

---

# **URBAN OUTFITTERS, INC. IMPORT CUSTOMS COMPLIANCE MANUAL**

---

Released December 2003  
Updated September 2007  
Updated July 2012  
Updated June 2013  
Updated June 2018

---

---

## TABLE OF CONTENTS

---

---

		<b>Page</b>
Director's Statement.....		1
Corporate Policy on Compliance.....		2
What Does Non-Compliance Cost.....		3
Chapter I	Informed Compliance & Reasonable Care.....	4
Chapter II	Who Impacts the Customs Functions?.....	7
Chapter III	The Import Framework.....	9
Chapter IV	Recordkeeping and Documentation Requirements.....	11
Chapter V	Classification of Merchandise.....	19
Chapter VI	Country of Origin and Marking.....	27
Chapter VII	Valuation and Method of Appraisal.....	32
Chapter VIII	Commercial Invoice.....	39
Chapter IX	Entry of Merchandise.....	41
Chapter X	Verification of Imported Quantities.....	46
Chapter XI	User Fees.....	50
Chapter XII	Post Entry.....	53
Chapter XIII	Periodic Review and Training.....	60
Chapter XIV	Role of U.S. Customs.....	63
Chapter XV	Foreign Corrupt Practices Act.....	67
Chapter XVI	Consumer Products Safety Commission.....	72
Chapter XVII	Duty Drawback.....	90

Chapter XVIII	Lacey Act.....	92
Chapter XIX	Fish and Wildlife.....	95
Chapter XX	Importer Security Filing (ISF).....	97
Chapter XXI	Labeling.....	99
Chapter XXII	NAFTA.....	100
Chapter XXIII	First Sale.....	102
Chapter XXIII	Free Trade Agreements .....	105
GLOSSARY	.....	108
APPENDIX A	Classification Audit Instructions & Summary.....	118
APPENDIX B	Free Trade Audit Instructions, Summary & Cost Sheet.....	120

## **DIRECTOR'S STATEMENT**

---

*Taking Initiative for Establishing "Best Practices" in meeting our Goals & Objectives for obtaining superior compliance levels.*

---

We, the Directors and Officers of Urban Outfitters, Inc., are pleased to be involved in developing programs supporting Government Compliance. Urban Outfitters, Inc. has undertaken the task of improving compliance with the international rules and regulations that oversee our imports. Through this effort, Urban Outfitters, Inc. has developed this manual as a living document, outlining our responsibilities with U.S. Customs and Border Protection (formerly "U.S. Customs Service" ("Customs" or "CBP")) and establishing guidelines by which we strive to obtain the highest level of compliance possible.

We fully support the Global Trade and Compliance Department in its efforts to enhance compliance by, among other things, clarifying the roles of the various departments affecting the Customs function, and encouraging each department to fully understand its role in support of Urban Outfitters, Inc. achieving its associated goals and objectives.

## **CORPORATE POLICY ON COMPLIANCE**

It is the policy of Urban Outfitters, Inc. to comply with all the laws, rules and regulations governing the importation and exportation of goods. Strict adherence to the U.S. Customs' laws and regulations is required of every Urban Outfitters, Inc. employee whose work causes, affects or supports our imports and exports. Each member of the Urban Outfitters, Inc. organization must meet the highest standards of compliance and fully support the compliance process.

Each department and related party is responsible for seeking advice and assistance from Urban Outfitters, Inc.'s Global Trade and Compliance Department. Any employee who has knowledge of any circumstances that may reflect non-compliance is required to immediately contact the appropriate Urban Outfitters, Inc. personnel.

Non-compliance with U.S. laws and regulations governing imports and exports can subject our company officers, directors, employees and agents to severe criminal and civil penalties or other sanctions. Employees found to be in violation of any such laws or regulations will be subject to appropriate disciplinary action, up to and including termination and legal action including the filing of criminal charges.

## **WHAT DOES NON-COMPLIANCE COST?**

Ever wonder how U.S. Customs determines a fine or penalty for a Customs violation? Fines are based on the degree of culpability: Negligence, Gross Negligence or Fraud.

***Negligence:*** Failure to exercise "Reasonable Care" and competence

***Gross Negligence:*** Acts done with actual knowledge or wanton disregard for the facts, and indifference or disregard for legal obligations

***Fraud:*** Acts deliberately done with intent to defraud the revenue or otherwise violated the law.

There does not have to be a duty loss for a penalty to be issued. An importer can also be assessed liquidated damages against the bond it has in place to cover its imports. Some of the basic fines or penalties include:

- **Inability to produce records on a single file** -- *Maximum Fine:* \$100,000.00;
- **Negligent Violations** -- *Maximum Fine:* The lesser of the domestic value of the merchandise or 2 times the loss of duties;
- **Grossly Negligent Violations** -- *Maximum Fine:* The lesser of the domestic value or 4 times the loss of duties;
- **Fraudulent Violations** -- *Maximum Fine:* The domestic value of the merchandise; and,
- **Intensive Customs Examination** -- *Average Cost:* \$1,000.00

Establishing compliance procedures and internal controls will help to avoid the liability associated with non-compliant shipments. Fines and Penalties are costs that can be minimized through a program of training and internal reviews.

➤ **The Global Trade and Compliance Department is available to assist all of Urban Outfitters Inc.'s employees, departments and regions in complying with U.S. Customs rules and regulations. All employees are encouraged to contact the Global Trade and Compliance Department for assistance on any question or concern related to international trade.**

## CHAPTER I: INFORMED COMPLIANCE AND REASONABLE CARE

---

### INFORMED COMPLIANCE AND REASONABLE CARE

#### General Requirements:

The Modernization Act (further referred to as the "Mod Act") was signed into law on December 8, 1993. It provided a framework for *partnership* between the importing and exporting public and U.S. Customs. The Mod Act established the concepts of *reasonable care* and *shared responsibility* for compliance with trade laws and regulations for achieving maximum compliance.

Through this framework of partnership and shared responsibility, The Mod Act fundamentally alters the relationship between importers and CBP. Importantly, it shifts the legal responsibility for declaring the proper value, classification, and other entry information to the importer. The term *shared responsibility* confirms that importers and U.S. Customs have a mutual responsibility to ensure compliance with U.S. trade laws and Customs regulations. *Informed compliance* is based on the premise that importers need to be clearly and completely informed of their legal obligations in order to meet their responsibility.

The basic theory of *informed compliance* is that the importer agrees to abide by the burden laid out by CBP, and that CBP will clearly communicate what is expected. Information from CBP is now available through a variety of resources including its Internet website, the Customs Electronic Bulletin Board, and various workshops and publications including, but not limited to, the Federal Register and Customs Bulletin. *It is the responsibility of the importer and exporter to be informed and comply.*

The Mod Act also requires that importers use *reasonable care* to ensure that they provide U.S. Customs with accurate and timely data. Nevertheless, Customs retains the responsibility to "fix" the value, classification and rate of duty.

#### Assessing the Control Environment of Urban Outfitters, Inc.

In reviewing an importer's control environment, U.S. Customs will assess the company's attitude and the tone set by management toward compliance and related import issues. CBP will analyze training programs for employees, as well as systems and operating procedures in all departments relating to the Customs function (*e.g.*, receiving, purchasing, traffic, etc.). In addition, Customs will critique the importer's use of outside services, such as Customs Brokers, Attorneys and Customs consultants. All of these actions reflect on the importer's internal procedures in establishing reasonable care guidelines and improving compliance with U.S. laws and regulations. *Thus, importers and exporters are expected to exercise Reasonable Care over the entire international transaction.*

## **Company Information and Organization**

Urban Outfitters, Inc. was incorporated in Pennsylvania as a retailer of apparel and household goods in the United States. The company's headquarters are in Philadelphia, PA. This is also where the Customs compliance function is centralized in support of the company's various U.S. locations.

To ensure compliance with Customs laws and regulations, Urban Outfitters, Inc. has established a Global Trade and Compliance Department currently staffed with sixteen employees, all located in Philadelphia. The Senior Manager – Import Customs Compliance is the individual with primary responsibility for the Customs function. The Senior Manager is further supported by the company's Senior Import Operations Manager, Import Compliance Coordinator, International Trade and Compliance Manager, International Compliance Senior Coordinator, Coordinator and Assistant Coordinator, Compliance Audit Associate Manager, Regulatory and Social Compliance Manager, Vendor Relations Senior Manager and Coordinators, Foreign Trade Zone Coordinator and Quality Control Coordinator within this department. These individuals work closely with the other departments of Urban Outfitters, Inc. as well as the company's customs brokers, with the goal of open communication and full cooperation to enhance compliance. Other key personnel who support Urban Outfitters, Inc.'s Customs compliance activities include Production Coordinators, Accounting Managers, Transportation Managers, Warehouse Receiving Compliance Managers, and the company's General Counsel.

The Senior Manager – Import Customs Compliance reports to the Senior Director, Global Trade and Compliance who, in turn, reports to the Chief Sourcing Officer. In addition, several other departments have as part of their responsibility, compliance requirements that are designed to support and enhance the company's overall Customs compliance activities.

## **Reasonable Care and Company Policy**

It is the policy of Urban Outfitters, Inc. to exercise reasonable care over the entire international transaction and to comply with all applicable laws and regulations of U.S. CBP and other applicable federal agencies governing the importation or exportation of goods from the U.S. The company seeks to regularly monitor its compliance with all such rules and regulations.

Urban Outfitters, Inc. strives to cooperate fully with CBP and to promptly report and seek full compliance with applicable rules and regulations. To achieve this result, all employees involved in the transaction are to follow the systems and procedures documented in this manual. The Global Trade and Compliance Department shall provide guidance to all employees and should be consulted on all matters pertaining to the importation of merchandise.

Urban Outfitters, Inc. has employed the services of a licensed customs broker to assist in importing its goods and filing entry with CBP. The Global Trade and Compliance Department is to audit the broker regularly to ensure proper compliance with import regulations. Additionally, the company seeks the advice of Customs consultants and attorneys for particular technical advice, as and when appropriate.



The company has designated its Senior Director of Global Trade and Compliance as the employee to serve as its Compliance Officer. This employee must remain current on all rules and regulations pertaining to the import process and will oversee our international transactions in effort to maintain a high level of compliance.

### **Purpose of the Manual**

This manual was designed to assist employees in ensuring Customs compliance and is not intended to substitute U.S. laws and regulations. Rather, this manual outlines the company's Customs processes which are to be used in conjunction with applicable laws and regulations. The policies and procedures outlined in the manual are supported by all levels of management and are expected to be followed by all employees.

The following topics are included in this manual: import/entry process, recordkeeping, classification, quantity, transaction value, basis of appraisement, preferential duty programs, post-entry process, training and auditing, and reference materials.

The contact person for this manual is the Senior Manager - Import Customs Compliance, who may be reached 215-454-4778. Any questions regarding procedures described in this manual should be directed to the Senior Manager - Import Customs Compliance.

### **Periodic Review and Updates**

Urban Outfitters, Inc. will review and update this manual on a periodic basis to ensure compliance with any changes to CBP regulations, or company procedures. It is the responsibility of the Senior Manager - Import Customs Compliance to ensure that the citations are current and to incorporate any necessary procedural changes. The updated manual or revised portions thereof will be circulated, or otherwise made available, to all involved in the Customs function within Urban Outfitters, Inc., as appropriate.

## **CHAPTER II: WHO IMPACTS THE CUSTOMS FUNCTIONS?**

---

### **WHO IMPACTS THE CUSTOMS FUNCTIONS?**

#### **Compliance Involves Many Departments and Crosses Many Functions.**

There are many key players involved in the international transaction. Often, they do not even recognize how their roles are linked to the import process. Each player possesses specific information related to the imported product. For example, a buyer is one of the first to initiate the research and specifications for a new product long before it is imported. Also, the buyer often has the knowledge of costs associated with provided packaging and assists. Both of these items are subject to import duties.

Each department must understand the information they possess and *how* their responsibilities impact the Customs function. With each department working together to improve communication and the flow of information related to the international transaction, Urban Outfitters, Inc. will be able to maximize its level of compliance with U.S. rules and regulations.

Remember, it is the policy of Urban Outfitters, Inc. that all departments involved in the international transaction are required to understand their roles and responsibilities, ensuring the highest level of Customs compliance. Implementation of this compliance program shall include identification of the key department positions with imported-related functions, (*e.g.*, buying, production, import traffic, warehousing and distribution, finance and accounting) description of those roles and responsibilities, and distribution of this manual to each person in those positions. Procedures set forth in this manual must be strictly adhered to by all employees.

#### **Compliance is Achieved by linking all Departments Related to the Customs Function.**

Achieving *compliance* requires that each department understand the information they possess, evaluate its effect, and communicate it to the personnel responsible for the Customs function. Urban Outfitters, Inc. achieves the highest level of compliance when complete and accurate information is provided to U.S. Customs with respect to the company's imported products. This information is necessary to correctly value, classify and enter merchandise, which information must be presented *timely* and *accurately*.

***Step 1:*** Be alert as to the information you possess.

***Step 2:*** Understand how your job interacts with the Customs Function.

***Step 3:*** Communicate your knowledge to the Customs Section;  
compliance can only be achieved when there is attention to details.

## **Roles and Responsibilities of the Global Trade and Compliance Department**

In order to facilitate and ensure compliance, Urban Outfitters, Inc.'s Global Trade and Compliance Department reviews and maintains the following reference materials:

- Harmonized Tariff Schedule of the United States ("HTSUS" or "HTS") for imports and/or "Schedule B" for export shipments;
- Explanatory Notes to the HTSUS;
- United States Code (Title 19);
- Customs Regulations of the United States (Title 19, Parts 1-199);
- Customs' web site: <http://www.cbp.gov> including its Informed Compliance Publications, customs rulings from Customs Rulings Online Search System ("CROSS"), and other instructive data on Customs matters and programs administered by Customs and other U.S. agencies;
- Publications and Compliance related material provided by the company's Customs broker, consultants, and attorneys;
- Training materials from Customs and firms specializing in international trade; and
- Technical advice and guidance provided by various Customs consultants and attorneys.

All employees are encouraged to seek information and advice from the Global Trade and Compliance Department on international transactions. Employees must bring forth any matters of concern relating to customs transactions to the Global Trade and Compliance Department and are advised to discuss any import-and export-related questions with the Global Trade and Compliance Department. The Global Trade and Compliance Department strives to instruct and advise employees of Urban Outfitters, Inc. as to the proper Customs procedures.

## **Roles and Responsibilities of Other Departments**

In order to facilitate and ensure compliance, Urban Outfitters, Inc. has identified other Departments that play an integral part in the enhancement of the company's Customs compliance. These include: Management, General Counsel, Global Trade and Compliance Department, Transportation Department, Accounting, Warehouse (Shipping and Receiving), Production and Purchasing

## **CHAPTER III: THE IMPORT FRAMEWORK**

---

### **Policy**

Urban Outfitters, Inc. has established procedures to ensure that it fully complies with all applicable import requirements and laws. These procedures support and enhance compliance and the efficient treatment of the company's import transactions.

### **Importing Process**

The following entry procedures are to be followed by the Global Trade and Compliance Department involved in the importation of goods into the United States. These are most often entries for consumption (Entry Type "01").

1. The URBN buyer will issue the vendor a purchase order (PO) through the URBN purchase order system. The purchase order includes the purchase order number, style number, style name, unit price and quantity ordered. The purchase order system feeds all purchase order information to the URBN Bamboo Rose system. The Global Trade and Compliance Department will have access to the purchase order information in Bamboo Rose.
2. The vendor will book the PO to ship with an URBN nominated freight forwarder or courier service as approved by the URBN Transportation Department. The vendor will submit their commercial invoice and packing list to the freight forwarder/courier service as part of their booking process. The freight forwarder/courier service will electronically submit a complete shipping document file by shipment for all PO's in the shipment to the Global Trade and Compliance Department Import team and dedicated U.S. Customs Brokerage team. The document file will include the bill of lading, commercial invoices, packing lists, and any other additional documents as needed.
3. The Global Trade and Compliance Department Import team will review the shipping document files by shipment against the purchase order and commercial invoice information in the URBN Bamboo Rose system. The data review process is in the URBN Shared Drive at the following location: 's:\Global Trade and Compliance\Training\Import Air Shipment Manual' and 's:\Global Trade and Compliance\Training\Import Ocean Container Process'. The Global Trade and Compliance Department import team gives the dedicated customs brokerage team approval to process the U.S. import entry if all information between the shipment documents and Bamboo Rose are verified as ok. If there are any discrepancies or missing information between the shipping documents and Bamboo Rose, the Global Trade and Compliance Department import team contacts the appropriate URBN buying/production team to resolve. Once resolved, the GTC import team will give the customs brokerage team the approval to process the import entry.

4. The Global Trade and Compliance Department's Import Customs Compliance Senior Manager maintains a list of Customs brokers with power of attorney to transact Customs business on the company's behalf. The broker will file the Customs entry as instructed by the Global Trade and Compliance Import team. The broker will also ensure that the entry documentation contains the necessary shipping documents, release documents, and other documentation, as needed.
5. The Customs broker will send a delivery order to Urban Outfitters, Inc.'s dedicated carrier as approved by the URBN Import Transportation Department.
6. The URBN Import Transportation team will make freight arrangements and the shipment will be transported to the distribution center as shown on the purchase order and commercial invoice.
7. The Receiving department at the distribution center will receive the imported merchandise and verify the shipment against the original (or amended) packing list. The merchandise will be inspected for quality, entered into the receiving system and stored in the Distribution Center (DC)/Fulfillment Center (FC).
8. The broker will submit the entry package (*e.g.*, CF 7501, etc.) to the URBN Transportation Department with a copy of the broker's invoice. The URBN Transportation Department will pass to the Accounting Department for payment.

## **CHAPTER IV: RECORDKEEPING AND DOCUMENTATION REQUIREMENTS**

---

### **RECORDKEEPING AND DOCUMENTATION REQUIREMENTS**

#### **Recordkeeping Policy**

It is the policy of Urban Outfitters, Inc. to maintain all required records for the prescribed statutory time frames, and that the records are accessible to U.S. Customs within the required records retrieval time. A listing of these pertinent records, the responsible departments for maintaining these records, as well as the required time frame are detailed in this manual. The recordkeeping procedure set forth in this manual must be followed by all employees.

