as it becomes necessary. This facility also utilizes a state-of-the-art and fully functional tilt tray sorter. The property currently accommodates all direct-to-consumer fulfillment related functions, including inventory warehousing, receiving, customer contact operations and customer shipping. We believe this additional space and equipment allows us to significantly improve our fulfillment efficiency. We can expand this space as it pertains to the additional growth requirements of both our retail and wholesale businesses.

We also utilize a distribution facility in Reno, Nevada operated by a third-party. This facility services our stores in the western United States at a favorable freight cost per unit, and provides faster turnaround from selected vendors. We plan to expand and bring this function in-house in fiscal 2008 due to our growing retail store network. In addition, we utilize a portion of the Toronto Urban Outfitters store as a wholesale distribution facility in Canada, and have a distribution center in Essex, England to service our current and near-term needs for stores in Europe.

Information Systems. Very early in our growth, we recognized the need for high-quality information in order to manage merchandise planning/buying, inventory management and control functions. We invested in a retail software package that met our processing and reporting requirements. We utilize point-of-sale register systems connected by a digital subscriber line (DSL) network to our home offices. These systems provide for register efficiencies, timely customer checkout and instant back office access to register information, as well as for daily updates of sales, inventory data and price changes. Our direct-to-consumer operations, which include the Anthropologie, Free People and Urban Outfitters catalogs and retail web sites, maintain separate software systems that manage the merchandise and customer information for our in-house customer contact center and fulfillment functions. We are currently testing and expect to launch a new, more functional web platform during fiscal 2008 that will expand capacity for additional traffic and sales through the web. The Free People wholesale segment uses a separate software system for customer service, order entry and allocations, production planning and inventory management. During fiscal 2007, we successfully completed installation of a new wholesale customer service system that provides significantly improved functionality and flexibility to help serve our customers. This system has the capability to handle additional workload related to increased order volume and will better suit us over the long term to meet its forward growth needs. We have contracted with a nationally recognized company to provide disaster-recovery services with respect to our key systems.

During fiscal 2007, we also completed the upgrade of our existing point of sale platform at our North American locations. This upgrade included the replacement of our existing register software, replacement of registers and related hardware and the addition of radio frequency equipment to be utilized in the store receiving and operations areas. We believe this upgrade allows us to process customer transactions more quickly and efficiently, while reducing existing administration. This initiative will also result in advanced flexibility and customer service in the areas of locating inventory and accessing the direct-to-consumer channel within our retail stores. This new platform establishes better long-term technology resources and provides the opportunity and required infrastructure to enable our brands to implement a Customer Relationship Management (CRM) system during fiscal 2008.

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Competition

The specialty retail, direct-to-consumer and the wholesale apparel businesses are each highly competitive. Our retail stores compete on the basis of, among other things, the location of our stores, the breadth, quality, style, and availability of merchandise, the level of customer service offered and merchandise price. Although we feel the eclectic mix of products offered in our retail stores helps differentiate us, it also means that our Urban Outfitters, Anthropologie and Free People stores compete against a wide variety of smaller, independent specialty stores, as well as department stores and national specialty chains. Many of our competitors have substantially greater name recognition as well as financial, marketing and other resources. Our Anthropologie and Free People stores also face competition from small boutiques that offer an individualized shopping experience similar to the one we strive to provide to our target customers. In addition, some of our suppliers offer products directly to consumers and certain of our competitors.

Along with certain retail segment factors noted above, other key competitive factors for our direct-to-consumer operations include the success or effectiveness of customer mailing lists, response rates, catalog presentation, merchandise delivery and web site design and availability. Our direct-to-consumer operations compete against numerous catalogs and web sites, which may have a greater volume of circulation and web traffic.

Our Free People wholesale business competes with numerous wholesale companies based on the quality, fashion and price of our wholesale product offerings. Many of our wholesale business competitors' products have a wider distribution network. In addition, certain of our wholesale competitors have greater name recognition and financial and other resources.

