URBAN OUTFITTERS, INC.

Second Quarter FY 2011 Management Commentary

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Summary Highlights

We are delighted to announce continued strong performance for Second Quarter Fiscal Year 2011, including quarterly earnings growth of 46%. The following are highlights from our Second Quarter performance versus the comparable quarter last year:

- Net sales increased 20% to $552 million.
- Comparable Retail Segment net sales, which include our Direct-to-consumer channel, rose 11%, including a 7% increase in comparable store net sales and a 36% increase in Direct-to-consumer net sales.
- By brand, comparable retail segment net sales increased 13% at Anthropologie, 24% at Free People and 9% at Urban Outfitters.
- Wholesale net sales increased 16% to $30 million.
- Income from operations grew 36% to $107 million, resulting in an operating margin of 19.4%.
- Net income increased 46% to $72 million or $0.42 per diluted share.

Revenue

Retail Stores - During the quarter, the Company opened 7 new stores bringing the global store count to 342. New and non-comparable stores contributed $46 million in net sales during the quarter.

Within the quarter, total Company comparable store net sales were positive each month but strongest in June, followed by July. On a two year basis, total Company comparable store net sales were strongest in July. For stores, transaction counts increased 6%, units per transaction increased 1% and average unit selling prices were flat.

Direct-to-consumer – Direct-to-consumer net sales increased 36% to $97 million. The penetration of direct-to-consumer net sales to total company net sales increased two percentage points to 17.5% from the prior comparable period. These results were driven by a 28% increase in website traffic to nearly 25 million visits.

Wholesale – Wholesale net sales increased 16% to $30 million in the quarter. The increase was driven by a 29% increase in net sales to specialty stores and a 7% increase in net sales to department stores.

Brand Highlights

Anthropologie – The brand opened 3 new domestic stores during the quarter bringing the global store count to 145. Selling square footage increased 14% versus the prior year to 1,069,806. Comparable retail segment sales, which include the Direct-to-consumer channel, increased 13%. By region and store venue, sales were positive in all locations but strongest in the West and mall locations. Our two European stores continue to display strong performance. By merchandise category, women's apparel and accessories were strongest.

Urban Outfitters– The brand opened 3 new domestic stores during the quarter bringing the global store count to 160. Selling square footage increased 6% versus the prior year to 1,489,149. Comparable retail segment net sales, which include the Direct-to-consumer channel, increased 9%. Domestically, by region and store venue, net sales were positive in all locations but strongest in the South and mall locations. Comparable store net sales in Europe were slightly ahead of the North America stores average and were strongest on the Continent. By merchandise category, accessories and housewares were strongest.

Free People – The brand opened 1 new store in the quarter bringing the global store count to 36. Square footage increased 11% versus the prior year to 50,199. Comparable retail segment net sales, which include the Direct-to-consumer channel, increased 24%. Net sales were positive and rather consistent across all channels, venues and categories during the quarter.

Other Brands – Net sales increased 32% in the quarter. Terrain net sales increased 22% and Leifsdottir net sales increased 44%. Our new Wedding concept remains on target for a Spring 2011 launch.

Gross Margin

Gross margins for the quarter improved 173 basis points to 42.5%, driven by a lower rate of merchandise markdowns to clear seasonal product, leveraging of store occupancy expense and improvements in initial margins. With the initial margin gain, it is important to note that comparisons were favorable to both the prior year's quarter and the first quarter of this year.

SG & A

The organization continued to exhibit exceptional discipline in managing expenses while making strategic investments in talent, design, supply chain, technology, our Direct-to-consumer businesses and our European infrastructure.

Total selling, general and administrative expenses for the quarter, as a percentage of sales, declined 52 basis points to 23.2% driven by the control and leveraging of direct store expenses.

During the quarter, the Company committed to a distribution and fulfillment center based in the UK Midlands. This facility will support long-term growth for both the retail and Direct-to-consumer channels for all brands in Europe. We expect to open the new center mid-year 2011. The center is approximately 240,000 square feet and we are planning between $12-$15 million dollars in capital spending for leasehold improvements and material handling equipment.

Other Income Statement Items

The Company's effective tax rate was 33.3% for the quarter versus 38.2% for the prior comparable quarter. The improved tax rate is primarily due to the favorable impact of foreign operations as well as a one-time federal rehabilitation credit earned during the quarter related to our newest building at the Company's headquarters in the Philadelphia Navy Yard. This one-time federal rehabilitation credit resulted in a $.01 favorable impact on earnings per share for the quarter.

Income

The Company generated an impressive 19.4% operating margin, earning a second quarter record of $107 million in income from operations, an increase of 36% versus the same quarter last year. The Company also achieved its highest-ever net income for a second quarter—$72 million, an increase of 46% from the prior year, with earnings per diluted share of $0.42.

Share Repurchase

The Company repurchased and subsequently retired 2 million common shares during the quarter for $68 million at an average price of $33.72 per share. Fully diluted outstanding shares at the end of the quarter were 172,325,996. At the end of the quarter, the Company had 4.8 million shares remaining on its current authorization to buy 8 million shares.

Balance Sheet and Cash flow Items

Cash and marketable securities totaled $749 million at the end of the quarter as compared to $583 million in the second quarter of the prior year.

Total inventories increased 12% from the prior comparable quarter. On a comparable retail segment basis, inventories increased 3% at cost. On a comparable retail stores basis, inventories declined 3%.

Total capital spending was $32 million for the quarter.

Depreciation and amortization was $25 million for the quarter.