Failure to maintain or produce entry records may result in the imposition of penalties of up to \$100,000 or 75 percent of the merchandise value *per release*.

#### **The Records Required under the (a)(1)(A) list**

Under the *Mod Act*, importers are required to maintain and make available information and records pertaining to Customs-related activities. Specifically, 19 U.S.C. § 1509(a)(1)(A) requires the production of records required by law or regulation for the entry of merchandise. Section 509(e) of the Tariff Act of 1930 requires the Customs service to identify and publish a list of the records and entry information that is required to be maintained and produced under subsection (a)(1)(A). Thus, the list of documents required for entry purposes has come to be known as the "(a)(1)(A) list." Additionally, 19 C.F.R. § 163.4 provides that records shall be kept for five years from the date of entry if the record relates to an entry or five years from the date of the activity that required the creation of the record. However, packing lists are only required to be maintained for a period of 60 calendar days from release or conditional release of the merchandise, whichever is later.

#### **Responsible Parties**

The Associate Manager, Compliance Audit, the Accounting Manager, and the DC/FC Managers are primarily responsible for ensuring the maintenance of records and information within their respective departments, in keeping with company policy.

The *Associate Manager, Compliance Audit* is primarily responsible for records supporting import entries filed with U.S. CBP, including:

- Entry Summaries (CF 7501)
- Air Waybills and Bills of Lading
- Powers of Attorney
- Commercial Invoices
- Customs Bonds
- Certificates of Origin
- Product information to support declarations to Customs

- Correspondence pertaining to import issues
- Any other records necessary to verify declarations made on customs entries.

The *Senior Manager - Import Customs Compliance* shall also be responsible for a periodic review of documentation to ensure that the Customs compliance procedures on Recordkeeping are being followed.

The *Accounting Manager* is primarily responsible for records supporting Customs valuation declared to U.S. CBP, including:

- Invoices
- Payment documents (*e.g.*, accounts payable ledger, cancelled checks, wire transfer requests, bank statements)

The *DC/FC Managers* is primarily responsible for records supporting the quantities of merchandise received and declared to U.S. CBP, including:

- Receiving Reports
- Discrepancy Reports
- Shipping Advice

### **The Commercial Invoice**

The commercial invoice is a document reflecting the information pertaining to the sale and transportation of purchased goods. From an importer's view, it is the most pertinent piece of documentation, from which U.S. Customs will determine the classification, valuation and rate of duty associated with the imported merchandise. An invoice must be detailed and accurate. Should the commercial invoice not be available at the time of entry, a "pro-forma" invoice will be used, though the original invoice must be obtained and held on file.

### **Requirements:**

A commercial invoice must be produced for each entry submitted to U.S. Customs, and meet the following general conditions:

- Be in English;
- List the name and address of Person/Company selling the goods;
- List *Sold to* and *Ship to* parties, if they are not the same;
- Detailed description of merchandise;
- List the value of the merchandise and type of currency;
- Purchase order number, if applicable;
- List of the quantity and weights;

- Country of origin of merchandise;
- Country of export, if different from country of origin;
- Itemized separately, if applicable: rebates or discounts; freight and insurance; commissions and cost of packing;
- If multiple invoices are obtained for one entry, each invoice should be numbered consecutively by the importer at the bottom of each page; and
- List the name of a responsible person from the exporting company with knowledge of the transaction.

**Instructions:**

Coordination amongst the Purchasing, Transportation and Global Trade and Compliance personnel of Urban Outfitters, Inc. will ensure that all information required on the commercial invoice will be available from the time the order is placed until documents are received in-house at Urban Outfitters, Inc. In addition, all parties involved must communicate any changes to the commercial invoice which impacts the information to be submitted to U.S. Customs.

**Consequences:**

Accurate and detailed information on the commercial invoice allows an importer to properly classify and value imported merchandise. Incorrect information may result in an incorrect duty rate (possibly overpaying U.S. Customs) or improperly valued merchandise resulting in delays in delivery and possible penalties.

**Purchase Orders**

**Requirements:**

The Purchase Order generally is the first document formalizing the relationship and expectations between Urban Outfitters, Inc. and its suppliers. For each request, a P.O. is generated and presented to the supplier. Properly prepared, the purchase order will indicate:

- Terms of sale;
- Quantity;
- Price per quantity;
- Supplier;
- *Ship to*, as well as, *Sold to* party; and
- Product description.



**Instructions:**

Communicating the details of new orders to the Global Trade and Compliance, Transportation, and Accounting Departments will allow Urban Outfitters, Inc. to monitor their incoming shipments, confirm proper entry procedures, and negotiate favorable shipping rates. Copies of all purchase orders for foreign suppliers are available to the Global Trade and Compliance Department when they are issued.

**Consequences:**

By communicating the schedule for inbound shipments from foreign suppliers to the Global Trade and Compliance Department and Transportation Department, the potential liability for improperly cleared merchandise will decrease. Failure to monitor these shipments can result in entry being made by the wrong importer of record. Penalties for false or inaccurate statements to U.S. Customs will result in steep penalties.

**Bill of Lading and Shipping Documents****Requirements:**

Shipping documentation, including the bill of lading or air waybill are necessary for the importation of Urban Outfitters, Inc.'s merchandise. Ocean bills of lading must be secured prior to the arrival of the shipment, properly endorsed and forwarded to the steamship line with any collect freight charges.

Bills of lading and other shipping documentation confirm any possible non-dutiable charges ("NDCs"), such as freight and/or insurance fees, that may be deducted from an entry. Thus, these documents support the valuation of Urban Outfitters, Inc.'s entries.

**Instructions:**

The Global Trade and Compliance Department will work directly with the Transportation Department and the manufacturer or supplier to secure proper documentation before the arrival of the shipment. These documents will be maintained with the other entry documentation for five years from the date of entry. In the event the Transportation and Global Trade and Compliance Departments do not receive the information directly from the manufacturer, the buyer ordering the goods will work to ensure copies of the documents are forwarded to the Transportation and Global Trade and Compliance Departments for entry purposes.

**Consequences:**

Securing the proper documentation will ensure the accuracy of information submitted to U.S. Customs and help to expedite the clearance of Urban Outfitters, Inc.'s merchandise. In addition, information appearing on the shipping documents helps to support the valuation of the merchandise and subsequent duty payments. Urban Outfitters, Inc. is legally responsible for the

proper valuation of all their shipments and will avoid unnecessary penalties for inaccurate claims.

## **Recordkeeping Requirements**

### **Definition of Records**

While the (a)(1)(A) list covers the records required for the entry of merchandise into the United States, U.S. Customs states that the importer must maintain all records normally kept in the ordinary course of business. Thus, records are defined as including, but not limited to:

- entry records
- statements
- declarations
- documents
- books
- papers
- correspondence
- accounts and accounting documents
- financial statements
- journals
- technical data
- automated storage devices
- computer programs necessary to retrieve information in a usable form
- electronically generated or machine-readable data, and
- any other document which supports or pertains to any importation or exportation.

Technical data includes diagrams and data detailing a business operation, as well as engineering or exploration operations, regardless of whether the operation is conducted within the United States or outside of the United States.

Documentation helps to support the right of the company to make entry and determines the liability for duties and taxes. In addition, the documents also determine the liability for any fines, penalties or forfeitures that may occur after a shipment is released. Thus, compliance in maintaining and submitting records to U.S. Customs is extremely important.

## **U.S. Customs Authority to Examine Records**

The U.S. Customs service has the authority to request and examine records under the Mod Act. 19 U.S.C. § 1509(a)(1)(a) requires the production of records required by law or regulation for the entry of merchandise. Section 509(e) of the Tariff Act of 1930 requires the U.S. Customs service to identify and publish a list of the records to be maintained, and Section 509(f) authorizes U.S. Customs to establish a recordkeeping compliance program. Under the Mod Act, there are a substantial number of Customs records for which Customs will no longer collect and file import-related documents. Thus, importers and their agents must maintain all Customs-related documents and information. *This will eliminate the need for duplicate recordkeeping by U.S. Customs.*

## **Who Must Maintain Records**

Any owner, importer, consignee, importer of record, or any agent of the foregoing who causes merchandise to be imported into the United States must maintain records. In addition, any of the above who files a drawback claim or transports or stores bonded merchandise must also maintain records. Lastly, any person whose activities require them to file a declaration or entry must maintain records.

## **Where Records May be Found**

Records may be found in several different departments, all of which impact the Customs function. Records may be retained by:

- Purchasing Department;
- Global Trade and Compliance Department;
- Transportation Department;
- Receiving Department;
- Accounts payable;
- Tax/Finance Department;
- Foreign Manufacturers/Suppliers; and
- Third-Party Recordkeeper (Customs Broker, Attorney, or Accountant).

## **Retention and Retrieval Time for Records**

All records, unless otherwise stated, must be maintained for five years from the date of entry. Some notable exceptions include:

- Warehouse entries – must be maintained for five years from date of last withdrawal.

- Drawback entries - must be maintained for three years from date of paid claim.
- Entries for articles subject to antidumping/countervailing duties- should be maintained until the entry is liquidated.
- Entries subject to protest should be maintained until the decision on the protest is final.

If the records required for the entry of imported merchandise are requested for examination by U.S. Customs, the importer of record must provide them within a reasonable period of time. U.S. Customs will allow time to submit documentation by taking into consideration the number, type and age of the records requested. U.S. Customs officers will provide a description of the records requested along with a mutually convenient time to review them.

When requested, Urban Outfitters Inc. will provide all required documents within the mandated time frame.

### **Penalties When Records Cannot be Produced**

If the Importer of Record cannot produce the documentation required by U.S. Customs, stiff penalties may be assessed. If the importer *willfully* fails to produce documentation, the penalty for each release will be the lesser of \$100,000 or 75% of the appraised value of the merchandise. If the failure to produce records is considered to be *negligence*, the importer will be fined the lesser of \$10,000 or 40% of the appraised value, for each release they are unable to submit. If the requested information relates to the eligibility of merchandise for a Column 1 "Special Rate of Duty," in addition to the prescribed penalty, U.S. Customs will liquidate the entry at the Column 1 "General Rate of Duty." If the entry has been liquidated within two years preceding the demand, the entry may be re-liquidated at the Column 1 General Rate of Duty.

### **Non-Penalty Violations**

Under certain circumstances, penalties will not be assessed against an importer if they cannot produce the requested records. For example, records lost as a result of an act of God or other natural cause or disaster, or if the requested information was substantially compiled with other evidence or by the use of other evidence. Further, no penalty will be issued if the requested information was previously presented to and retained by U.S. Customs.

### **Other Records**

In addition to the entry records/information specifically listed in the (a)(1)(A) list, importers are required to keep business records, accounts, correspondence, etc., relating to their international activities. They include:

- Commercial invoice(s);
- Purchase orders, contracts, and agreements;

- Payment documents (checks, letters of credit, bank advices, and bank statements);
- Correspondence (telexes, letters, electronic mail, etc.) pertaining to negotiations, adjustments, and the particulars of compensation due for the imported merchandise;
- Registers, journals, ledgers, etc.; and
- Trial balance, balance sheet, income statement, etc.

For example, for classification within subheading 9802.00.80, HTSUS, as American goods assembled abroad, "Urban Outfitters, Inc." must maintain records establishing:

- That the exported products were actually produced in the United States (and not merely purchased from a U.S. vendor);
- The value of the components (records as to purchase price, less costs of shipping from U.S. port);
- Documentation that the components were actually incorporated in the imported merchandise; and
- Documentation that the components did not lose their physical identity when so incorporated and were not advanced in value, except by operations incidental to assembly such as cleaning, testing, lubricating, etc.

### **REASONABLE CARE CHECKLIST: RECORDKEEPING**

Following are steps to take to exercise reasonable care in ensuring that all required records are maintained for the prescribed statutory time frames and that the records are accessible to Customs within the required records retrieval time.

- ❑ Are the proper documents kept for each shipment your company has imported or exported? Is the (a)(1)(A) list periodically reviewed to identify those records required to be maintained by Urban Outfitters, Inc.?
- ❑ Are documents and files maintained in an orderly fashion? Can Urban Outfitters, Inc. retrieve records within the time frame specified by CBP?
- ❑ Are records maintained in proper format for CBP purposes?
- ❑ Does Urban Outfitters, Inc. have a document disposal program that will ensure compliance with U.S. rules and regulations?

## **CHAPTER V: CLASSIFICATION OF MERCHANDISE**

---

### **CLASSIFICATION OF MERCHANDISE**

#### **Introduction**

Merchandise entered into the commerce of the United States must be classified in accordance with the Harmonized Tariff Schedule of the United States ("HTSUS"). The Harmonized System is a multipurpose nomenclature used to classify goods for U.S. Customs purposes as well as statistical and transport purposes. The Mod Act *shifts the legal responsibility for classification, valuation and rate of duty to the importer*. Selecting the most appropriate classification for Urban Outfitters, Inc.'s imported merchandise helps to avoid delays and overpayment of duties. Penalties for improper classification are steep and could result in the payment of additional duties in addition to the penalty. An importer demonstrates *reasonable care* when it classifies merchandise according to the law. For example, requesting binding rulings from U.S. Customs or utilizing the services of an expert in Customs law assists an importer in meeting its *reasonable care* requirements.

#### **History of the Harmonized Commodity Description and Coding System**

In the 1970s, the major trading countries began developing an internationally recognized tariff classification system. With the goal of improving the movement of goods in international trade, the Customs Cooperation Council (today, known as the World Customs Organization) undertook the task of creating a single modern structure to classify goods as well as collect data for statistical and transport purposes. The Harmonized System went into effect on January 1, 1988.

The international tariff system consists of 97 chapters grouped into 21 sections, with over 5000 article descriptions under headings and subheadings. Because the Harmonized Systems was developed as a "core" system, each participating country has the ability to further categorize items under additional subdivisions. Thus, Chapters 98 and 99 have been added in the United States for that reason and are used for national purposes. Chapter 77 has been reserved for future use.

When classifying an item under the Harmonized System, the international tariff consists of a 6-digit number for both imported and exported goods. The tariff number for the United States, however, adds an additional four digits for statistical and transport purposes. The first two digits of the tariff number indicate the chapter in which the merchandise can be found, i.e. 8708 is within chapter 87.

Generally, merchandise can be classified under its common or technical name and located under a "Heading" (the first four digits) or "Subheading" (six or more digits). If the item is not specifically provided for, it may be considered as a "residual provision" also known as a "basket provision". Thus, it may be located under the phrase "not elsewhere specified or included" or by

the term “other”. Consequently, all merchandise can be classified under the Harmonized System, whether or not the item is specifically identified or described.

### **Legal text of the Harmonized System**

To classify an item, the Harmonized System has established six *General Rules of Interpretation* ("GRIs"), Section and Chapter notes and Headings, which carry legal status in the countries adopting the system. (There are some countries utilizing the Harmonized Code which are not contracting parties to the Harmonized System Convention.) The first four GRIs must be applied sequentially; the fifth rule applies to cases, and the sixth rule applies only to subheadings. For national purposes, the United States has added a seventh GRI.

The Section Notes generally indicate which products are classified in the particular section, which items are excluded, and any definitions pertinent to those items. Each Section lists the chapters which are covered under that section. For example, Section II covers vegetable products, Section XV covers base metals and articles of base metals. The Headings consist of 4-digit descriptions. GRI number one provides for classification of goods according to the terms of the Headings.

Under the *Modernization Act* the importer is legally responsible for the classification, valuation and rate of duty for imported merchandise. Thus, it is extremely important that Urban Outfitters, Inc. and their agents are diligent when classifying items under the HTSUS. The appropriate tariff provision will determine:

- Rate of duty;
- Quota restraints, if any;
- Special tariff treatment, if any; and
- Liability for special duties (ADs, CVDs), if any.

Failure to exercise *Reasonable Care* when classifying may result in:

- Imposition of penalties;
- Overpayment of duties; and
- Reversal of origin preferential treatment.

Further, NAFTA rules of origin for duty preference and markings are based on either a "tariff shift" analysis and/or a regional value content ("RVC") requirement which presupposes the accurate classification for all input materials as well as for the finished good.

## **Urban Outfitters, Inc. Policy**

It is the policy of Urban Outfitters, Inc. to exercise reasonable care in the classification of all merchandise. To ensure that the items imported by Urban Outfitters, Inc. are properly classified, the procedure on classification set forth in this manual must be followed by all concerned employees.

### **Overview of Procedures**

The Import Compliance team within the Global Trade and Compliance Department classifies all merchandise when Urban Outfitters, Inc is the U.S. Importer of Record. The Import Compliance team enters the HTSUS into the Bamboo Rose system by style # which results in it automatically appearing on the vendor's commercial invoice each time the style # ships. When making the U.S. Customs entry, the dedicated Customs Broker offices use the HTSUS that is listed on the commercial invoice.

### **Responsible Party(s)**

The Import Compliance team is responsible for ensuring that imported merchandise is classified in accordance with the HTSUS. The Production team and buyers are responsible for obtaining and providing the Import Compliance Team with samples and other sufficient product information to properly classify merchandise. Vendors are also responsible for entering customs descriptions in Bamboo Rose at the style number level. These customs descriptions provide product descriptions in order to properly classify and determine the proper HTSUS.

### **Controls for Classification of Products**

Prior to the U.S. import entry, the Production/Buying areas will pull all new style #'s that have not been classified and setup a meeting to review these style #'s with the Import Compliance team. During the meeting, the Production/Buying area will present a sample of each style # and review the Customs Descriptions that vendors enter into the Customs Description field in Bamboo Rose.

Once a style # is reviewed, the Import Compliance team enters the HTSUS into Bamboo Rose. Only the Import Compliance team has write access to the HTSUS field in Bamboo Rose. The HTSUS will automatically appear on the vendor's commercial invoice.