Trademarks and Service Marks

We are the registered owner in the United States of certain service marks and trademarks, including Urban Outfitters, Anthropologie, Urban Renewal, Free People, Co-Operative, Ecote, Hei-Hei, Fink, Stapleford, Character Hero, BDG Guaranteed Tough, Brand: All-So, Robin, Darling Blue, Deletta, Elevenses, Ett Twa, Hi-Brow, Kimchi & Blue, Little Yellow Button, Maeve, Oiseau, Ric-Rac, on Snow, Sparkle & Fade, Sparrow, Standard Cloth Washington Street, Sunday Monday Tuesday Wednesday Thursday Friday Saturday, U, Idra and Urbn.com. Each mark is renewable indefinitely, contingent upon continued use at the time of renewal. In addition, we currently have pending registration applications with the U.S. Patent and Trademark Office covering certain other marks. We also own marks that have been registered in foreign countries, and have applications for marks pending in additional foreign countries as well. We regard our marks as important to our business due to their name recognition with our customers. We are not aware of any valid claims of infringement or challenges to our right to use any of our marks in the United States.

Employees

As of January 31, 2007, we employed approximately 8,400 people, approximately 46% of whom are full-time employees. The number of part-time employees fluctuates depending on seasonal needs. Of our total employees, 2% work in the wholesale segment and the remaining 98% work in our retail segment. None of our employees are covered by a collective bargaining agreement, and we believe that our relations with our employees are excellent.

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Financial Information about Operations

We aggregate our operations into two reportable segments, the retail segment and the wholesale segment. See Note 12, Segment Reporting, in the notes to our consolidated financial statements for additional information.

Financial Information about Geographical Areas

See Note 12, Segment Reporting, in the notes to our consolidated financial statements for information regarding net sales from domestic and foreign operation and long-lived assets.

Seasonality

Our business is subject to seasonal fluctuations. See Item 7: Management's Discussion and Analysis of Financial Condition and Results of Operations Seasonality and Quarterly Results for additional information.

Item 1A. Risk Factors

Our business segments are sensitive to economic conditions, consumer spending, shifts in fashion and industry and demographic conditions.

We are subject to seasonal variations and face numerous business risk factors. Consumer purchases of discretionary retail items and specialty retail products, including our products, may decline during recessionary periods and also may decline at other times when disposable income is lower. A prolonged economic downturn could have a material adverse impact on our business, financial condition or results of operations. There is a risk that consumer sentiment may decline due to economic and/or geo-political factors, which could negatively impact our financial position and results of operations.

We rely heavily on our ability to identify changes in fashion.

Customer tastes and fashion trends are volatile and can change rapidly. Our success depends in part on our ability to effectively predict and respond to changing fashion tastes and consumer demands, and to translate market trends into appropriate, saleable product offerings. Our inability to effectively determine these changes may lead to higher seasonal inventory levels and a future need to increase markdowns to liquidate our inventory. Compared to our retail segments, our wholesale business is more sensitive to changes in fashion trends because of longer lead times in the manufacture and sale of its apparel. While we do not plan for mistakes in our fashion offering selections, our fashion decisions constitute a material risk and may have an adverse effect on our financial condition and results of operations.

We may not be successful in expanding our business and opening new retail stores.

Our growth strategy depends on our ability to open and operate new retail stores on a profitable basis. Our operating complexity will increase as our store base grows, and we may face challenges in managing our future growth. Such growth will require that we continue to expand and improve our operating capabilities, and expand, train and manage our employee base. We may be unable to hire and

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train a sufficient number of qualified personnel or successfully manage our growth. Our expansion prospects also depend on a number of other factors, many of which are beyond our control, including, among other things, competition, the availability of financing for capital expenditures and working capital requirements, the availability of suitable sites for new store locations on acceptable lease terms, and the availability of inventory. There can be no assurance that we will be able to achieve our store expansion goals, nor can there be any assurance that our newly opened stores will achieve revenue or profitability levels comparable to those of our existing stores in the time periods estimated by us, or at all. If our stores fail to achieve, or are unable to sustain, acceptable revenue and profitability levels, we may incur significant costs associated with closing those stores.

