

First Quarter Fiscal 2012 ended April 30th 2011

Management Commentary

May 16, 2011

Summary Highlights

The following are highlights from our First Quarter 2012 performance versus the comparable quarter last year:

- Net sales increased 9% to \$524 million.
- Comparable Retail Segment net sales, which include our Direct-to-consumer channel, decreased 1%, including a 5% decrease in comparable store net sales and a 15% increase in comparable Direct-to-consumer net sales.
- By major brand, retail segment comparable net sales increased at Free People and Urban Outfitters 30% and 1% respectively while comparable retail segment net sales decreased 6% at Anthropologie.
- Wholesale net sales increased 22% to \$31 million.
- Excluding the Leifsdottir one-time transition costs of \$3 million during the current quarter, income from operations decreased 25% to \$62 million, resulting in an operating profit margin of 11.8%.
- Net income was \$39 million or \$0.23 per diluted share.

Revenue

Retail Stores - The Company opened 10 new stores for the quarter bringing the global store count to 382. New and non-comparable stores contributed \$48 million in net sales during the quarter.

Within the quarter, total Company comparable store net sales were strongest in April, followed by February, then March. For stores, average number of units per transaction, average unit selling prices and transaction counts decreased 1%, 2% and 3% respectively.

Direct-to-consumer – Direct-to-consumer revenues increased 19% to \$102 million. The penetration of direct-to-consumer net sales to total company net sales increased 155 basis points to 20%. These results were largely driven by a 24% increase in website traffic to nearly 31 million visitors.

Wholesale Segment– Wholesale segment revenues increased 22% to \$31 million in the quarter, driven by a 15% increase at Free People and increased off-price sales at Leifsdottir.

Brand Highlights for the first quarter

Anthropologie – The brand opened 3 new North American stores in the quarter bringing the global store count to 156. Square footage increased 8% to 1,139,476. Comparable retail segment net sales, which include the direct-to-consumer channel, decreased 6%. By region sales were strongest in the South and weakest in the Northeast. By venue sales were strongest in lifestyle centers and weakest in mall street locations. By merchandise category, intimates and home were the strongest and women's apparel was weakest.

Free People – The brand opened 5 new stores in the quarter bringing the global store count to 47. Square footage increased 34% to 66,322. Comparable retail segment net sales, which include the direct-to-consumer channel, increased 30%. By region sales were strongest in the West and weakest in the Northeast. By venue sales were strong across all venues. By merchandise category intimates and accessories were the strongest.

Urban Outfitters– The brand opened 2 new stores in North America bringing the global store count to 178. Square footage increased 12% to 1,635,512. Comparable retail segment net sales, which include the direct-to-consumer channel, increased 1%. Domestically, by region, sales were strongest in the South and weakest in the Northeast. In Europe, sales were strongest in Continental Europe and weakest in Ireland. Domestically, by venue sales were strongest in malls and lifestyle centers and weakest at street locations. By merchandise category footwear, accessories and home were the strongest and women's apparel was the weakest.

Other Brands – Other brands include Terrain, Leifsdottir, and BHLDN. Revenues for other brands increased 99% driven by the selloff of Leifsdottir wholesale inventories and the strong launch of BHLDN.

Gross Margin

Gross profit in the quarter decreased 4% to \$193 million, and the gross margin rate decreased 493 basis points to 36.9%. This decline was primarily due to increased markdowns to clear slow moving women's apparel inventory at Anthropologie and Urban Outfitters, as well as a \$2 million non-recurring loss associated with the sell-off of Leifsdottir wholesale inventories.

SG & A

Total selling, general and administrative expenses for the quarter, expressed as a percentage of sales, increased by 96 basis points to 25.7% due primarily to the deleverage of store operating costs caused by negative store comparable sales. Additional items contributing to the deleverage in the quarter were investments in new technology, planned transition costs for our new distribution and fulfillment centers in Europe and \$1 million of Leifsdottir non-recurring transition costs.

Other Income Statement Items

The Company's effective tax rate was 35.8% for the quarter versus 35.9% for the prior comparable period. The company continues to forecast an annual effective tax rate improved of 36.5%.

Balance Sheet and Cash flow Items

Cash, Cash Equivalents and Marketable Securities decreased year to year by \$128 million to \$645 million at the end of the quarter. During the quarter the company repurchased and retired 4.8 million common shares for \$149 million, leaving 5.7 million shares remaining on the current authorization to purchase up to 10 million shares.

Comparable Retail Segment inventories at cost, which include our Direct-to-Consumer channel, were 6% higher at quarter's end, while comparable store inventories increased 1%.

Total capital spending was \$36 million for the quarter and depreciation and amortization was \$27 million for the quarter.