## **CLASSIFICATION OF APPAREL & NON-APPAREL ARTICLES**

1. The Senior Manager – Import Customs Compliance is primarily responsible for ensuring the correct classification of imports of apparel articles.
2. After the purchase of apparel merchandise the responsible UO buyer will inform the Global Trade and Compliance Department of the product, the foreign supplier, and the country of origin. The buyer will obtain a sample of the article, if necessary.
3. The Senior Manager - Import Customs Compliance will classify the merchandise with the assistance of Geodis/FTN Consulting if necessary.
4. UO will instruct its Customs brokers to classify the merchandise upon entry in the HTSUS subheading proposed by the Senior Manager - Import Customs Compliance.
5. The Associate Manager, Compliance Audit will periodically review entries prepared by the Customs broker to ensure that the merchandise, in fact, has been classified upon entry, in the manner suggested by the Senior Manager - Import Customs Compliance.
6. If the Associate Manager, Compliance Audit identifies an entry in which the Customs broker classified the merchandise in an HTSUS subheading other than the subheading identified by the Senior Manager - Import Customs Compliance, the Global Trade and Compliance Department will contact the Customs broker to determine the reason for the discrepancy. The Global Trade and Compliance Department will also maintain copies of all correspondence with the Customs broker regarding resolution of the matter. If the classification was made in error, the Customs broker will be instructed to amend the entry. The Global Trade and Compliance Department will notify the Senior Manager of the error and resolution and a copy of the documentation will be attached to the file copy of the related entry package.
7. The Compliance Audit Associate Manager will audit at least 25 import entries per year to verify the accuracy of the HTSUS as per Custom's rulings in CROSS to ensure full compliance. Please refer to Appendix A for full instructions on how the audit is completed and an example.

Classification of Apparel Articles Procedure inserted 4/26/2007; revised 11/30/2017

## GUIDELINES FOR CLASSIFYING IMPORTED MERCHANDISE

In seeking to meet *Reasonable Care* requirements when classifying imported merchandise, there are several guidelines that should be followed:

1. **Familiarization with the Harmonized Tariff Schedule of the United States:** The Tariff Schedule is extremely detailed and complex. By employing a Licensed Customs Broker on staff at Urban Outfitters, Inc., the level of awareness is significantly increased.
2. **Maintain current tariff schedules:** The Tariff is updated and amended throughout the year. Urban Outfitters, Inc. must keep the HTSUS up to date and confirm their agents are working with electronic data bases that automatically update when Customs makes a change in the tariff.
3. **Gather factual information:** Before classifying an imported good, Urban Outfitters, Inc. should gather as much information as possible regarding the commodity's composition, structure, and technical specifications. This will help to ensure the selection of the appropriate classification.
4. **Apply the General Rules of Interpretation (GRIs),** and carefully review all Section and Chapter notes, as well as the terms of the Headings and Subheadings to confirm if the merchandise can be classified under these titles. Remember, these items constitute the "legal text" of the Harmonized System. All other titles are provided for ease of reference only and have no legal significance.
5. **General Notes:** contain information relating to special tariff programs, territories covered by the schedule, terminology used throughout the schedule, and the General Rules of Interpretation. Review of the general note will assist in choosing the proper classification.
6. **Use of Extrinsic Interpretative Aids:** On occasion, other extrinsic aids may be used to interpret the Harmonized Tariff Schedule. The *Explanatory Notes* are the official interpretation of the HSTUS by the World Customs Organization (today known as the Customs Cooperation Council). They provide guidance in interpreting the Harmonized Schedule, though they are not legally binding. Published in English and French, the two official languages of the WCO, the Explanatory notes are updated periodically, and provide an excellent reference to the Tariff Schedule.

A second extrinsic tool is the *Compendium of Classification Opinions*, a collection of decisions issued by the Harmonized System Committee as a result of disputes or problems with classification between customs administrations. They are also published periodically by the WCO, in both French and English. Questions pertaining to the classification or the use of any extrinsic tools should be addressed to the Global Trade and Compliance Department.

7. **Binding Rulings:** In addition to using reference tools for classification, Urban Outfitters, Inc. may consider securing a binding ruling from U.S. Customs for a particular item, or for multiple items. Binding rulings confirm the proper classification of an item as well as the corresponding rate of duty. They are good at any port of entry within the United States and expedite the clearance of goods through U.S. Customs.

## GENERAL RULES OF INTERPRETATION

### Summary of the GRIs:

GRI 1 takes precedence over the remaining rules and requires classification according to Headings of the Harmonized System. GRI 2 reviews the classification of goods imported that are incomplete or unfinished. GRI 3 addresses the issue of goods that are *prima facie* or classified under two or more headings. GRI 4 further defines items that cannot be classified under GRI 3. GRI 5 classifies items imported in various types of containers. GRI 6 confirms that for legal purposes, GRIs 1 through 5 govern, *mutatis mutandis* (that is, at the subheading provision levels, as well).

### General Rules of Interpretation

**GRI 1:** The table of contents, alphabetical index, and titles of Sections, Chapters and Sub-Chapters are provided for ease of reference only; for legal purposes, classification shall be determined according to the terms of the Headings and any relative section or chapter notes and, provided such headings or notes do not otherwise require, according to the following provisions (that is, GRIs 2 to 6)

**GRI 2:** Rule 2(a): Any reference in a Heading to an article shall be taken to include a reference to that article incomplete or unfinished, provided that as entered, the incomplete or unfinished article has the essential character of the complete or finished article. It shall also include a reference to that article complete or finished (or falling to be classified as complete or finished by virtue of this rule,) entered unassembled or disassembled.

Rule 2(b): Any reference in a Heading to a material or substance shall be taken to include a reference to mixtures or combinations of that material or substance with other materials or substances, any reference to goods of a given material or substance shall be taken to include a reference to goods consisting wholly or partly of such material or substance. The classification of goods consisting of more than one material or substance shall be according to the principles of Rule GRI 3.

**GRI 3:** When, by application of Rule 2(b) or for; any other reason goods are, *prima facie*, classifiable under two or more Headings, classification shall be affected as follows:

(a) The Heading which provides the most specific description shall be preferred to Headings providing a more general description. However, when two or more Headings each refer to part only of the materials or substances contained in mixed or composite goods or to part only of the items in a set put up for retail sale, those Headings are to be regarded as equally specific in relation to those goods, even if one of them gives a more complete or precise description of the goods.

(b) Mixtures, composite goods consisting of different materials or made up of different components, and goods put up in sets for retail sale, which cannot be classified by reference to 3(a), shall be classified as if they consisted of the material or component which gives them their essential character, insofar as this criterion is applicable.

(c) When goods cannot be classified by reference to 3(a) or 3(b), they shall be classified under the Heading which occurs last in numerical order among those which equally merit consideration.

**GRI 4:** Goods which cannot be classified in accordance with the above rules shall be classified under the Heading appropriate to the goods to which they are most akin.

**GRI 5:** In addition to the foregoing provisions, the following rules shall apply in respect of the goods referred to therein:

(a) Camera cases, musical instrument cases, gun cases, drawing instrument cases, necklace cases and similar containers specially shaped or fitted to contain a specific article or set of articles, suitable for long term use and entered with the articles for which they are intended, shall be classified with such articles when of a kind normally sold therewith. This rule does not, however, apply to containers which give the whole its essential character.

(b) Subject to the provisions of rule 5(a) above, packing materials and packing containers entered with the goods therein shall be classified with the goods if they are of a kind normally used for packing such goods. However, this provision is not binding when such packing materials or packing containers are clearly suitable for repetitive use.

**GRI 6** For legal purposes, the classification of goods in the subheadings of a Heading shall be determined according to the terms of those Subheadings and any related Subheading notes and, *Mutatis Mutandis*, to the above rules, on the understanding that only Subheadings at the same level are comparable. For the purpose of this rule, the relative Section, Chapter and Subchapter Notes also apply, unless the context otherwise requires.

## **REASONABLE CARE CHECKLIST: CLASSIFICATION**

Urban Outfitters, Inc. is responsible for ensuring that its imports are properly classified within the U.S. Harmonized Tariff Schedule. Following are steps to take to exercise reasonable care in classifying merchandise.

- ❑ Do you know, or have you established a reliable procedure or program to ensure that you know what you ordered, where it was made and what it is made of?
- ❑ Have you provided or established reliable procedures to ensure you provide a complete and accurate description of your merchandise to U.S. Customs?
- ❑ What reliable procedures help to ensure you provide a correct tariff classification of your merchandise to U.S. Customs?
- ❑ Does your product require any laboratory analysis or other specialized procedure to assist in proper classification?
- ❑ Have you obtained any binding rulings from U.S. Customs?
- ❑ Have you consulted the tariff schedules, Customs informed compliance publications, court cases and/or Customs rulings to assist you in describing and classifying the merchandise?
- ❑ Is an outside source (*i.e.*, supplier, Customs Broker, Consultant, Attorney) providing your company with Classification services? If yes, have you audited their work to ensure accuracy? Is all information submitted to your company in writing?
- ❑ Have you developed a reliable program or procedure to maintain and produce any required Customs entry documentation and supporting information?

## **CHAPTER VI: COUNTRY OF ORIGIN AND MARKING**

---

### **COUNTRY OF ORIGIN AND MARKING**

#### **Introduction**

According to law, all merchandise imported into the United States, unless otherwise stated, must be marked to indicate the country of origin to the ultimate purchaser. Generally, the country of origin is the country where the merchandise is manufactured, produced or grown. Any product that undergoes further work outside of the original country of origin must undergo a substantial transformation (or meet any specific rules of origin) before the other country becomes the country of origin of the product.

#### **Policy**

It is the policy of Urban Outfitters, Inc. to declare the correct country of origin on Customs entry documents and to ensure that foreign-origin goods are properly marked with the country of origin upon entry into the U.S. All Urban vendors are required to enter the correct country of origin information in the purchase order management system, Bamboo Rose. Furthermore, the country of origin marking procedure contained in this manual must be strictly adhered to by all employees and marking requirements must be communicated to all foreign suppliers.

#### **Ultimate Purchaser**

The ultimate purchaser is the last person within the United States who will receive the merchandise in the manner in which it was imported. When Urban Outfitters, Inc. imports items that are used in manufacturing, they may be considered the ultimate purchaser when the item undergoes a substantial transformation. If the manufacturing process is minor, leaving the identity of the article intact, then the ultimate purchaser is the one who obtains the article after the processing. When an item is purchased as a gift, the ultimate purchaser is the one who receives the gift, unless the gift was purchased from a NAFTA country. If an imported item is sold for retail purposes, then the ultimate purchaser is considered to be the person purchasing the article at retail.

#### **Marking Requirements**

The foreign country of origin for imported merchandise must be clearly stated on the invoice and the article itself or, in certain instances, on the outermost package. The marking must be:

- Clearly and permanently marked, as the nature of the article permits;
- Legible;
- Indelible;

- In English; and,
- Conspicuous or easily seen.

## **Marking of Containers**

When an imported product reaches the ultimate purchaser in the United States, the container or package must be marked with the product's foreign country of origin. For containers imported with an article and considered to be classified with the article under the HTSUS, the outermost container itself must be marked with the country of origin. If a container is marked with a U.S. address, the country of origin must appear in close proximity to the U.S. address, so that the country of origin for the contents is clearly seen.

Any container designed for reuse (*i.e.*, steel drums, tanks) must be individually marked to indicate the country of origin. Containers not designed for reuse are subject to rules of origin marking based on their use at the time of importation. Non-reusable containers include, but are not limited to cans, bottles, bags, whether paper or polyethylene, paperboard boxes, etc., and are disposed of, or discarded, after use. Disposable containers imported empty must be marked with their country of origin. If these containers are imported in multiple units (dozen, gross, etc.), then the outermost container in which they are imported must be marked with the country of origin. There are exceptions for containers from NAFTA countries; therefore, the Global Trade and Compliance Department of Urban Outfitters, Inc. should be contacted with any questions on marking rules.

## **Articles for Re-packing**

Merchandise imported and designated for re-packing after entering the United States must be marked with the country of origin in the following situations:

- The imported product is sold in its original condition;
- The product is imported in bulk form and repackaged for sale in environmentally friendly containers;
- The imported product is repackaged into smaller containers;
- The imported products were sold domestically, and the customer returned the item in its original imported condition; or
- Products re-imported from NAFTA countries which were manufactured in other countries.

When the item will be re-packed by the importer of record, the country of origin of the article must not be concealed, or the new container in which the item is packed must be clearly marked with the country of origin of the article. If the imported item is sold to a purchaser or re-packer, the importer must notify the purchaser that any repacking of the article must conform to these rules. The importer must notify the re-packer in writing and at the time of the sale or transfer of goods. In these cases, U.S. Customs may require the importer of record to certify that the items

to be re-packed will be properly marked. Blanket certificates covering repetitive shipments may be used.

### **Exceptions to Marking**

There are limited exceptions to marking an article based on the country of origin requirements. Some examples of articles excepted from marking include:

- Articles incapable of being marked;
- Articles that cannot be marked before shipment without injury, or except at an economically infeasible expense;
- Articles for which marking the container will reasonably indicate the article's origin;
- Articles entered or withdrawn from a warehouse for immediate exportation or immediate transportation and exportation;
- Products of U.S. possessions;
- Products of the U.S. exported and returned; and
- Articles valued at less than \$200.00, that are exempt from duty or are bona fide gifts valued at less than \$100.00.

Every exception must be authorized by law. Urban Outfitters Inc.'s Global Trade and Compliance Department will provide guidance to questions regarding country of origin marking, and instructions on handling any imported item not marked with the country of origin

### **Suggested Methods of Marking**

U.S. Customs requires articles to be marked legibly, indelibly and permanently. As a general rule, items should be marked at the time of manufacture. For example, with respect to articles of metal, the country of origin can be marked by die sunk, etching, or molded in. Chinaware or earthenware can be marked during the glazing process. Paper products should be imprinted.

For items to be marked "permanently" or "indelibly", the country of origin marking must remain on the item until it reaches the ultimate consumer. It should be able to withstand the distribution process and store handling.

### **Enforcement by U.S. Customs of Non-Compliance**

U.S. Customs strictly enforces the requirements for country of origin marking. There are serious consequences and specific penalties for goods not properly marked (which may be assessed at 10% of the domestic value of the goods). Shipments may be delayed and Urban Outfitters, Inc.'s reputation may be damaged for shipments failing to meet country of origin marking requirements.



In addition to marking penalties, the expense incurred in unpacking, marking and re-packing can be costly. U.S. Customs must approve any proposed marking and the location at which the marking will occur. Thus, additional charges for warehousing and detention may also be incurred.

If imported merchandise cannot be redelivered, or if the merchandise cannot be brought into compliance, U.S. Customs will issue a claim for liquidated damages against Urban Outfitters, Inc.'s entry bond, which will equal the entered value of the goods plus estimated duties. A special duty equal to 10% of the value can be assessed on any goods not properly marked. If an importer intentionally mis-marked imported merchandise or has received previous marking violations on identical goods from the same supplier, the merchandise may be seized and possibly forfeited. False country of origin marking is subject to civil and criminal sanctions as well.

### **REASONABLE CARE CHECKLIST: COUNTRY OF ORIGIN MARKING**

Urban Outfitters, Inc. is responsible for ensuring that the country of origin marking on imported items is correct. All Urban Outfitters, Inc. employees are advised to contact the Global Trade and Compliance Department for information and assistance regarding marking.

Following are steps to take to exercise reasonable care in ensuring that the imported goods are properly marked with the country of origin.

- Have you established reliable procedures to verify that the merchandise is properly marked upon entry?
- Have you established reliable procedures to ensure that you report the correct country of origin on Customs entry documents?
- Have you taken reliable and adequate measures to communicate Customs country of origin marking requirements to your foreign supplier prior to importation of your merchandise?
- Do you know how your goods are made from raw materials to finished goods, by whom and where?
- Have you established a reliable maintenance program or procedure to ensure you can produce any required entry documentation and supporting information, including any required certificates of origin?
- Is your product exempt from marking requirements?

## **Country of Origin Verification**

All styles received in an Urban Outfitters distribution center are inspected for the country of origin marking as needed. Any product that does not contain a country of origin marking is pulled and addressed on a case by case basis.

The Urban Outfitters distribution centers has four options if an order is found non-compliant to ensure that Urban vendors are marking their merchandise accurately.

1. Release the order for processing
2. Return to vendor
3. Send out to a third-party repair shop to have labels (provided by the vendor) sewn in
4. DC may apply the product marking (provided by the vendor) for accessories and home goods

## **CHAPTER VII: VALUATION AND METHOD OF APPRAISEMENT**

---

### **VALUATION AND METHOD OF APPRAISEMENT**

#### **Introduction**

All imported merchandise entered into the commerce of the United States must be appraised for U.S. Customs purposes. Duties due to CBP are calculated on an *ad valorem* basis (*i.e.*, the amount of duty is a percentage of the value of the merchandise). Therefore, the value declared for imported merchandise must be accurate. In the case where merchandise is not subject to duty, the declared value is still utilized to determine U.S. Customs user fees and for statistical reporting purposes.

#### **Policy**

It is the policy of Urban Outfitters, Inc. to provide U.S. Customs with proper declared values for all merchandise imported by our company. Therefore, procedures have been developed to ensure that all of the legally required costs or payments associated with the imported merchandise have been reported to U.S. Customs. The procedure regarding valuation is detailed in this manual and must be adhered to by all employees involved.

#### **Methods of Appraisement**

Under the *Trade Agreements Act of 1979*, there are six different methods of appraisement, though the preferred method is Transaction Value. If Transaction Value cannot be determined at the time of entry, the secondary bases of valuation are as follows:

- Transaction Value of Identical Merchandise
- Transaction Value of Similar Merchandise
- Deductive Value
- Computed Value
- Values if other values cannot be determined

Urban Outfitters, Inc. utilizes Transaction Value for the appraisement of its imported merchandise.

#### **Application of Transaction Value**

The transaction value is appropriate if (i) there are no restrictions on the disposition or use of the imported merchandise; (ii) the sale of, or the price actually paid or payable for, the imported merchandise is not subject to any condition or consideration for which a value cannot be determined; (iii) no part of the proceeds of any subsequent resale, disposal, or use of the

imported merchandise by the buyer will accrue directly or indirectly to the seller; and, (iv) the buyer and seller are not related or, if related, certain conditions may be shown.