Existing and increased competition in the specialty retail, direct-to-consumer and wholesale apparel businesses may reduce our net revenues, profits and market share.

The specialty retail, direct-to-consumer and the wholesale apparel businesses are each highly competitive. Our retail stores compete on the basis of, among other things, the location of our stores, the breadth, quality, style, and availability of merchandise, the level of customer service offered and merchandise price. Our Anthropologie and Free People stores also face competition from small boutiques that offer an individualized shopping experience similar to the one we strive to provide to our target customers. In addition, some of our suppliers offer products directly to consumers and certain of our competitors. Our Free People wholesale business competes with numerous wholesale companies based on the quality, fashion and price of our wholesale product offerings, many of whose products have wider distribution than ours. Many of our competitors have substantially greater name recognition as well as financial, marketing and other resources. We cannot assure you that we will continue to be able to compete successfully against existing or future competitors. Our expansion into markets served by our competitors and entry of new competitors or expansion of existing competitors into our markets could have a material adverse effect on our business, financial condition and results of operations.

We depend on key personnel and may not be able to retain or replace these employees or recruit additional qualified personnel, which would harm our business.

We believe that we have benefited substantially from the leadership and experience of our senior executives, including our Chairman, President and co-founder, Richard A. Hayne, and the President of Anthropologie, Inc., Glen T. Senk. The loss of the services of any of our senior executives could have a material adverse effect on our business and prospects, as we may not be able to find suitable management personnel to replace departing executives on a timely basis. We do not have an employment agreement with Mr. Hayne, Mr. Senk or any of our other key personnel. In addition, as our business expands, we believe that our future success will depend greatly on our continued ability to attract and retain highly skilled and qualified personnel. There is a high level of competition for personnel in the retail industry. Our inability to meet our staffing requirements in the future, at costs that are favorable to us, or at all, could impair our ability to increase revenue and could otherwise harm our business.

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We could be materially and adversely affected if any of our distribution centers are shut down.

We operate three distribution facilities worldwide to support our retail and wholesale business segments in the United States, Western Europe and Canada, and for fulfillment of catalog and web site orders. We have also engaged a third-party to operate an additional distribution facility in Reno, Nevada to service our stores in the western United States and utilize a portion of the Toronto Urban Outfitters store as a wholesale distribution facility in Canada. The merchandise purchased for our retail operation is shipped directly to our distribution centers in Lancaster County, Pennsylvania and Reno, Nevada while merchandise purchased for our direct-to-consumer and wholesale operations is shipped directly to our distribution center in Edgefield County, South Carolina. If any of our distribution centers were to shut down for any reason the other distribution centers may not be able to support the resulting additional distribution demands. As a result, we could incur significantly higher costs and longer lead times associated with distributing our products to our stores during the time it takes for us to reopen or replace the center.

We rely significantly on foreign sources of production.

We receive a substantial portion of our apparel and other merchandise from foreign sources, both purchased directly in foreign markets and indirectly through domestic vendors with foreign sources. To the extent that our vendors are located overseas or rely on overseas sources for a large portion of their products, any event causing a disruption of imports, including the imposition of import restrictions, war and acts of terrorism could adversely affect our business. If imported goods become difficult or impossible to bring into the United States, and if we cannot obtain such merchandise from other sources at similar costs, our sales and profit margins may be adversely affected. The flow of merchandise from our vendors could also be adversely affected by financial or political instability in any of the countries in which the goods we purchase are manufactured, if the instability affects the production or export of merchandise from those countries. Trade restrictions in the form of tariffs or quotas, or both, applicable to the products we sell could also affect the importation of those products and could increase the cost and reduce the supply of products available to us. In addition, decreases in the value of the U.S. dollar relative to foreign currencies could increase the cost of products we purchase from overseas vendors.

Our operating results fluctuate from period to period.