### **Transaction Value Defined**

Transaction Value defined is the price paid or payable for the merchandise when sold for exportation to the United States. The price paid or payable refers to the concept that the goods may be paid for prior to the arrival of the shipment, or *payable*, at a later date by, for example, letter of credit or wire transfer. If not included in the price paid or payable, the following items must be added to calculate transaction value:

- **The packing costs incurred by the buyer:**

This includes the cost of labor and material used in packaging, plus the cost of all containers and coverings necessary to prepare the merchandise for shipment to the United States.

Packing includes all containers and coverings that are treated as an integral Part of the goods and which are classified with the imported goods.

No addition is made if the packaging costs are already included in the price. Therefore, with purchasing from non-related parties, consideration must be given to confirming whether packing is included.

- **The overseas domestic transportation costs incurred by the buyer:**

Overseas domestic transportation costs are dutiable. No addition is made if these costs are included in the price

- **Any selling commission incurred by the buyer:**

Selling commissions are fees paid to an agent acting on behalf of the seller or manufacturer of the merchandise. In contrast, commissions paid to a buying agent are not dutiable.

- **The value of any assist:**

An "assist" is an item provided to the producer or seller of the goods by Urban Outfitters, Inc., free of charge or at a reduced cost, used in the production or sale of merchandise to be exported to the United States.

Examples include: materials used in the imported product including components, parts, tools or dies; any mold or similar item incorporated into the imported merchandise (tools, dies, molds, etc., may be of U.S. origin or foreign origin); tickets or labels; and any merchandise that is consumed in producing the imported merchandise.

Engineering, development, artwork, design work, plans and sketches are considered to be an "assist", if the work is done outside of the United States. This work must be considered necessary for the production of the imported merchandise.

- **Any royalty or license fee that the buyer is required to pay as a condition of the sale:**

These are payments for the right to use a patented process or to distribute or reproduce certain copyright or trademarked material. These fees would also include payments for intangibles such as trade secrets or "know how."

Ultimately, determining whether a royalty or license fee payment is dutiable depends upon whether the buyer paid them as a condition of the sale, and under what circumstances. The status of these fees is determined on a case by case basis.

- **The proceeds of any subsequent resale, disposal, or use of the imported merchandise that accrue to the seller.**

Also, any additional payments made to the seller based on a percentage of re-sales, may be dutiable.

This provision would be applicable when payment for merchandise is calculated upon a base price plus some percentage of the subsequent use or sale of goods.

### **Items excluded from Transaction Value**

There are several items than are not be included when determining the Transaction Value of imported merchandise:

- Actual costs of international transportation, air or ocean;
- Insurance;
- If identified separately, any reasonable costs for constructing, erecting, assembling, maintaining or providing technical assistance with respect to the goods after importation; and
- Customs duties, federal taxes or excise taxes.

### **Limitations to Transaction Value**

Under certain circumstances, Transaction Value may not be used as the primary basis of appraisal if any of the following limitations are present:

- There are no restrictions on the disposition or use of the merchandise;
- There are shipments where the value of the imported merchandise cannot be determined;
- No proceeds accruing to the seller from the subsequent resale, disposal or use of the merchandise, for which an appropriate adjustment to the transaction value cannot be made; or
- The buyer and seller are not related, or the buyer and seller are related but the transaction value is acceptable.

### **Related Party Transactions**

When Transaction Value is chosen as the basis of appraisement for imported merchandise it is implied that the price paid or payable was not influenced by the relationship between the buyer and seller. If, in some cases, Urban Outfitters, Inc. purchases goods from related parties, it is Urban Outfitters, Inc.'s objective that the transfer price paid to related suppliers be an acceptable transaction value for U.S. Customs purpose. To achieve that, the prices negotiated by Urban Outfitters, Inc. to their related suppliers must meet the arm's length criteria set by U.S. Customs (*i.e.*, prices paid are the same as those paid by companies conducting business with parties to whom they are not related). By examining the circumstances of sale, U.S. Customs can determine whether the use of transaction value is acceptable for related party transactions.

➤ **Consult with the Global Trade and Compliance Department on all valuation issues.**

## **REASONABLE CARE CHECKLIST: VALUATION**

The following compliance checklist compliments existing procedures for maximizing compliance on questions of valuation:

- ❑ Have you established procedures to ensure you provide Customs with a proper declared value for your merchandise.?
- ❑ If you purchased from a related vendor, have you established procedures to ensure that you have reported that fact upon entry and taken measures to ensure that value reported to Customs meets one of the "related" criteria?
- ❑ Have you consulted with a Customs expert (Consultant, Customs broker, lawyer)?
- ❑ Have you taken measures to ensure that all of the legally required costs or payments associated with the imported merchandise have been reported to Customs?
- ❑ Do you have reliable procedures to ensure you have reviewed any additional payments to the vendor that may be dutiable?
- ❑ Is the Incoterm for your shipment (i.e., FOB, CIF) listed on the commercial invoice? Does your Customs Broker make any proper deductions for freight or insurance from your commercial invoice value, and do you have documents to support this deduction?
- ❑ If you are claiming a conditionally free or special tariff classification/provision for your merchandise, have you established a reliable system or program to ensure that you reported the required value information and obtained any required or necessary documentation to support your claim?

## PROCEDURE FOR VERIFICATION OF TRANSACTION PRICE

1. Shipping documents are received daily from the freight forwarders/courier service and reviewed by the Import Compliance team in the Global Tradestone and Compliance Department.
2. The unit value on the commercial invoice is reviewed against the purchase order price in Bamboo Rose.
3. The purchase order price (confirmed price) and unit price on the commercial invoice (actual price) are compared. In case of discrepancy, the Import Compliance Team will email the appropriate Production/Buying area to confirm the correct unit value. If the unit prices match, the Import Compliance team “confirms” the invoice in Tradestone.
4. If purchase order price is incorrect, the Production/Buying must revise the purchase order. If purchase order price is correct, notice of price discrepancy is sent to vendor with request for revised documents.
5. If vendor states the invoice is correct, the Production/Buying area is to confirm or dispute and email the Import Compliance team the correct unit price. The purchase order or the commercial invoice must be corrected depending on the which unit price is correct.
6. Shipment is entered into Customs at the correct transaction price which matches the invoice that is “confirmed” in Tradestone.
7. Letter of Credit ("L/C") draw amount and Wire Transfer request amounts are verified by the Finance department and compared to the value declared to CBP. The value declared to CBP matches the value on the “confirmed” invoice. The Finance department will notify the Import Compliance department of all value discrepancies between the payment invoice and “confirmed” Tradestone invoice. The Import Compliance department will research each value discrepancy. If it is determined that the incorrect value was declared to CPB, then an entry amendment will be filed through the appropriate customs’ broker.
8. **TBD:** When broker invoice is received for post entry auditing, the entry price is reviewed to insure value is equal to transaction price. Procedures are outlined in Chapter XV. Any discrepancies must be reported to Customs through the post entry amendment process.



## **VALUE OF PRICE TICKETS AND LABELS**

1. The Associate Manager, Compliance Audit is primarily responsible for ensuring that the value of price tickets and labels is correctly declared to Customs.
2. UO currently sources price tickets and labels from two U.S. vendors, Checkpoint Systems, Inc. and Sato Labeling Systems. UO imports normally have a price tickets and/or label affixed to the imported article.
3. Price tickets/ labels currently are purchased by UO's vendors directly from Checkpoint from the Checknet website (and shipped by Checkpoint directly to the vendor) or they are provided by UO to the vendor free of charge. UO intends that all price tickets/ labels ultimately will be purchased by vendors from Checknet.
4. When purchased by the vendor from Checknet, the value of the price ticket/ label is included in the vendor's invoice price to UO and no further action is necessary (i.e. no assist/AGR has been provided).
5. On occasion, price tickets/labels are supplied to the vendor by UO free of charge. This would happen if the price or other information changes and the vendor does not have time to get it from the ticket vendor. As of today, we stopped looking up every PO for AGR. From May 1<sup>st</sup>, 2014 through April 30<sup>th</sup>, 2015, the total value for 9801.10.10 was \$4,525.00 or 0.0010% of the entered value.
6. UO's Global Trade and Compliance Department has audited and determined these represent a de minimus value change and all supplied tickets are American Goods, so no duty impact. Twice a year, Associate Manager, Compliance Audit, will analyze the value to ensure it is less than 0.005% of the entered value. If the it is more than 0.005%, we will revisit the value process.
7. Once a year, the Associate Manager, Compliance Audit, will get the affidavits from the ticket stock vendor confirming that the tickets are in fact American Goods.

Value of Price Tickets and Labels Procedure inserted 4/26/2007, revised 12/5/17

## **CHAPTER VIII: COMMERCIAL INVOICE**

---

### **COMMERCIAL INVOICE**

#### **General Requirements:**

A commercial invoice created through P.O. management system, Bamboo Rose, shall be given to the appropriate freight forwarder through the shipment booking process with the vendor. If a Bamboo Rose invoice is not given to the freight forwarder, the vendor may present a non-Bamboo Rose invoice to the forwarder with detailed information on the product description, quantity and value of the merchandise. All documents required by U.S. Customs, including the commercial invoice are listed on the "(a)(1)(A) list" and should be reviewed for accuracy.

#### **Policy**

It is the policy of Urban Outfitters, Inc. to secure commercial invoices from foreign suppliers that are accurate and complete, and that meet the criteria established by U.S. Customs for a commercial invoice. The procedure for preparation of the commercial invoice detailed in this manual must be followed by Urban Outfitters, Inc. employees as well as all foreign suppliers.

#### **Data Required by the Customs Regulations on the Commercial Invoice**

General information required on the commercial invoice includes the following:

- Port of entry;
- The date, the FOB point, and the person by whom and the person to whom the merchandise is sold or agreed to be sold;
- The place from which shipped and the person by whom it is shipped;
- Detailed description of the merchandise;
- Quantities in the weights and measures of the country or place from which the merchandise is shipped, or in the weights and measures of the United States;
- Purchase price of each item in the currency of the purchase, and if ordered by a purchase order or agreement as shown by the purchase order number;
- All charges upon the merchandise itemized by name and amount;
- All rebates, drawbacks, and bounties, separately itemized;
- Country of origin of merchandise;
- Factory name and address for textile and good safe products; and
- All goods or services furnished for the production of the merchandise (*i.e.*, assists such as dies, molds, tools, engineering work).

A general review of the regulations by the Global Trade and Compliance Department will ensure compliance with the U.S. rules and regulations.

- **Consult with the Global Trade and Compliance Department for details as to the information needed for the above types of goods. This information may appear on the commercial invoice or as an attachment.**

### **REASONABLE CARE CHECKLIST: COMMERCIAL INVOICE**

Urban Outfitters, Inc. is responsible for ensuring that the commercial invoices presented to Customs are correct. The following are steps to take to exercise reasonable care in ensuring that commercial invoices are correct. Not every step will apply in each situation and some situations may warrant additional measures. However, by following these steps and documenting these actions Urban Outfitters, Inc. can demonstrate its compliance.

- Has your company established reliable procedures to ensure that commercial invoices provided to your company follow the requirements provided in the regulations?
- Are your commercial invoices provided in English, or accompanies with an English translation?
- Do you have reliable procedures to ensure that all charges are itemized by the supplier on the commercial invoice with the appropriate description?
- Does your company have reliable procedures to ensure the valuation listed on the commercial invoice is accurate?
- Has your company established reasonable care guidelines for your suppliers to prepare commercial invoices on behalf of your company?
- Do you have procedures to ensure that Pro-forma invoices are replaced with commercial invoices after the entry has been processed?

## **CHAPTER IX: ENTRY OF MERCHANDISE**

---

### **ENTRY OF MERCHANDISE**

#### **General Requirements:**

Importing into the U.S. is a privilege extended to companies such as Urban Outfitters, Inc. As it is not a right, the privilege may be revoked. All foreign products entering the United States must meet all applicable laws and regulations. The U.S. Bureau of Customs and Border Protection is the front-line enforcement of most of the government requirements for imported goods. CBP administers and enforces its own rules and regulations, and acts on behalf of over 40 other U.S. government agencies.

#### **Policy**

Under the Modernization Act, Urban Outfitters, Inc. became legally responsible for the classification, valuation and rate of duty for its imported merchandise. Careful review of the law will help to ensure compliance with U.S. rules and regulations. Our policy is to ensure that accurate information is supplied to U.S. Customs for each and every shipment. As U.S. Customs has the authority to review documentation up to five years from the date of import, many requests for information may come after the merchandise is released into the commerce of the United States. **Therefore, it is important to bear in mind that a Customs release does not necessarily imply Customs compliance.**

#### **Import Examinations**

U.S. Customs monitors importers through various sources. Merchandise entering the United States is processed through the Automated Commercial System (ACS), an electronic system that edits and samples data for each shipment. Each entry is reviewed for classification and valuation. U.S. Customs may request to examine a shipment at the time of entry or may seek additional information after the release. Discrepancies reported via ACS may result in additional requests for information (Customs Form "CF" 28) or open the possibility for an audit.

- **Urban Outfitters, Inc. employees should contact the Global Trade and Compliance Department with any questions or concerns regarding international shipments and Customs related matters.**

## Types of Entries

Goods released from U.S. Customs custody on entry documents will be categorized by an entry type. Some of the basic entry types are as follows:

<b>ENTRY TYPE</b>	<b>USE</b>	<b>SPECIAL REQUIREMENTS</b>
<b>Consumption (most common) (01)</b>	Allows for goods to be brought into the commerce of the U.S.	Duty/fees due within 10 days of release entry usually made in two parts: release (CF 3461) and summary (CF 7501) recordkeeping requirements
<b>Consumption/Quota (02)</b>	For goods subject to quota/visa restraints that are imported to be brought into the commerce of the U.S.*	Duty/fees due at time of release or within 10 days of release if made via ACH must be within quantitative limits and meet any other requirements recordkeeping requirements
<b>Warehouse</b>	Allows goods to be stored in bond prior to Customs release and payment of duties	HMF paid at time goods put into warehouse duties and other fees paid at time of withdrawal or within 10 days if via ACH rate of duty/fees based on date of withdrawal goods can remain in bond for 5 years perishables and explosives not permitted recordkeeping requirements
<b>In-Transit</b>	Allows goods to move in bond from port of arrival to alternative port for entry	Must move via bonded carrier certain time limitations exist recordkeeping requirements
<b>Transportation &amp; Exportation</b>	Allows goods to move in bond through the U.S. from port of arrival to port of export (e.g. Canadian border)	Must move via bonded carrier certain time limitations exist recordkeeping requirements
<b>Temporary Importation Under Bond</b>	Allows goods to be brought into the U.S. for a temporary period, for certain specified uses without payment of duties/fees (restricted use for exports to Canada and Mexico)	Must meet specified use must be exported or destroyed within maximum of 3 years must post bond penalties for breach of bond recordkeeping requirements
<b>Drawback</b>	Provides for the refund of 99% of most duties/fees paid when previously imported goods are re-exported or destroyed (restricted use for exports to Canada and Mexico)	Certain time limitations exist certain use limitations exist recordkeeping requirements

## Types of Releases

The Selectivity process generates one of the following “results” or release-status messages:

- ◆ **Paperless Release:** -an electronic release from U.S. Customs that allows the importer to move the merchandise without a physical review of the documents. Processed through the ABI system, a paperless release is the quickest release possible. Companies importing visa or quota items, or merchandise requiring special documentation will not be processed under a paperless release. In addition, importers who receive a paperless release should be aware that U.S. Customs maintains the authority to review documentation five years from the date of entry. Thus, it is beneficial that Urban Outfitters, Inc. review all documents after release to ensure compliance with Customs regulations.
- ◆ **General Release:** Merchandise is released after U.S. Customs has physically reviewed the shipment documents and has signed the CF 3461 indicating release is allowed.
- ◆ **Intensive Exam:** U.S. Customs may choose to physically inspect your merchandise prior to release. An intensive exam involves moving the merchandise to a Container Examination Station (CES), and may result in charges to load and unload merchandise, storage charges, etc. Intensive exams delay the clearance process and increase business costs associated with the transaction.

## Types of Examinations

Following are the types of examinations performed:

- ***Contraband Enforcement Team (CET Exam):*** U.S. Customs may search for any illegal substances or products included in your shipment.
- ***Import Specialist Exams:*** These exams may be requested by a local or national import specialist and are geared toward classification and country of origin review.
- ***Random Examinations:*** Randomly selected exams by the U.S. Customs computer. If an error is detected, the importer may be subject to additional exams in the future.
- ***Stratified Exams:*** This is the most intensive exam by U.S. CBP and involves completely unloading the imported product. Often these exams are targeted by industry type.

## Duty Rates

All merchandise entered into the United States must be classified and given a rate of duty (whether free or dutiable). Duty rates can be reviewed in the Harmonized Tariff Schedule and are detailed in the Duty Column Rates.

**Column One:** Duty rates in effect for countries which have a normal trade relation with the United States. Column one duty rates are either General or Special.

**General:** Based on value, quantity *or* value and quantity-based rates of duty;

**Special:** Preferential duty rates for products imported under specific treaties. Generally, these duty rates are lower than the Column one rates. A list of trade agreements can be found in the headnotes of the Harmonized Tariff Schedule of the United States.

**Column Two Rates:** These duty rates are generally the highest rates assigned and are assessed against products imported from countries that do not have a favored trade relation with the United States.

## Payments of Duties, Taxes and Fees

Importers may pay duties to U.S. Customs via their Customs Broker, or direct via check, or via ACH (Automated Clearing House). Consideration should be given to determine which method is most advantageous to the importer.

## **REASONABLE CARE CHECKLIST: ENTRY OF MERCHANDISE**

Importers are required to exercise Reasonable Care over the entire international transaction. Reviewing Reasonable Care checklists for each area of the transactions will lower the possibility of fines and penalties associated with non-compliance shipments.

- ❑ Has the company established reliable procedures to ensure accurate information is presented at the time of entry?
- ❑ Are all required documents accounted for in Urban Outfitters, Inc.'s file and presented timely to U.S. Customs?
- ❑ Has the classification number been reviewed for accuracy prior to filing the Entry Summary?
- ❑ Can the company show payment of duties to U.S. Customs via a paperwork trail?
- ❑ Was the imported merchandise eligible for any reduced or preferential duty rates?

Following an exam, was the merchandise released without any additional requirements? Was corrective action taken, when required, to ensure that future shipments will not be examined for similar situations?



## **CHAPTER X: VERIFICATION OF IMPORTED QUANTITIES**

---

### VERIFICATION OF IMPORTED QUANTITIES

#### **General Requirements**

Importers and exporters are required to present a Commercial Invoice for each shipment arriving or departing the United States. A requirement of the Commercial Invoice is information relating to the quantity of merchandise in that shipment. A discrepancy in the quantity reported to U.S. Customs may result in over- or under-payment of duties.

#### **Policy**

It is the policy of Urban Outfitters, Inc. to accurately report the quantity of merchandise imported and received by our distribution/fulfillment center or other receiving facilities. Quantities received must be verified against quantities reported to U.S. Customs. Any discrepancies (shortages/overages) must be declared to U.S. Customs, and additional duty, if required, must be paid. The procedure on the verification of imported quantities detailed in this manual must be followed by all employees involved.

#### **Regulations on Quantity**

Urban Outfitters, Inc. is responsible for accurately reporting the quantity of merchandise shipped to and received by its distribution/fulfillment center. Each shipment should be accompanied by a Packing List, with totals for both the box and piece count. Items provided by the Supplier free of charge or as gifts must be reported to U.S. Customs at the time of entry, or as soon as discovered by the distribution/fulfillment center personnel.

Urban Outfitters, Inc.'s Customs Broker will rely on information provided on the Commercial Invoice and Packing List for proper quantity reporting. These numbers are transmitted to U.S. Customs via ABI (Automated Broker System) and become part of the entry package (CF 3461 and CF 7501). The classification number indicates what the unit of measure requirement is for each individual product.

In the event of a discrepancy, Urban Outfitters, Inc. should immediately notify the Customs Broker in writing so that they may initiate a correction with U.S. Customs. Once notified, the Customs Broker should follow up with Urban Outfitters, Inc. in writing, confirming that they corrected the discrepancy with U.S. Customs on our behalf. Depending on when the discrepancy is discovered, the Customs Broker may adjust the entry documents before or after the shipment clears U.S. Customs.

## **Shortages and Overages**

### **Shortages Detected Prior to the Filing of CF 7501**

If a discrepancy is discovered at the time of the entry summary, the Customs Broker will alert CBP by use of the form CF 5931. Filed with the entry package, Urban Outfitters, Inc. must offer supporting evidence as to the reason of the short shipment and confirmation of the actual quantity.

### **Overage Detected Prior to the Filing of CF 7501**

In the event an overage is detected at the time of clearance, but prior to the submission of the CF 7501, Urban Outfitters, Inc. should immediately contact the Customs Broker with the updated information, in writing. Duties will be paid on the total quantity received.

### **Overage Detected After the Filing of CF 7501**

Once a CF 7501 has been filed on behalf of Urban Outfitters, Inc., and an overage is discovered through a piece count by the distribution/fulfillment center staff, then Urban Outfitters, Inc. may make a voluntary tender to Customs, in writing, confirming the true quantity received and paying any additional duties due at that time. A corrected CF 7501 can be handled by the Customs Broker or direct from Urban Outfitters, Inc.

### **Reporting to Other Government Agencies**

In the event of discovery of overages, declaration may be necessary to other Government agencies. Urban Outfitters, Inc. will contact the Customs Broker for verification of procedures and complete the information in writing and monitor until resolved with all parties.

## **REASONABLE CARE CHECKLIST: VERIFICATION OF IMPORTED QUANTITIES**

- ❑ Has the company established reliable procedures for reporting shortages and overages to the Global Trade and Compliance Department? Is the discrepancy reported in writing? If not, how does the communication occur?
- ❑ Does the quantity on the Commercial invoice match the Packing List and the Letter of Credit (if applicable)?
- ❑ Has a noted discrepancy been discovered before the submission of the CF 7501 or after?
- ❑ Has the Customs Broker been notified in writing of the discrepancy and been instructed to correct all paperwork and return up updated CF 7501?
- ❑ Has a Voluntary Tender been issued for any overage discovered after the submission of the CF 7501? Were the appropriate duties included with the letter?
- ❑ Was the Supplier notified of the discrepancy? Have corrective procedures been developed for the Supplier to ensure a proper piece count on future shipments?



## **CHAPTER XI: USER FEES**

---

### **USER FEES**

#### **General Requirements:**

U.S. Customs User Fees were established by the Consolidated Omnibus Budget Reconciliation Act of 1985. This legislation was expanded in 1986 to include a merchandise processing fee. U.S. Customs also collects a harbor maintenance fee for the Army Corps of Engineers.

#### **Types of Fees**

##### **Merchandise Processing Fee (MPF)**

The MPF is 0.3464 percent *ad valorem* on formally entered imported merchandise, subject to a minimum fee of \$25.00 per entry and a maximum of \$485.00 per entry. On informal entries (generally valued at less than \$2000.00) the MPFs are \$2.00 for automated entries, \$6.00 for manual entries not prepared by U.S. Customs, and \$9.00 for manual entries that are prepared by U.S. Customs.

##### **Harbor Maintenance Fee (HMF) -- Ocean Shipments**

The Harbor Maintenance Fee is an *ad valorem* fee assessed on port use associated with imports, admissions into foreign trade zones, domestic shipments, and passenger transportations. The fee is assessed only at ports that benefit from the expenditure of funds by the Army Corps of Engineers for maintaining and improving the port trade zones. The fee is 0.125 percent of the value of the cargo and is paid at the time of the entry. There is no HMF on exports.

##### **Other Fees**

U.S. Customs has the authority to collect a variety of other specific user fees. Other fees are listed in 19 C.F.R. 24.22 of the CBP regulations. Some user fees are product specific such as pork, beef, honey and cotton.

- **Consulting with a Customs Broker or Customs Expert before importation will enable Urban Outfitters, Inc. to include all fees when determining landed cost. Employees should consult the Global Trade and Compliance Department for additional information.**

**Merchandise Processing Fee:**

The current MPF *ad valorem* rates are found in the table below:

<b>TYPE OF ENTRY</b>	<b>FORMAL ENTRY OR WAREHOUSE WITHDRAWAL (NON-NAFTA)</b>	<b>NAFTA GOODS Canada Origin</b>	<b>NAFTA GOODS Mexico Origin</b>	<b>INFORMAL ENTRY</b>
<b>RATE</b>	0.3464% of FOB value	Free	0.19% of FOB value	Automated Entry Release--\$2 Manual Entry Release--\$5
<b>MINIMUM FEE</b>	\$25.00	-----	\$21.00	-----
<b>MAXIMUM FEE</b>	\$485.00	-----	\$400.00	
<b>FOOTNOTES</b>		Only for NAFTA Goods originating in and imported from Canada	Only for NAFTA goods originating in and imported from Mexico  Rate is gradually being reduced to zero  Minimum/maximum is gradually being reduced to zero	If the entry or release, whether automated or manual, is prepared by Customs, the fee is \$8

*Exemptions from Merchandise Processing Fee:*

- Products of an insular possession of the U.S.;
- Products provided for in HTS Chapter 98, except for 9802.00.60 and 9802.00.80.
- Free Trade programs exempt and non-exempt MPF information (attached chart)

## MPF and Preferential Trade Programs

<b>Free Trade Agreements</b>					
	<b>Duty Preference Program</b>	<b>SPI</b>	<b>Country</b>	<b>MPF</b>	<b>Citation and Notes (TPL goods are never exempt)</b>
1	AFTA	AU	Australia	Exempt	Per Article 2.12 of the AFTA.
2	BFTA	BH	Bahrain	Exempt	Per 19 CFR 24.23(c)(8)
3	CFTA	CL	Chile	Exempt	Per 19 CFR 24.23(c)(7)
4	CAFTA-DR	P, P+	El Salvador, Guatemala, Honduras, Nicaragua, Dominican Republic, Costa Rica	Exempt	Per 19 CFR 24.23(c)(9)
5	ILFTA	IL	Israel	Exempt	Products of Israel are exempt irrespective of whether ILFTA is claimed, per 19 CFR 24.23(c)(5).
6	JFTA	JO	Jordan	<b>Not Exempt</b>	Not exempted by 19 CFR 24.23(c).
7	MFTA	MA	Morocco	<b>Not Exempt</b>	Not exempted by 19 CFR 24.23(c).
8	NAFTA	CA MX	Canada, Mexico	Exempt	Per 19 CFR 24.23 (c)(3). <b>However, E criterion goods (Annex 308.1) are not exempt unless eligible to be marked as products of Canada or Mexico.</b>
9	OFTA	OM	Oman	Exempt	Per 19 CFR 24.23(c)(10)
10	PTPA	PE	Peru	Exempt	Per 19 CFR 24.23(c)(11)
11	QIZ	N	Jordan	<b>Not Exempt</b>	Per 19 CFR 24.23(c)
12	QIZ	N	Egypt	<b>Not Exempt</b>	Per 19 CFR 24.23(c)
13	QIZ	N	West Bank, Gaza	<b>Not Exempt</b>	However, exempt if marked "Israel," per 19 CFR 24.23(c)(5).
14	SFTA	SG	Singapore	Exempt	Integrated Sourcing Initiative (ISI) goods also originate, so also exempt, per 19 CFR 24.23(c)(6)
15	CTPA	CO	Colombia	Exempt	Per 19 CFR 24.23(c)
16	UKFTA	KR	Korea	Exempt	Per 19 CFR 24.23(c)(12)

### **REASONABLE CARE CHECKLIST: USER FEES**

#### **Merchandise Processing Fee (MPF)**

#### **Harbor Maintenance Fee (HMF)**

- Has the company established reliable procedures to ensure the proper user fees are paid to U.S. Customs?
- Are any specific fees due based on the importation of specific merchandise (e.g., cotton, beef, etc.)? Are all related fees reported on the CF7501?
- Has the Customs Broker or agent calculated the proper minimum or maximum for the MPF?

## **CHAPTER XII: POST ENTRY**

---

### **POST ENTRY**

#### **Policy**

Urban Outfitters, Inc. will comply with applicable reporting requirements and will promptly respond to inquiries and requests for information by CBP. Failure to respond to Customs' inquiries may result in penalties. Further, Urban Outfitters, Inc. will take appropriate steps to report to Customs any errors or omissions related to any importation.

#### **Amendment of Entry**

If an error is identified prior to liquidation of an entry (generally entries are liquidated within one year), the Global Trade and Compliance Department will notify the Customs broker, who will amend the entry and pay any additional duties/fees owed. A copy of the amended entry with the file copy of the original entry package will be stored in the Customs Broker's website and on file CD's stored by the Global Trade and Compliance Department.

#### **Request for Information**

In performing its responsibilities in connection with imports into the United States, CBP will occasionally seek information from importers in addition to that requested in the entry package. These requests may be in writing, in the form of a Customs Form 28 ("CF 28"), or oral and will generally come from the Import Specialist responsible for Urban Outfitters, Inc.'s imports or its designated Account Manager.

- Any employee receiving a Request for Information from any Customs official, whether written or oral, will promptly notify the Senior Manager – Import Customs Compliance. The Senior Manager – Import Customs Compliance will review the request and determine if anyone else in Urban Outfitters, Inc. needs to be notified (e.g., legal counsel).
- If the Request for Information is in writing, the Senior Manager – Import Customs Compliance, with assistance from the Global Trade and Compliance Department Staff, will prepare a draft response and send to Customs no later than the due date. A copy of the CF 28 will be filed with the appropriate entry package in the Customs broker's website as well as in the Global Trade and Compliance Department's Request for Information correspondence file.
- If the Request for Information is made orally, the employee receiving the same will make sure that he/she understands the information being requested. The employee will provide a response if he/she feels that it is a simple technical question to which he/she is certain of the response. Once the employee has provided the response to Customs, he/she will prepare a memorandum to the file setting forth the request, substance of the conversation with the Customs official and response provided. If the employee is uncertain of the answer, he/she



will prepare a memorandum setting forth Customs' request and submit it to the Senior Manager – Import Customs Compliance for response. The memorandums will be maintained in the Global Trade and Compliance Department's correspondence file.

### **Notice of Action**

Customs may also issue a Notice of Action or "CF 29" when additional duties are owed, or a correction is needed. CBP will designate on the notice the type of action being taken that affects duties owed the Government.

Any employee receiving a CF 29 from Customs will promptly submit it to the Senior Manager – Import Customs Compliance, who will review the CF 29 and seek advice from the Customs broker and/or legal counsel, if considered necessary. If after consulting with the Customs broker and/or legal counsel the Senior Manager - Import Customs Compliance is not in agreement with the notice, the Manager will file a protest within 90 days following the liquidation notice date. If the Manager agrees with CBP's determination, copy of the CF 29 will be filed with the corresponding entry and in the Customs correspondence file.

### **Protest**

The following decisions of the Customs Port Director may be protested within 90 days of Customs liquidation of the entry:

- Exclusion of merchandise from entry or delivery
- Determination of the value, classification, duty rate, or amount of duty to be applied to an entry
- Liquidation or re-liquidation of an entry
- Refusal of a claim for duty drawback
- Refusal to re-liquidate an entry based on clerical error or mistake of fact
- Any other charge or exaction within the jurisdiction of the Secretary of the Treasury

When one of these events occurs, the Senior Manager - Import Customs Compliance will determine within two weeks whether a protest should be made. If necessary, the Senior Manager - Import Customs Compliance will seek the advice of the Customs broker and/or legal counsel. The Manager, either directly or through the Global Trade and Compliance Department staff, will seek to gather all relevant information needed for the protest. After the relevant information has been received, the Senior Manager - Import Customs Compliance will prepare the protest on the Customs Protest Form ("CF-19") in keeping with the statute and regulations (19 U.S.C. § 1514 and 19 C.F.R. § 174, Subpart B). The Senior Manager - Import Customs Compliance will ensure that a copy of the protest is filed in the corresponding entry file and in the Customs correspondence file.

## **Ruling Request**

Customs law includes rules under which importers may challenge any aspect of a Customs liquidation of imported merchandise such as valuation, classification, country of origin, or eligibility under a preferential tariff program or may seek official guidance on such issues in advance of importation, or after importation but before liquidation.

The following procedures will be followed when requesting a Customs Ruling (*see* 19 C.F.R. § 177):

- The Senior Manager - Import Customs Compliance, with the assistance of the Global Trade and Compliance Department staff, will gather all information relevant to the request.
- The Senior Manager - Import Customs Compliance will seek guidance if necessary from the Customs broker, legal counsel, or other sources.
- Once this information has been obtained, the Senior Manager - Import Customs Compliance will prepare a letter (i.e., ruling request) containing all relevant facts relating to the transaction in question, including a detail description of the transaction, names and addresses of interested parties, and name of the port or place at which the article will be entered.
- As appropriate, the draft request will be reviewed by the Senior Manager - Import Customs Compliance's supervisor and counsel. Any comments will be incorporated into a revised ruling request.
- Once the ruling is received, a copy will be maintained in the Customs correspondence file and a copy sent to the Customs broker and the Import Specialist handling the affected importation(s).

## **Prior Disclosure**

U.S. law provides for reduced civil penalties where a company brings violations of law to the attention of U.S. CBP prior to or without knowledge of a Customs investigation having been commenced as defined by 19 C.F.R. § 162.74(g).

All Urban Outfitters, Inc. employees are expected to promptly report to the Senior Manager - Import Customs Compliance any mistakes he/she may have made in connection with an importation or any circumstances leading the employee to believe an error or omission has occurred regarding information submitted to Customs.

- The Senior Manager - Import Customs Compliance will thoroughly investigate any reports received regarding any errors made in connection with an importation. The Senior Manager - Import Customs Compliance will determine the facts and circumstances surrounding the suspected violation, including:
  - whether the suspected violation is continuing;

- whether the suspected violation involves liquidated or unliquidated entries;
  - whether there exists evidence of a clerical error or mistakes of fact;
  - the extent to which the company and the employees involved in the incident exercised reasonable care or failed to meet their legal responsibilities;
  - any indication that Customs may have commenced an investigation against Urban Outfitters, Inc.;
  - any revenue loss to Customs; and
  - whether Urban Outfitters, Inc.'s procedures need to be adjusted in order to prevent similar situations from reoccurring.
- If the Senior Manager - Import Customs Compliance determines that the error occurred because of deficiencies in control procedures, the practice(s) in question will be immediately terminated and the Senior Manager - Import Customs Compliance will develop necessary procedures to prevent reoccurrence.
  - The Senior Manager - Import Customs Compliance will consult with their supervisor and legal counsel, if necessary, to determine whether a violation has occurred, the procedural changes needed to be implemented on a permanent basis to prevent future reoccurrence, and the appropriate approach to use to disclose the violation to Customs.
  - If the error or omission involves an unliquidated entry, and clerical error or mistake of fact, Urban Outfitters, Inc. will adjust the entry to correct the error.
  - If the error involves negligence, gross negligence or fraud and Urban Outfitters, Inc. is not aware of the commencement of any investigation by Customs, Urban Outfitters, Inc.'s Senior Manager - Import Customs Compliance in consultation with their supervisor, legal counsel and any other appropriate company officials should make a prior disclosure pursuant to 19 C.F.R. § 162.74. In preparing a voluntary prior disclosure, the Senior Manager - Import Customs Compliance may confirm that the disclosure:
    - Identifies the class or kind of merchandise involved in the violation.
    - Identifies the entry number(s) of the importation(s) in question, or the Customs port(s) of entry and the approximate date(s) of entry.
    - Specifies the material false statement(s) or material omission(s) made.
    - Describes the true and accurate information or data which should have been provided in the entry documents.
    - Tenders any loss of duties.
    - Is sent to the port of entry where the violation occurred.

Any information unknown at the time of the disclosure should be made within 30 days from the date of the initial disclosure and the disclosure should include a statement to that effect.

### **Prior Disclosure Checklist**

The following questions must be answered when completing the prior disclosure submission.