Our business experiences seasonal fluctuations in net sales and operating income, with a significant portion of operating income typically realized during the five-month period from August 1 to December 31 of each year (the back-to-school and holiday periods). Any decrease in sales or margins during this period, or in the availability of working capital needed in the months preceding this period, could have a material adverse effect on our business, financial condition and results of operations. Seasonal fluctuations also affect our inventory levels, as we usually order merchandise in advance of peak selling periods and sometimes before new fashion trends are confirmed by customer purchases. We must carry a significant amount of inventory, especially before the back-to-school and holiday selling periods. If we are not successful in selling our inventory during this period, we may be forced to rely on markdowns or promotional sales to dispose of the inventory or we may not be able to sell the inventory at all, which could have a material adverse effect on our business, financial condition and results of operations.

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We may be unable to protect our trademarks and other intellectual property rights.

We believe that our trademarks and service marks are important to our success and our competitive position due to their name recognition with our customers. We devote substantial resources to the establishment and protection of our trademarks and service marks on a worldwide basis. In order to more effectively protect them from infringement and to defend against claims of infringement, the marks are owned by separate subsidiaries whose purpose is to maintain and manage existing and future marks, thereby increasing their value to the company. We are not aware of any valid claims of infringement or challenges to our right to use any of our trademarks and service marks in the United States. Nevertheless, there can be no assurance that the actions we have taken to establish and protect our trademarks and service marks will be adequate to prevent imitation of our products by others or to prevent others from seeking to block sales of our products as a violation of the trademarks, service marks and proprietary rights of others. Also, others may assert rights in, or ownership of, trademarks and other proprietary rights of ours and we may not be able to successfully resolve these types of conflicts to our satisfaction. In addition, the laws of certain foreign countries may not protect proprietary rights to the same extent as do the laws of the United States.

War, acts of terrorism, or the threat of either may negatively impact availability of merchandise and otherwise adversely impact our business.

In the event of war or acts of terrorism, or if either are threatened, our ability to obtain merchandise available for sale in our stores may be negatively impacted. A substantial portion of our merchandise is imported from other countries, see *We rely significantly on foreign sources of production* on page 8. If commercial transportation is curtailed or substantially delayed, our business may be adversely impacted, as we may have difficulty shipping merchandise to our distribution centers and stores, as well as fulfilling catalog and web site orders. In the event of war or additional acts of terrorism, or the threat of either, we may be required to suspend operations in some or all of our stores, which could have a material adverse impact on our business, financial condition and results of operations.

We may not be successful in introducing additional store concepts.

We may, from time to time, seek to develop and introduce new concepts or brands in addition to our existing Urban Outfitters, Anthropologie and Free People brands. Our ability to succeed in these new concepts could require significant capital expenditures and management attention. Additionally, any new concept is subject to certain risks, including customer acceptance, competition, product differentiation, challenges relating to economies of scale in merchandise sourcing and the ability to attract and retain qualified personnel, including management and designers. There can be no assurance that we will be able to develop and grow these or any other new concepts to a point where they will become profitable, or generate positive cash flow. If we cannot successfully develop and grow these new concepts, our financial condition and results of operations may be adversely impacted.

Item 1B. Unresolved Staff Comments

We have no outstanding comments with the staff of the SEC.

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Item 2. Properties

In August 2006, we moved and consolidated our home office into several buildings on one campus in the historic core of the Philadelphia, Pennsylvania Navy Yard. This acquisition allows for a more efficient operation of our Philadelphia-based offices and will support our growth needs for at least the next ten years. The property located at 5000 South Broad Street in Philadelphia is approximately five miles from our previous Philadelphia-based home offices. We currently occupy approximately 282,000 square feet at the Navy Yard. Options on several adjacent buildings are also available for at least the next ten years to allow for additional expansion if necessary. We spent approximately \$104.3 million on improvements made to our offices at the Navy Yard as of January 31, 2007. The expenditures to improve our Navy Yard facilities were capitalized and are being depreciated based on the useful life of the improvements and fixtures.