- Is the prior disclosure addressed to the port Fines, Penalties and Forfeiture ("FP&F") Officers for all ports where the violation occurred?
- Does the prior disclosure identify all the Customs ports where the disclosed violations occurred? (Note: The submission must list all of the concerned ports of entry.)
- Does the prior disclosure identify the class or kind of merchandise involved in the violation?
- Does the prior disclosure identify the merchandise by class and kind, the entry number, and the port of entry arrival and approximate date? (Note: The disclosing party defines the scope of the prior disclosure.)
- Does the prior disclosure specify the material false statements, omissions or acts involved in the disclosed violation? The person making the prior disclosure should explain the how and why behind the occurrences.
- Does the prior disclosure contain the true and accurate information or data that should have been provided in the entry? (Note: Remember to specify that the company will provide any unknown information or data within 30 days of the initial disclosure if it is not available at the time of the disclosure. Urban Outfitters, Inc. can also ask the concerned Fines, Penalties and Forfeitures Officer for extensions of this 30-day period.)
- Does the prior disclosure include any loss of duties, taxes and fees due the Government on liquidated entries covered by the disclosure? And, if so, has a check been prepared in the amount of monies owed and made payable to the U.S. Customs Service to submit along with the prior disclosure? The regulations provide the option of paying at time of disclosure or within 30 days of Customs notification.
- If the prior disclosure is to be mailed, have arrangements been made to send it registered or return receipt requested? (Note: Failure to mail the disclosure in this manner will mean that the time of the disclosure will be considered the date of receipt by Customs.)

## **Post Entry Broker Auditing Procedures**

1. Upon receipt of brokers' invoices, all entries are reviewed by a member of the Import Compliance team through the following "first tier auditing" process:
  - a) 7501 value is verified against invoice value.
  - b) 7501 description is verified against invoice description.
  - c) 7501 tariff number is verified against tariff number on brokers' rated invoices.
  - d) Assist value, if any, on 7501 is verified against assist value on brokers' rated invoice.
  - e) AGR value (American Goods Returned) on 7501 is verified against AGR value on brokers' rated invoices.
  - f) Proper declaration of Assist/AGR value is verified. (9801 vs. value added to product).
  - g) GSP claimed on 7501 is verified against GSP eligibility shown on brokers' rated invoice.
2. All entry errors are brought to the attention of the Import Manager - Customs Compliance. Any entry with an error will go through a second-tier audit (second tier audit process is detailed in paragraph #7).
3. All noted entry errors are documented on Broker Audit spreadsheet.
4. Broker is notified of any errors and entry correction is requested.
5. Proper entry correction is monitored and documented on the Broker Audit spreadsheet.
6. Entries with no errors are noted as such on the Broker Audit Checklist and the Broker Audit spreadsheet.
7. 10% of all entries are further audited on a monthly basis by the Import Manager – Customs Compliance as follows:
  - a) Repeat of all verifications listed in 1a) through 1g) above.
  - b) Invoice value is verified against Purchase Order value
  - c) 7501 quantity is verified against invoice quantity.
  - d) 7501 tariff number is verified against tariff number found on Classification data base and/or Bamboo Rose PO Management System.
  - e) Assist/AGR value is verified against Purchase Order notation.
  - f) GSP eligibility claimed on 7501 is verified against eligibility noted on Classification data base.
  - g) Country of Origin on 7501 is verified against Country of origin noted on commercial documents.
  - h) M.I.D. (Manufacturer's Identification Number) on 7501 is verified against Manufacturer's information shown on commercial invoice.
8. Repeat of steps 2, 3,4, 5, and 6 above.
9. UO's legal counsel will audit these procedures.

10. All post entry broker audits are documented on the Broker Audit checklist and spreadsheet filed on the Urban Outfitters' shared drive. The Audit Checklist files are located at s:/urban outfitters/broker bills audit/master audit spreadsheet.

### **Post Entry Adjustments (PEA) Guidelines**

The following guidelines identify when to submit a Post-Entry Adjustment (PEA) for entries where Urban Outfitters, Inc. is the Importer of Record (IOR). This applies to non-FTZ entries.

Urban Outfitters, Inc. will submit a PEA when:

- Value discrepancy of \$1,000.00 or more for SPI or HTS # with zero duty
- Duty owed \$50.00 or more; \$100.00 refund or more
- HTS discrepancy at the 8<sup>th</sup> digit or less (example: entered 6204.33.40, s/b 6204.33.20)
- MID discrepancy with inaccurate C/O or manufacturer name
- Any country of origin discrepancy
- Any special trade claimed that does not qualify
- Overages only resulting in duty difference of \$50.00 or more

Post entry Broker Auditing Procedures inserted 4/26/2007.

Post entry Adjustments (PEA) Guidelines inserted 03/23/2018.

## **CHAPTER XIII: PERIODIC REVIEW AND TRAINING**

---

### **PERIODIC REVIEW AND TRAINING**

#### **Policy**

It is important for all employees to be aware of their responsibilities under the Customs laws and to keep current as to any changes in the legal requirements applicable to imports. The Global Trade and Compliance Department will develop training programs for Urban Outfitters, Inc.'s employees.

#### **Division Supervisors Training**

Supervisors for the following Departments will receive yearly refresher training on Customs Compliance procedures:

- Upper Level Management
- Accounting
- Purchasing
- Shipping/Receiving

The training will be coordinated by the Personnel Department and provided by the Global Trade and Compliance Department.

#### **New Employee Training**

New employees with import responsibility will receive a minimum of two hours of Customs Compliance Training. The training will be coordinated and provided by someone within the Global Trade and Compliance Department.

The training will cover at a minimum:

- Urban Outfitters, Inc.'s organizational structure for Customs activities and its policy regarding Customs compliance;
- The role of the Global Trade and Compliance Department; and
- Information on how to obtain assistance if a Customs issue or question arises.

In addition, all new employees with import responsibility will have access to a copy of this manual, included with the new employee orientation package, and will be reviewed at the Customs training session.

Once new employees have been assigned specific departmental duties, they will receive additional training, as appropriate, if they work in one of the following departments:

- Import
- Accounting
- Customer Service
- Purchasing
- Shipping/Receiving

Department Supervisors will be responsible for notifying the Global Trade and Compliance Department of the employee's name and duties and request the training. The training will be provided by the Global Trade and Compliance Department and will focus on the employee's duties as they relate to the Customs process.

### **Current Employee Training**

On a regular basis, employees with Customs responsibilities in the following departments will have a refresher Global Trade and Compliance training course:

- Accounting
- Purchasing
- Shipping/Receiving

The training will be coordinated by the Personnel Department and provided by the Global Trade and Compliance Department and will at a minimum cover:

- Any changes in rules, regulations and procedures of the Customs Service;
- Any changes in the company's Customs compliance procedures; and
- Any problems or concerns identified since the previous training class.

Further, the Senior Manager - Import Customs Compliance will promptly advise employees of any changes in procedures for which dissemination should not be delayed until the next refresher training course.

### **Global Trade and Compliance Department Employee Training**

The Senior Manager - Import Customs Compliance will devise individual development plans for current and new employees in the Global Trade and Compliance Department. They will receive detailed training in the areas relating to their Customs responsibilities such as valuation, classification, etc.



**Documentation**

All training sessions will be documented, including a list of attendees, training date(s), and topics covered. In addition, the Global Trade and Compliance Department will maintain training materials on file for reference.

**Periodic Review to Ensure Policy/Objectives Are Being Met**

On an annual basis, the Senior Manager - Import Customs Compliance's will review the training files to ensure required training of supervisors and current employees is being conducted.

## **CHAPTER XIV: ROLE OF U.S. CUSTOMS**

---

### **ROLE OF U.S. CUSTOMS**

#### **Policy**

Urban Outfitters, Inc.'s policy is to achieve compliance with government rules and regulations. Any employee who uncovers a potential mistake of fact or clerical error, should immediately contact the Global Trade and Compliance Department, who in turn will handle the prior disclosure with U.S. Customs.

#### **The Audit Process**

The Office of Regulatory Audit of the Bureau of Customs and Border Protection initiates and implements audits of private entities engaged in the movement of goods across U.S. borders. Due to changes under the Modernization Act, Customs has increased its audit initiatives and enhanced its audit resources. The goal is to conduct audits of major importers once every five years.

When selecting a company for an audit, U.S. Customs will review the size and volume of imports, as well as the company's performance in past audits. Other criteria will include data developed within U.S. Customs on specific industries with input from CBP officers (*i.e.*, import specialists, inspectors).

U.S. Custom's objectives, under shared responsibility, is to maximize future compliance. The stated purpose of an audit is to evaluate an importer's system supporting its customs related operations, and to confirm that all statements made to U.S. Customs are accurate. In addition, their role is to verify that the proper payment of taxes, duties and fees have been paid to the government.

#### **Phases of An Audit**

Phase one of the audit process is the Focused Assessment. This is the process of evaluating an importer's control environment; testing import and financial transactions to assess the compliance level in each trade area applicable to the importer, analyze the adequacy of internal controls, and determine if the importer's compliance rates are acceptable. If the compliance assessment reflects that compliance is at acceptable levels in all areas tested, the audit process ends. An exit conference is held to discuss the preliminary results and an assessment report is issued. This provides an opportunity for the importer to challenge any questionable findings before they are finalized in the written audit report.

If the compliance results of Phase one are not acceptable, the process then moves to Phase two, the Detailed Audit. At this phase, U.S. Customs is working to confirm the cause and quantify the effect of the non-compliances identified during the compliance assessment.

The Final stage is the Follow Up: after the importer has implemented corrective procedures, the audit team will revisit the importer to verify that procedures were corrected, and that compliance improved. By working with importers to improve their procedures and systems, the level of compliance should increase and this in turn improves greater accuracy in future revenue collection. Highly compliant companies receive the benefit of fewer cargo exams, less frequent audits, and fewer review of entries by import specialists.

The Customs Service auditor is required to complete a formal written report of the audit within 90 days following the exit conference, unless the importer is notified otherwise. Under the Freedom of Information Act, the company is entitled to receive a copy of the report within 30 days of its completion, subject to any applicable exemption from disclosure (*i.e.*, initiation of a formal investigation).

### **Planning and Preparation of an Audit**

Before contacting the importer, U.S. Customs will contact each member of the Focused Assessment Team ("FA Team"). The FA Team will prepare an importer profile with background information from Customs data, industry trends and other pertinent information. They will also notify the Custom's Account Manager if one has been assigned. The team will determine which programs, commodities and trade issues to review during the assessment.

The FA Team generally consists of the following members:

- Auditor-in-charge (FA Team leader)
- Auditors, including computer audit specialists (CAS)
- International Trade Specialist (ITS)
- Import Specialist (IS)
- Account Manager (if one has been assigned)
- Other specialists as needed

### **Pre-Entrance Conference**

The Auditor-in-charge will contact company officials to arrange a meeting to discuss the compliance assessment. This is an opportunity to discuss the scope of the audit, the audit objectives and procedures, and the records required. At the pre-entrance conference, U.S. Customs will provide the company with the following:

- Copy of the questionnaire;
- Recordkeeping compliance handbook;
- Custom's position statement on reasonable care;
- Regulatory Audit's Role in Focused Assessment;

- Audit Program;
- Authority to examine records; and
- List of common problems previously encountered during audits.

Customs officials will review the questionnaire, explain requirements, discuss time frames for review and request that there be a designated company official to act as a liaison to the Customs auditors. In addition, they will request that work space be provided for the agents when they are on the premises.

### **Self-Assessment & Voluntary Disclosure**

After the pre-conference has been held, and prior to the beginning of the Focused Assessment, the importer has the opportunity to conduct an Importer Self-Assessment. U.S. Customs strongly encourages that the importer uses the questionnaire provided, along with the other information to evaluate their internal controls, test their financial records, and verify that the classification, valuation and rate of duty declared for their entries are accurate. The importer has the ability to identify potential problem areas, and if appropriate, make a voluntary disclosure before the audit, avoiding stiffer penalties.

A prior disclosure allows an importer to disclose the circumstances of a violation of the law and tender any duties due to U.S. Customs based on that violation. Provided that the importer is not under a formal investigation, the ability to correct a previous material omission enhances the company's goodwill with U.S. Customs.

### **Benefits of Prior Disclosure**

- May decrease the likelihood of criminal prosecution, but not necessarily,
- Limits maximum liability for civil penalties,
- Spares expense of lengthy Customs investigations.

### **Drawbacks of Prior Disclosure**

- Alerts Customs to violations that may not have been discovered;
- Potential for possible audit;
- Disclosure equals admission of violation of law; and
- Use of internal resources before and after discovery of violation.

## Penalties

Any violation of Section 592 of the Tariff Act will result in penalties. Causes of a violation include the entry, introduction or attempted introduction of goods into the United States by means of any of the following:

- Material False Document, written or oral statement;
- Material Omission;
- When a person aids or abets any other person attempting to enter goods into the United States illegally.

A *Material Omission* is a document, statement, act, or omission is material if it has the potential to:

- Alter the classification, appraisement, or admissibility of merchandise;
- Or, the liability of duty;
- Or, conceal an unfair Trade Practice under the Antidumping, Countervailing Duty or similar statute.

**Note:** No loss of duties is required for a violation to exist *or* for penalties to be assessed.

## Degrees of Culpability

There are several degrees of culpability which determine the nature of the penalty:

- ***Negligence:***  
Failure to exercise reasonable care and competence
- ***Gross Negligence:***  
Acts done with actual knowledge or wanton disregard for the facts and with indifference or disregard for legal obligations
- ***Fraud:***  
Acts deliberately done with intent to defraud the revenue or otherwise violate the law

## **CHAPTER XV: FOREIGN CORRUPT PRACTICES ACT AND GLOBAL ANTI- CORRUPTION COMPLIANCE**

---

### **BACKGROUND**

The Code of Conduct and Ethics of Urban Outfitters, Inc. (as depicted on the URBN website) contains a requirement that Urban Associates comply with anti-bribery and other laws and regulations prohibiting payments to governmental officials. The following memo is intended to provide additional information to management concerning these requirements. Measures are being taken as described below to enhance the Company's internal controls intended to prevent and detect violations of the Foreign Corrupt Practices Act ("FCPA") and other anti-corruption laws.

The United States Department of Justice ("DOJ") and the Securities and Exchange Commission ("SEC") have substantially stepped up their enforcement of violations of the FCPA. There have been numerous multi-million-dollar settlements, including a recent \$77 million settlement with Johnson & Johnson and a \$218.8 million settlement with JCG Corp. (a Japanese construction company). The Government has announced that it has well over 100 pending FCPA investigations, and there are numerous pending criminal prosecutions.

Foreign countries are also increasing their focus on anti-corruption enforcement. Most significantly, the United Kingdom adopted a potentially far-reaching statute (the U.K. Bribery Act) that took effect on July 1, 2011. Russia also recently enacted a strict statute, although enforcement by Russian authorities may be less vigorous than U.S. or U.K. enforcement.

Companies that sell products or services to instrumentalities of foreign governments face the greatest compliance risk under the FCPA or similar anti-corruption laws. Nonetheless, the Company does have interactions with foreign government agencies or instrumentalities and its suppliers need to ship products through government customs offices. Due to these direct and indirect interactions with government officials, the high priority given to FCPA enforcement, and the recently adopted SEC whistleblower provisions, it is prudent to enhance internal controls intended to prevent and detect violations of the FCPA and other anti-corruption laws. The following sections: (1) provide a brief summary of the FCPA, the U.K. Bribery Act and anti-corruption principles; and (2) identify certain enhanced internal controls that have been implemented by the Company.

## Summary of FCPA and U.K. Bribery Act

### Anti-Bribery Prohibition of FCPA

The FCPA makes it a felony to offer or pay a bribe to a foreign official for the purpose of obtaining or keeping business of any sort. An American company (or a foreign company with sufficient ties to the United States) or any of its officers, directors, employees or agents, has violated the FCPA if it:

- (1) pays, offers, authorizes, or promises to pay money or anything of value;
- (2) with a corrupt motive;
- (3) to a “foreign official” or to any other person, knowing that part of the payment or promise will be passed on to a “foreign official;”
- (4) for the purpose of (a) influencing any act or decision of the foreign official; (b) inducing the foreign official to do or omit to do any act in violation of the official’s lawful duty; (c) securing any improper advantage; or (d) inducing the foreign official to use his influence with a foreign government or foreign government instrumentality to affect any act or decision; and
- (5) in order to assist in obtaining or retaining business, or in directing business to any person.

*See* 15 U.S.C. §§ 78dd-1(a) & dd-2(a).

Corporations and other business entities convicted of violating the FCPA anti-bribery provisions may be fined up to \$2 million for each violation, which can be increased to \$2.5 million for certain willful violations. 15 U.S.C. §§ 78dd-1(a) *et seq.* Under the Alternative Fines Act, these criminal fines can be increased to twice the gain by reason of the offense or twice the loss to any other person. *See* 18 U.S.C. § 3571(d).

Individuals (including employees who acted in the course of their employment) face up to five years imprisonment for each violation, which can be increased to ten years for certain willful violations, plus monetary fines. *See* 15 U.S.C. §§ 78dd-1(a) *et seq.*

### Who is a “Foreign Official?”

The FCPA defines “foreign official” to mean “any officer or employee of a foreign government or any department, agency, or instrumentality thereof . . . or any person acting in an official capacity for or on behalf of any such government or department, agency, or instrumentality.” 15 U.S.C. § 78dd-1(f)(1). This definition is broad enough to include an employee of a government-owned enterprise, although the ultimate conclusion as to whether any given individual is a “foreign official” depends on the facts and circumstances presented.

### Payment to Third-Party Intermediary

As noted, the FCPA prohibits payments to “any person,” knowing that some part of the payment will be passed along to a foreign official. The statute, however, defines “knowing” broadly to include being “substantially certain,” having a “firm belief” or being “aware of a high probability” that a portion of the money will be passed along to a foreign official. Thus, a company could be found liable for paying an excessive amount of money to an agent or supplier

and turning a blind eye to the possibility that some of the money would be passed along to a foreign official.

### Purpose of the Payment

Among other things, as quoted above, the FCPA makes it illegal to pay a foreign official to “secure any improper advantage” for purposes of obtaining or retaining business. The Government takes the position, and at least one appellate court agrees, that under this provision, that it can be an FCPA violation to pay money to a foreign official who has no involvement in actually purchasing the defendant’s goods.

### Limited Exception for “Facilitating Payments”

In addition to the defenses, the statute expressly allows payments to foreign officials in very limited circumstances for payments to “expedite or secure the performance of a routine governmental action.” 15 U.S.C. §§ 78dd-1(b). (These are often referred to as “facilitating” or “grease” payments.) The statute defines “routine governmental action” to mean “an action which is ordinarily and commonly performed by a foreign official,” such as the issuance of permits or licenses, processing official documents, providing police protection, scheduling inspections, loading or unloading cargo, providing certain utility services “or action of a similar nature.” 15 U.S.C. §§ 78dd-1(f)(3). American companies must take caution when relying on the “grease” payment exception, however, as the DOJ interprets this exception very narrowly. In addition, the U.K. Bribery Act contains no exception for facilitating payments.

### Civil Enforcement of the FCPA Books and Records Provision

In addition to the anti-bribery provisions summarized above, the FCPA also imposes an obligation on publicly traded companies to make and keep accurate books and records and to maintain and devise a system of internal accounting controls. *See* 15 U.S.C. § 78m(b)(2)(B). These provisions require that payments to foreign officials be fully and accurately reflected and described in the Company’s books and records (as opposed to describing the payments with innocuous terms, such as “commission payment” or “miscellaneous expense”). Both the DOJ and the SEC rely heavily on the FCPA books and records provisions when bringing civil enforcement actions, as a low burden of proof is required in a civil case. The SEC can seek disgorgement of profits or can seek steep civil monetary penalties. The DOJ often follows SEC enforcement actions with criminal charges.

The Dodd-Frank financial reform law promises to increase the number of cases investigated by the SEC.

### U.K. Bribery Act

Urban Outfitters’ international operations are subject to the U.K. Bribery Act, effective July 1, 2011. This law is similar to the FCPA, but broader in some important respects.

First, it imposes criminal liability on a corporation for failing to prevent bribes from occurring, unless the corporation can demonstrate that it had “adequate procedures” in place and that the



bribery occurred despite the adequate procedures. The Serious Fraud Office of the U.K. Ministry of Justice issued guidance on the term “adequate procedures” on March 31, 2011.

Second, the U.K. Bribery Act extends to bribery of employees of private businesses, not just of foreign officials.

Third, the law contains no exception for “facilitating payments,” as the FCPA does.

### Management Action

Management is requested to take the following action in support of the Company’s policies addressing global anti-corruption compliance:

- (1) Assist the Company in its effort to identify governmental officials with whom the Company interacts, for purposes of assessing potential compliance risks. This identification effort will extend to employees of private businesses for purposes of the U.K. Bribery Act;
- (2) Cooperate with the Company’s efforts to provide training to those employees who are in decision-making roles or in potentially high-risk areas; and
- (3) Ensure that standard anti-corruption compliance language with right to audit and termination clauses (an example being set forth in Schedule I attached) are incorporated in the Company’s agreements with vendors, agents and suppliers outside the U.S., as well as third party intermediaries (e.g. buying agents, freight forwarders and general contractors).

## **Schedule I**

### **Template Provisions to Include in Agreements With Foreign Agents or Suppliers**

#### **1. Definitions.**

**1.1** “Government” is any national, federal, state, provincial, municipal, local, or any other government, including any department, agency, instrumentality, company, corporation, or other entity owned or controlled by any Government;

**1.2 A** “Government Official” is any

**1.2.1** official, employee, or representative of any enterprise owned, funded or operated by a Government, including any official, employee or representative of a hospital or other health facility owned, funded or operated by a Government;

**1.2.2** political party, or any official, employee, or representative of any political party;

**1.2.3** candidate for political office;

**1.2.4** official, employee, or representative of any international organization.

**1.3 A** “Payment” is any monetary payment, loan, donation, gift, in-kind service, or any other thing of value.

**2. Compliance with Anti-Bribery Law.** Agent/Supplier shall not take any action directly or indirectly, that would constitute a violation of the United States Foreign Corrupt Practices Act (the “FCPA”), the U.K. Bribery Act, or any other applicable anti-bribery laws or regulations.

**3. No Government Official Employees.** Agent/Supplier represents and warrants that unless disclosed to URBN in a separate written statement, neither Agent/Supplier nor any of its officers, directors, employees, agents, shareholders or owners (“Affiliated Persons”) are Government Officials nor have they been in the last five years. If at any time during the term of this Agreement, Agent/Supplier and/or any Affiliated Person is named, appointed, or otherwise becomes a Government Official, Agent/Supplier will notify URBN in writing within seven (7) business days.

**4. No Anti-Bribery Offenses.** Agent/Supplier represents and warrants that it has not been convicted of, pleaded guilty to, or charged with any offence involving fraud, corruption or bribery in any jurisdiction or country.

**5. URBN’s Right to Disclose.** Agent/Supplier agrees that full disclosure of information relating to a possible violation by Agent/Supplier of applicable law, including a violation of the FCPA, the U.K. Bribery Act, or any other applicable anti-bribery law, may be made by URBN at any time and for any reason to the U.S. Government, its agencies, and/or any other Government or non-Government party.

**6. Records.** Agent/Supplier shall keep accurate accounts, books, and records showing all costs and charges incurred in connection with the services provided under this Agreement for at least seven (7) years after the end of the term of this Agreement. The Agent/Supplier shall provide URBN and its representatives with access to such accounts, books and records for the purpose of auditing and/or copying upon advance notice by URBN of not less than five (5) business days.

**7. Termination.** At its sole discretion, upon notification to Agent/Supplier, URBN may terminate this Agreement effective immediately if:

**7.1** URBN makes a good faith determination that Agent/Supplier and/or any Affiliated Person has breached the representations and warranties in this Agreement and/or otherwise has committed a violation of the FCPA and/or any other applicable anti-bribery laws; or

**7.2** Agent/Supplier and/or any Affiliated Person has been named, appointed, or otherwise becomes a Government Official.

**8. Indemnification.** In the event that Agent/Supplier breaches its obligations under this Agreement, the Agent/Supplier shall indemnify and hold harmless URBN against any and all claims, losses, damages, penalties or fines related to such breach of the Agreement.

## **CHAPTER XVI: CONSUMER PRODUCTS SAFETY COMMISSION**

---

### **Background**

The CPSC is an independent federal regulatory agency charged with reducing unreasonable risks of injury associated with consumer products. Under the Consumer Product Safety Act (“CPSA”), the CPSC has broad power to take action against any product which presents a “substantial product hazard” – that is, “a product defect which (because of the pattern of defect, the number of defective products distributed in commerce, the severity of the risk, or otherwise) creates a substantial risk of injury to the public.”

In August of 2008, the Consumer Product Safety Improvement Act of 2008 (“CPSIA”) was enacted. The CPSIA amended the Consumer Product Safety Act to expand the role of the Consumer Product Safety Commission (“CPSC”) as well as expand the coverage of the consumer product safety laws applied to products imported and distributed in the commerce of the United States. In addition to strengthening the enforcement power of the CPSC, the CPSIA obligates companies to test and certify compliance with the applicable requirements for various imported products at the time of entry. Companies are also obligated to immediately notify the CPSC of any product that fails to comply with any rule, regulation, standard or ban under any federal act enforced by the CPSC.

The following summary is intended to assist the Company in identifying the standards and requirements that affect its product lines. It is strongly recommended that each product line be addressed on a case by case basis given the complexity of the various regulations.

### **Definition of “Children’s Products”**

A children’s product is defined as a consumer product designed or intended primarily for children 12 years of age or younger. The CPSC will consider the following factors to determine whether a consumer product falls under this definition:

1. A statement by a manufacturer about the intended use of such product, including a label on such product if the statement is reasonable.
2. Whether the product is represented in its packaging, display, promotion, or advertising as appropriate for use by children 12 years of age or younger.
3. Whether the product is commonly recognized by consumers as being intended for use by child 12 years of age or younger.
4. The Age Determination Guidelines issued by the CPSC staff in September 2002, and any successor to such guidelines.

Products which fall under the definition of “children’s products” will be subject to significant additional compliance standards and will require certifications supported by accredited 3<sup>rd</sup> party testing. Therefore, products which may be marketed and sold to both adults and children should be assessed on a case by case basis to determine whether the children’s product requirements will apply.

## Summary of Standards Applicable to Each Product Line

1. Adult Clothing
  - a. General Wearing Apparel Flammability (16 CFR 1610)
  - b. Flammability of Vinyl Plastic Film (16 CFR 1611) (applies only to garments which contain vinyl plastic film).
  
2. Children's Clothing (Non-Sleepwear)
  - a. General Wearing Apparel Flammability (16 CFR 1610)
  - b. Flammability of Vinyl Plastic Film (16 CFR 1611)
  - c. Total Lead in Paint and Surface Coatings (16 CFR 1303)
  - d. Total Lead Content (PL 110-314, Sec.101)
  - e. Phthalates (PL 110-314, Sec.108) - most apparel is exempt (see Sec. VII).
  - f. Small Parts (16 CFR 1501, 1500.50-53) – Children's clothing and accessories are exempt; however, see Sec. XIII.
  - g. Drawstrings – 16 CFR 1120.3(b)(1) – applies to hood/neck and certain waist bottom drawstrings.
  
3. Children's Sleepwear
  - a. Children's Sleepwear Flammability (16 CFR 1615/1616) – applies to children's sleepwear sizes 0 to 14 (including loungewear and robes).
  - b. Total Lead in Paint and Surface Coatings (16 CFR 1303)
  - c. Total Lead Content (PL 110-314, Sec.101)
  - d. Phthalates (PL 110-314, Sec.108)
  - e. Small Parts (16 CFR 1501, 1500.50-53) – Children's clothing and accessories are exempt; however, see Sec. XIII.
  
4. Carpets and Rugs (for adults)
  - a. Standard for the Surface Flammability of Carpets and Rugs (16 C.F.R. 1630)
  - b. Standard for the Surface Flammability of Small Carpets and Rugs (16 C.F.R. 1631)
  
5. Furniture (for adults)
  - a. Total Lead in Paint and Surface Coatings (16 CFR 1303)
  
6. Children's Accessories (non-jewelry) (such as bags, wallets, keychains)
  - a. Total Lead in Paint and Surface Coatings (16 CFR 1303)
  - b. Total Lead Content (PL 110-314, Sec.101)
  - c. Phthalates (PL 110-314, Sec.108) – applies if product can be considered a toy for age 12 and younger.

- d. Small Parts (16 CFR 1501, 1500.50-53)
7. Toys
- a. Total Lead in Paint and Surface Coatings (16 CFR 1303)
  - b. Total Lead Content (PL 110-314, Sec.101)
  - c. Phthalates (PL 110-314, Sec.108)
  - d. Small Parts (16 CFR 1501, 1500.50-53)
  - e. ASTM F963 – Mandatory Toy Standard

### **Standard for the Flammability of Clothing Textiles**

All wearing apparel (adult and children) is subject to the general wearing apparel flammability standard. Pursuant to this standard, textiles fall under one of three classes of flammability based on the time of the flame spread.

- Class 1 - Normal flammability - acceptable for use in clothing;
- Class 2 - Intermediate flammability - applicable only to raised fiber surfaces; may be used in clothing;
- Class 3 - Dangerously flammable - rapid and intense burning. These textiles cannot be used in clothing. The use of such textiles can result in civil and criminal penalties.

**a. Exemptions from the Standard** - The following products are specifically exempt from the standard per 16 CFR 1610.1(c). These products are not required to comply, and certification and testing are not required:

- **Hats** which do not constitute or form part of a covering for the neck, face, or shoulders;
- **Gloves** which are not more than 14 inches in length and are not affixed to or do not form an integral part of another garment;
- **Footwear** which does not consist of hosiery in whole or in part and is not affixed to or does not form an integral part of another garment; and
- **Interlining fabrics** - fabrics used between the linings and outer fabrics of garment are not required to meet this standard.

**b. Exemptions from Testing** – The following types of fabrics are exempt from testing per 16 CFR 1610.1(d). A product made entirely from one or more of these fabrics is exempt from testing. However, a compliance certification must still be issued.

- Plain surface fabrics, regardless of fiber content, weighing 2.6 ounces per square yard or more;
- All fabrics (both plain surface and raised-fiber surface) regardless of weight, made entirely from any of the following fibers or entirely from a combination of these fibers: acrylic, modacrylic, nylon, olefin, polyester, and wool.

c. **How to Comply with the General Flammability Standard**

1. Use fabrics that are exempt from testing.
2. For non-exempt fabrics, adopt a “reasonable and representative” testing program. It is permissible to test the fabric (before cutting and sewing) or the finished garments.
3. Identify higher risk fabrics as noted below. These fabrics have been found to fail the standards in the regulations and such fabrics or similar fabrics will require more frequent testing:
  - Raised fiber cotton, sheer rayon skirts and scarves
  - Sheer silk scarves
  - Chenille sweaters of rayon or rayon/nylon blends
  - “Long hair” sweaters
  - “Sherpa” fleece garments of cotton or cotton/polyester blends
  - Terrycloth robes of cotton
4. Purchase fabrics or garments from a supplier who issues a guarantee that they comply with these flammability requirements.

**Children’s Sleepwear Flammability (16 CFR 1615/1616)**

- a. Applicability - This standard applies to children’s sleepwear up to size 14.
  - The fabric/garment must pass the required flammability test **OR** be “tight fitting” as defined by the regulations. If a sleepwear garment satisfies the tight-fitting requirements, it must still comply with the general flammability standard.
  - Sizes 0 to 9 months are exempt if:
    - a. It is a one-piece garment and is not longer than 25¾ inches, or it is a two-piece garment and has no piece longer than 15 ¾ inches; and
    - b. It has a label stating in months the age of the children for whom it is intended.
    - c. Even though exempt, these garments must still meet the general flammability requirements.
- b. What is Children’s Sleepwear?
  - Any article of clothing, such as a nightgown, pajama, robe or loungewear, that is sized above 9 months and up to size 14 and that is **intended to be worn primarily for sleeping or activities related to sleeping.**
  - To determine whether a garment is sleepwear, the CPSC considers:
    - The nature of the garment and its suitability for sleeping or activities related to sleeping;
    - How the garment is promoted and distributed; and
    - The likelihood that the garment will be used by children primarily for sleeping or activities related to sleeping in a substantial number of cases.
    - Underwear and diapers are not children’s sleepwear.

## Lead Standards

### a. **The General Lead Ban**

- This ban applies to lead in the substrate material (i.e., under the surface).
- Total lead content by weight cannot exceed 100 parts per million (“ppm”) for any part of the product.
- It applies to accessible non-textile components (e.g., metal and plastic components on clothing, accessories, toys, etc.). Textiles and certain other materials, such as wood and paper, are exempt.
- Inaccessible Component Parts – This standard does not apply to any component part of a children's product that is not accessible to a child through normal and reasonably foreseeable use and abuse, as determined by the CPSC. A component part is not accessible if it is not physically exposed due to a sealed covering or casing and does not become physically exposed through reasonably foreseeable use and abuse of the product. Reasonably foreseeable use and abuse includes swallowing, mouthing, breaking, or other children's activities, and the aging of the product. Paint, coatings, or electroplating are not considered barriers that would render lead inaccessible to a child.

### b. **Lead Paint Ban**

- The limit is 90 ppm
- This ban covers the following products:
  - Lead Paint and Similar Surface coatings for consumer use;
  - Toys and other articles intended for use by children that bear lead containing paint; and
  - Furniture articles for consumer use that bear lead containing paint.

**Definition of “Furniture Article”** – Defined as those moveable articles:

1. Used to support people or things;
2. Other functional or decorative furniture articles, including, but not limited to, products such as beds, bookcases, chairs, chests, tables, dressers, desks, pianos, console televisions, and sofas.
3. Applies to furniture for use in households, schools, in recreation, or otherwise.
4. The term “furniture article” does not include appliances, fixtures such as bathroom fixtures, built-in cabinets, chandeliers, windows, and doors; or household items such as window shades, venetian blinds, or wall hangings and draperies.
5. **Exemptions:**
  - a. Mirrors which are part of furniture articles to the extent that they bear lead-containing backing paint.
  - b. Metal furniture articles (but not metal children’s furniture) bearing factory-applied (lead) coatings.

## Phthalate Standard

Phthalates are chemical compounds added to plastics to increase their flexibility. Any children's toy or child care article that contains concentrations of more than 0.1 percent of certain phthalates is banned.

- **Children's toy** means a consumer product designed or intended by the manufacturer for child 12 years of age or younger for use by the child when the child plays.
- **Child care article** means a consumer product designed or intended by the manufacturer to facilitate sleep or the feeding of children age 3 and younger, or to help such children with sucking or teething.
- **Toy That can be Placed in a Child's Mouth** - A toy can be placed in a child's mouth if any part of the toy can actually be brought to the mouth and kept in the mouth by a child so that it can be sucked and chewed. If the children's product can only be licked, it is not regarded as able to be placed in the mouth. If a toy or part of a toy in one dimension is smaller than 5 centimeters, it can be placed in the mouth.
- **Rule:** The phthalate ban is essentially a two-part prohibition and involves six different types of phthalates. The ban became effective on February 10, 2009. Merchandise which does not meet the standard is considered banned and cannot be sold regardless of when it was manufactured.
  - The first part of the ban states that children's toys or child care articles which contain more than 0.1% of the following 3 types of phthalates are prohibited. For these three types of phthalates, there is no requirement that it can be placed in the child's mouth. If it is in the product, then it is prohibited:
    - benzyl butyl phthalate (BBP)
    - dibutyl phthalate (DBP) or
    - di-(2-ethylhexyl) phthalate (DEHP)
  - The second part of the phthalate ban prohibits, on an interim basis, "children's toys that can be placed in a child's mouth" or child care articles containing more than 0.1% of the following three types of phthalates:
    - diisodecyl phthalate (DIDP)
    - diisononyl phthalate (DINP), or
    - di-*n*-octyl phthalate (DnOP)
  - For example, if a toy or child care article **only** contains DIDP, DINP or DnOP **and** the item cannot be placed in the child's mouth, then it would not be banned per the above. However, if any of the first group of phthalates are present in concentrations above 0.1%, then the product is banned regardless of whether it can be placed in the mouth.