Our customer contact center is located in Edgefield County, South Carolina as part of our 459,000 square foot distribution center, and occupies approximately 16,000 square feet. Our office in Europe is located at 24 Market Place in London and occupies approximately 6,900 square feet of space. Our home offices and customer contact facilities are leased properties with varying lease term expirations through 2016. We own a 191,000 square foot distribution center in Lancaster County, Pennsylvania. We also utilize a distribution facility in Reno, Nevada operated by a third-party. For more information on our distribution center properties, see Item 1: Business Company Operations Distribution. We believe that our facilities are well maintained and in good operating condition. In fiscal 2008, we anticipate securing our own distribution center on the west coast of the United States to support our western stores. We expect the facility will be financed through an operating lease, however, we expect to spend \$3 to \$5 million on equipment and other improvements.

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All of our Urban Outfitters, Anthropologie and Free People stores are leased and are well maintained and in good operating condition. Our retail stores are typically leased for a term of ten years with renewal options for an additional five to ten years. Total estimated selling square feet for stores open, under lease at January 31, 2007, by Urban Outfitters, Anthropologie and Free People was approximately 1,015,000, 708,000 and 13,000, respectively. The average store selling square feet is approximately 9,700 for Urban Outfitters, 7,600 for Anthropologie and 1,600 for Free People. Selling square feet can sometimes change due to floor moves, use of staircases, cash register configuration and other factors. The following table shows the location of each of our existing retail stores, as of January 31, 2007:

Urban Outfitters Stores

LOCATION	LOCATION	LOCATION	LOCATION
<i>Arizona</i>	<i>Illinois</i>	<i>New York</i>	<i>Virginia</i>
Tempe	Chicago	(Cont.)	McLean
Tucson	Clark St.	The East Side	Richmond
Scottsdale	North Rush St.	Midtown	
	South State St.	SoHo	
	Milwaukee Ave.	Queens	
<i>California</i>		The West Side	<i>Washington</i>
Berkeley	Evanston	The Upper	Seattle
Burbank	Oak Brook	West Side	Broadway
Costa Mesa	Schaumburg		East
Fresno		<i>North</i>	Fifth Ave.
Irvine	<i>Indiana</i>	<i>Carolina</i>	Lynnwood
Los Angeles	Bloomington	Charlotte	
Pasadena		Durham	<i>Washington</i>
Rancho Cucamonga	<i>Kansas</i>		<i>D.C.</i>
Santa Cruz	Lawrence	<i>Ohio</i>	Chinatown
San Diego		Cincinnati	Georgetown
San Francisco	<i>Louisiana</i>	Columbus	
San José	New Orleans	Westlake	<i>Wisconsin</i>
San Luis Obispo			Madison
Santa Barbara	<i>Massachusetts</i>	<i>Oregon</i>	
Santa Monica	Boston	Portland	<i>Canada</i>
Simi Valley		Tigard	Montréal
			Toronto
		<i>Pennsylvania</i>	West
		Ardmore	Edmonton
		King of Prussia	
		Philadelphia	<i>England</i>
		Pittsburgh	Birmingham
		West	London
		Philadelphia	Kensington

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Studio City	Newbury St.		High St.
Thousand Oaks	Faneuil Hall	<i>Rhode Island</i>	Oxford St.
Torrance	Cambridge	Providence	Covent
Westwood			Garden
			Manchester
	<i>Michigan</i>	<i>South</i>	<i>Ireland</i>
<i>Colorado</i>	Ann Arbor	<i>Carolina</i>	Dublin
		Charleston	
Boulder	East Lansing		
Denver	Troy	<i>Texas</i>	<i>Scotland</i>
Lone Tree		Austin	Glasgow
		Dallas	
		Northpark	
	<i>Minnesota</i>	Center	
<i>Connecticut</i>	Bloomington	East	<i>Denmark</i>
		Mockingbird	Copenhagen
New Haven	Minneapolis	Lane	
		Houston	
		University	
		Blvd.	
<i>Florida</i>	<i>Missouri</i>	The Galleria	<i>Sweden</i>
		Spring	Stockholm
Miami	Kansas City		
Miami Beach	St. Louis	<i>Vermont</i>	
Orlando		Burlington	
Palm Beach Gardens	<i>Nevada</i>		
South Miami	Las Vegas		
Tampa	Desert Passage		
	Mandalay Bay		
<i>Georgia</i>			
Atlanta	<i>New Jersey</i>		
	Montclair		
	<i>New York</i>		
	Garden City		
	New York		
	Chelsea		

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LOCATION	LOCATION	LOCATION	LOCATION
<i>Alabama</i>	<i>Florida</i>	<i>Missouri</i>	<i>Oregon</i>
Birmingham	Coral Gables	Kansas City	Portland
	Jacksonville	St. Louis	Tigard
<i>Arizona</i>	Miami Beach	<i>Nevada</i>	<i>Pennsylvania</i>
Scottsdale	Naples	Henderson	Glen Mills
Fashion Square	Orlando	Las Vegas	Philadelphia
Kierland Commons	Palm Beach Gardens		Pittsburgh
Tucson	Tampa	<i>New Jersey</i>	Wayne
	West Palm Beach	Edgewater	
<i>California</i>	<i>Georgia</i>	Princeton	<i>Texas</i>
Berkeley	Atlanta	Short Hills	Austin
Beverly Hills	Dunwoody	Woodcliff	Dallas
Carlsbad		Lake	Highland Park
Carmel	<i>Illinois</i>		Village
Chula Vista	Chicago	<i>New York</i>	NorthPark
Corona	State St.	Garden City	Center
Corte Madera	Southport Ave.	Greenvale	Houston
Fresno	Geneva	New York	Plano
Irvine	Highland Park	Union Square	San Antonio
Los Angeles	Oak Brook	SoHo	Southlake
Newport Beach	Schaumburg	Rockefeller	Spring
Pasadena		Center	
Palo Alto	<i>Maryland</i>	White Plains	<i>Utah</i>
Rancho Cucamonga	Rockville		Salt Lake City
San Francisco		<i>North Carolina</i>	
		Charlotte	<i>Virginia</i>
		Northlake	McLean
		Mall	Richmond
		SouthPark	
		Mall	<i>Washington</i>
			Seattle
		<i>Ohio</i>	Fifth Ave.
		Cincinnati	University
		Columbus	Village

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San José	Towson	Woodmere
Santa Barbara		<i>Washington</i>
Santa Monica	<i>Massachusetts</i>	<i>D.C.</i>
Simi Valley	Boston	Georgetown
Thousand Oaks	Chestnut Hill	
Torrance		
	<i>Michigan</i>	
<i>Colorado</i>	Birmingham	
Denver	Troy	
Cherry Creek		
Lone Tree	<i>Minnesota</i>	
	Maple Grove	
<i>Connecticut</i>	Minneapolis	
Westport		
Greenwich		
South Windsor		
	<i>Free People Stores</i>	

LOCATION	LOCATION	LOCATION
<i>New Jersey</i>	<i>Pennsylvania</i>	<i>Virginia</i>
Paramus	Ardmore	Arlington
Short Hills	King of Prussia	McLean
<i>New York</i>	<i>Massachusetts</i>	
Garden City	Boston	

In addition to the stores listed above, Free People operates wholesale sales and showroom facilities in New York City, Los Angeles and Chicago which are leased through 2014, 2007 and 2008, respectively.

Table of Contents**Item 3. Legal Proceedings**

We are 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 our financial position, results of operations or cash flows.

Item 4. Submission of Matters to a Vote of Security Holders

No matters were submitted to a vote of security holders during the fourth quarter of fiscal 2007, through the solicitation of proxies or otherwise.

PART II**Item 5. Market for Registrant's Common Equity, Related Shareholder Matters and Issuer Purchases of Equity Securities**

Our common shares are traded on the NASDAQ Global Select Market under the symbol URBN. The following table sets forth, for the periods indicated below, the reported high and low closing sale prices for our common shares as reported on the NASDAQ Global Select Market.

Market Information

	High (1)	Low (1)
Fiscal 2007		
Quarter ended April 30, 2006	\$ 28.92	\$ 22.00
Quarter ended July 31, 2006	\$ 22.93	\$ 14.42
Quarter ended October 31, 2006	\$ 19.64	\$ 14.01
Quarter ended January 31, 2007	\$ 25.89	\$ 17.19