- With regard to wearing apparel, the phthalate standard would potentially apply to children’s sleepwear and bibs. However, as a general matter, wearing apparel (including rainwear) is not subject to the ban on phthalates.
- The ban on phthalates applies only to plasticized component parts (or other product parts which could conceivably contain phthalates) of children's toys and child care articles and only those parts of the product should be third party tested for phthalates.
- The ban does not apply to component parts that are inaccessible to a child. See the definition of “inaccessible” in Section VI, above.

### **Small Parts Standard**

The small parts standard bans toys and children’s articles for under 3 years of age which contain small parts. In addition, for certain products intended for ages 3 to 6, there is a choking hazard warning requirement if a small part is present.

Exemption from Rule: Children’s clothing and accessories, such as shoe lace holders and buttons (1501.3(d)). Although exempt from rule, children’s clothing should be assessed for small parts compliance in order to avoid a potential product recall.

#### Standard - 16 CFR 1501:

If a part detaches after being subjected to the required use and abuse tests, and the part fits into the small parts cylinder, it is considered a banned article for children under the age of 3.

If any toy or game intended for ages 3 to less than 6 includes a small part, it must be labeled with a choking hazard warning. The exact size and wording is specified in the regulation (special warnings apply to balloons, small balls, marbles and apply up to age 8).

16 CFR 1500.19(b)(1) – Any article that is a toy or game intended for use by children who are at least three years old, but less than six years of age shall bear or contain the following cautionary statement if the toy of game includes a small part:



## Drawstrings

Per 16 CFR 1120.3(b)(1), the CPSC considers the presence of certain drawstrings to be a substantial product hazard. In addition, Wisconsin and New York have enacted separate drawstring laws. Below is a chart setting forth the requirements for each.

Testing and certifications are not required for the CPSC drawstring standard. However, the failure to comply with the Federal standard will result in a consumer level product recall as well as the likely assessment of penalties if the violation is discovered by the CPSC.

<b><u>CPSC (Federal)</u></b>	<b><u>Wisconsin</u></b>	<b><u>New York</u></b>
<b><u>Hood and Neck Area</u></b>		
Only Upper Outerwear	All Children’s Clothing	All Children’s Clothing
2T – 12	0 – 16	2T – 12
Not permitted	Not permitted	Not permitted
<b><u>Waist and Bottom Area</u></b>		
Only Upper Outerwear	Only Upper Outerwear	All Children’s Clothing
2T - 16	0 - 16	2T – 16
<ol style="list-style-type: none"> <li>1. Cannot extend more than 3 in. when garment extended to fullest width</li> <li>2. No toggles, knots or other attachments at ends</li> <li>3. Attached to garment at midpoint</li> </ol>		

## Carpets and Rugs

1. Standard for the Surface Flammability of Carpets and Rugs (16 C.F.R. 1630)
  - a. A carpet or rug (large) is a finished fabric or similar product intended to be used as a floor covering and has dimensions of over 6 feet long and an area greater than 24 ft<sup>2</sup>. This definition also includes “carpet squares” intended to be installed in dimensions of over 6 feet long and an area greater than 24 ft<sup>2</sup>. This definition excludes resilient floor coverings such as linoleum and vinyl tile.
2. Standard for the Surface Flammability of Small Carpets and Rugs (16 C.F.R. 1631)
  - a. A small carpet or rug is the same as the definition above but has no dimension over 6 feet long and an area not greater than 24 ft<sup>2</sup>.
3. Requirements for Carpets and Rugs - All carpets and rugs manufactured, imported or sold in the United States must meet the flammability (acceptance) criterion of the standards.
4. Small carpets and rugs not meeting the standard may be manufactured, imported or sold in the United States provided they are permanently labeled with the following statement: **FLAMMABLE (FAILS U.S. DEPARTMENT OF COMMERCE STANDARD FF 2-70): SHOULD NOT BE USED NEAR SOURCES OF IGNITION.**
5. Children’s Products Issue – If a carpet or rug should fall under the definition of a “children’s product” (i.e., designed and intended for a child’s room), to the extent that lead is present in the product, it will be subject to both the lead paint and lead substrate standard as discussed above.

## Compliance Certification Requirements

1. An **ADULT** product that is subject to a CPSC rule/regulation requires a general compliance certification based on a reasonable testing program (3<sup>rd</sup> party lab testing is not required).
2. A **CHILDREN’s** product requires a certification based on testing by an accredited 3<sup>rd</sup> party lab.
3. Who Must Issue the Certification?
  - The importer, or
  - Domestic manufacturer (if the goods are made in the U.S.)
4. Format: There is currently no required format (however see required content below).
5. No signature requirement - The certificate does not have to be signed by the importer.

6. Certification can be in hard copy or electronic format – The form must be created prior to arrival of the shipment in question into U.S. domestic commerce.
7. Certifications must “accompany” each shipment which contains goods covered by CPSC standards.
  - Certifications must be available to Customs/CPSC (if requested) as soon as the product or shipment itself is available for inspection in the U.S.
  - Electronic format is permitted as long as the CPSC has reasonable access to it and it contains all required information.
  - “Reasonable Access” means accessible via the internet and identified by a unique identifier which must be created in advance and be available with the shipment.
  - Importers must also furnish a copy of the certification to customers (distributors, retailers)

8. Content of Certificates:

Certificates must specify the following, in English:

- a. Identification of the product covered by the certificate - must describe the product in enough detail to match the certificate to the covered product
  - b. Citation to each CPSC product safety regulation to which the product is being certified - It is not acceptable to issue a certification that offers only a “general compliance” statement.
  - c. Identification of the U.S. importer or domestic manufacturer certifying compliance of the product - Name, full mailing address and phone
  - d. Contact information for the individual maintaining records of test results – Name, full mailing address, email and phone
  - e. Date and place where the product was manufactured
    - Provide at least the month and year; city and country or administrative region
    - If the same manufacturer operates more than one location in the same city, provide street address of the factory
  - f. Date and place where the product was tested for compliance with the regulation(s) cited above - Date of test reports and location of testing
  - g. Identification of any third-party laboratory on who’s testing the certificate depends - if a third party lab was used, give name, full mailing address and phone of lab.
9. Failure to Certify Imports: An imported product shall be refused admission if it is not accompanied by a required certificate or if it is accompanied by a false certificate (and the importer has reason to know it is false or misleading in any material respect).

## Testing and Labeling Pertaining to Children's Product Certifications

The requirements in this section take effect on February 8, 2013, for products manufactured after that date.

### 1. Certification of Children's Products

Manufacturers<sup>1</sup> (i.e., importers) must develop a periodic testing plan to ensure with a high degree of assurance that children's products manufactured after the issuance of a Children's Product Certificate, or since the previous periodic testing was conducted, continue to comply with all applicable children's product safety rules. The periodic testing plan must include:

- a. the tests to be conducted;
- b. the intervals at which the tests will be conducted; and
- c. the number of samples tested.

At each manufacturing site, the manufacturer must have a periodic testing plan specific to each children's product manufactured at that site. These plans are not required to be style/SKU specific or refer to specific styles. Rather, the Company could develop a general plan for each children's product line which addresses all of the required tests, intervals and number of samples for the variations of product being produced. The same plan could be used at each production site where such products are manufactured.

### 2. Required Testing Intervals for Accredited 3<sup>rd</sup> Party Testing

- a. Periodic Testing Program – At least once a year (minimum interval)
- b. Production Testing Plan - At least once every 2 years (a production testing plan would include recurring testing or the use of process management techniques).
- c. Use a lab accredited to ISO/IEC 17025:2005(E) frequently enough to provide a high degree of assurance – At least once every 3 years

3. Material Change - If a children's product undergoes a material change in the product design or manufacturing process, including the sourcing of component parts, retesting by an accredited 3<sup>rd</sup> party lab will be necessary.

### 4. Undue Influence

The regulation requires each manufacturer to establish procedures to safeguard against the undue influence by a manufacturer on a third-party conformity assessment body (i.e., a policy to prevent the importer and its employees from influencing a lab's test results).

The required procedures must include, at a minimum:

---

<sup>1</sup> 16 CFR 1107.2 defines "manufacturer" as "the parties responsible for certification of a consumer product pursuant to 16 CFR Part 1110" (i.e., the importer or domestic manufacturer).

1. A written policy statement from company officials that the exercise of undue influence is not acceptable;
2. Every appropriate staff member must receive training on avoiding undue influence and sign a statement attesting to participation in such training;
3. When a substantive change to the rule is made regarding undue influence, the appropriate staff must be retrained regarding those changed requirements.
4. A requirement to notify the CPSC immediately of any attempt by the manufacturer (e.g., an employee) to hide or exert undue influence over test results; and
5. A requirement to inform employees that allegations of undue influence may be reported confidentially to the CPSC and a description of the manner in which such a report can be made.

The CPSC does not provide any required form or content for this program. The Company can create written manuals and include this training along with other types of employee training. In addition, the Company has the option to modify its procedures and conduct retraining as often as it deems necessary in order to maintain an effective policy against the exercise of undue influence.

As part of the Company's recordkeeping requirements, in addition to maintaining the certifications, etc., it is required to maintain records of the undue influence procedures, including training materials and training records of all employees trained on these procedures, including the signed staff statements attesting to participation in the undue influence training.

5. Consumer Product Labeling Program – 16 CFR 1107.30

If the manufacturer or private labeler has certified that a product complies with all consumer product safety rules under the CPSA, it may label the product as follows. The label must be visible, legible and consist of the following statement:

**Meets CPSC Safety Requirements**

## Recordkeeping Pertaining to Children's Product Certifications – 16 CFR 1107.26

### The requirements in this section take effect on February 8, 2013, for products manufactured after that date.

A manufacturer of a children's product subject to an applicable children's product safety rule MUST maintain the following records:

1. A copy of the Children's Product Certificate for each product. The children's product covered by the certificate must be clearly identifiable and distinguishable from other products;
2. Records of each third-party certification test. The manufacturer must have separate certification test records for each manufacturing site;
3. Records of one of the following for periodic tests of a children's product:
  - a. A periodic test plan and periodic test results;
  - b. A production testing plan, production test results, a periodic test results; or
  - c. Testing results of tests conducted by a testing laboratory accredited to ISO/IEC 17025:2005(E) and periodic test results.
4. Records of descriptions of all material changes in product design, manufacturing process, and sourcing of component parts, and the certification tests run and the test values; and
5. Records of the undue influence procedures, including training materials and training records of all employees trained on these procedures, including attestations described at 1107.24(b)(1).

A manufacturer must maintain these records for five years and must make these records available, either in hard copy or electronically for inspection by the CPSC upon request.

Records may be maintained in languages other than English if they can be:

1. Provided immediately by the manufacturer to the CPSC; and
2. Translated accurately into English by the manufacturer within 48 hours of a request by the CPSC, or any longer period negotiated with CPSC staff.

### **Tracking Information Requirement**

All children's products for age 12 and under must have the following tracking information permanently placed on the product and packaging:

- a. Identification of manufacturer (e.g., name of importer)
- b. Location and Date of production (e.g., month/year)
- c. Batch, run #, if available.

This information does not have to appear on a single "label" or location on the product. Rather, the requirement can be satisfied by the use of a code (e.g., a purchase order number) from which this information can be ascertained provided that the customer can identify the name of the responsible party to contact, e.g., the name of the company.

The tracking information on the actual product must be permanent, i.e., it must remain on the product for the duration of its useful life. A mark on disposable packaging need only be permanent enough to reach the consumer (e.g., an adhesive label on a retail box). If the tracking information on the product is visible through the disposable packaging, then it is not necessary to separately label the packaging.

The CPSC recognizes that certain products cannot be permanently marked and will allow marking of the packaging, such as:

- Products too small to be marked;
- Toys/games with many pieces (mark the main component rather than each individual piece, as well as the packaging).
- Products sold through bulk vending machines
- If a physical mark would weaken or damage the product or impair its utility
- If a product surface would be impossible to mark permanently such as those made of elastics, beads, etc.
- If the aesthetics of the product would be ruined by a mark and a mark cannot be placed in an accessible but inconspicuous location.

The CPSC will also look to how others in the industry mark their products in order to determine whether a product falls under this exemption.

### **Potential Consequences Non-Compliance**

Merchandise can be refused entry by Customs and the CPSC as well as destroyed if:

- The importer fails to provide the required compliance certification or provides a non-compliant certification.
- The product is tested by CPSC at the time of entry and fails.

In addition, the CPSC has the authority to assess civil penalties up to \$100,000 for each violation, and up to a maximum of \$15,150,000 for a related series of violations.

Goods found to be non-compliant after distribution are also subject to consumer level product recalls.



**Summary of Applicable Standards & Certification/3<sup>rd</sup> Party Testing Requirements**

<b>Product Line</b>	<b>Standard</b>	<b>Certification</b>	<b>Accredited 3<sup>rd</sup> Party Lab Testing</b>
<b><u>Adult Clothing</u></b>			
	Wearing Apparel Flammability (16 CFR 1610)	Yes	No
	Flammability of Vinyl Plastic Film (16 CFR 1611) (if applicable)	Yes	No
<b><u>Children's Clothing (non-sleepwear)</u></b>			
	Wearing Apparel Flammability (16 CFR 1610)	Yes	Yes
	Flammability of Vinyl Plastic Film (16 CFR 1611) (if applicable)	Yes	Yes
	Lead In Paint and Surface Coatings (16 CFR 1303)	Yes	Yes
	Total Lead Content (PL 110-314, Sec. 101)	Yes	Yes
	Phthalates (PL 110-314, Sec. 108)	Yes	Yes
	Small Parts (16 CFR 1501, 1500.50-53)	No	No
	Drawstrings (16 CFR 1120.3(b)(1))	No	No

<b><u>Children's Sleepwear</u></b>			
	Children's Sleepwear Flammability Standard (16 CFR 1615/1616)	Yes	Yes
	Lead In Paint and Surface Coatings (16 CFR 1303)	Yes	Yes
	Total Lead Content (PL 110-314, Sec. 101)	Yes	Yes
	Phthalates (PL 110-314, Sec. 108)	Yes	Yes
	Small Parts (16 CFR 1501, 1500.50-53)	No	No
<b><u>Carpets &amp; Rugs (adults)</u></b>			
	Surface Flammability of Carpet and Rugs (16 C.F.R. 1630)	Yes	No
	Surface Flammability of Small Carpet and Rugs (16 C.F.R. 1631)	Yes	No
<b><u>Furniture (adults)</u></b>			
	Lead In Paint and Surface Coatings (16 CFR 1303)	Yes	No
<b><u>Children's Accessories (other than clothing accessories or jewelry)</u></b>			

	Lead In Paint and Surface Coatings (16 CFR 1303)	Yes	Yes
	Total Lead Content (PL 110-314, Sec. 101)	Yes	Yes
	Phthalates	Yes	Yes
	Small Parts	Yes	Yes
<b><u>Toys</u></b>			
	Lead In Paint and Surface Coatings (16 CFR 1303)	Yes	Yes
	Total Lead Content (PL 110-314, Sec. 101)	Yes	Yes
	Phthalates	Yes	Yes
	Small Parts	Yes	Yes
	Mandatory Toy Standard	Yes	Yes

## **URBAN PROCEDURES FOR CPSC**

1. CPSC requirements are posted on Vendor website
2. Items which are subject to CPSC testing requirements are tested according to CPSC standards.
3. For imported shipments, Certificates of Compliance, as well as lab test reports (if product does not meet CPSC exemptions) are sent along with the shipping documents for the product.
4. Urban's Customs Compliance team will review import shipping documents to ensure that required CPSC documentation is present. If present, Customs entry will be made. If CPSC documentation is missing from the shipping documents sent, customs entry will not be made until the required documentation is received.
5. Certificates of Compliance for domestic sourced items are emailed by the vendor to [cpsc@urbn.com](mailto:cpsc@urbn.com)

Consumer Product Safety Commission Chapter inserted July 2012

## **CHAPTER XVII: DUTY DRAWBACK**

---

### **What is Duty Drawback?**

Duty drawback is a program managed by U.S. Customs and Border Protection that grants a refund on duty paid for imported goods that are subsequently exported. By claiming drawback, up to 99% of the duties paid on imports can be recovered.

### **Program Requirements**

- Customs must be given a waiver of prior notice when intending to export in order to claim drawback.
- Drawback claims must be filed within 3 years after the date of exportation
- Records must be kept from the time of issuance of the certificate for 3 years after the payment of drawback
- Form 7551 is used when filing for drawback
  - [http://forms.cbp.gov/pdf/CBP\\_Form\\_7551.pdf](http://forms.cbp.gov/pdf/CBP_Form_7551.pdf)
- Exportation Procedures
  1. Notice of Intent to Export
  2. Actual Evidence of Exportation
    - Original signed bill of lading
    - Air waybill
    - Freight waybill
    - Canadian Customs manifest and/or cargo manifest
  3. Export summary
  4. Certified export invoice for mail shipments

### **URBN Program**

As of June 2012, URBN files Unused Merchandise, Direct Identification Drawback claims for our Retail exports to Canada and Australia returns. With URBN's current program in place, drawback can only be claimed on exports that are directly identified to the imported merchandise.

### **Drawback URBN Review Process**

URBN uses Comstock as their Drawback provider as of May 2012. All related Import/Export documents related to Drawback are generated on URBN's end. A member of the International Compliance team will review all of the data prior to submitting to Comstock. The review compares the original import documents to the import/export spreadsheets to verify the product details match.

Data reviewed:

1. Entry Number
2. Purchase Order Number
3. Style Number
4. Content of article
5. Harmonized Tariff Schedule Number
6. Country of Origin

Data Filing:

1. URBN pulls Import/Export Data
2. Send all data to Comstock
3. Comstock prepares claim
4. Comstock sends back to URBN for filing approval
5. Comstock files the claim with CBP
6. URBN accrues claim amount for Finance
7. CPS sends claim refund to Comstock
8. Comstock wires refund (less Comstock fee)

Schedule for filing:

Retail – one claim per month for a month of data

Direct – one claim per month (j1 or j2) for two months of data

Wholesale – two claims per quarter (j1 and j2) for 3 months of data

Destruction – as needed

Drawback Channels:

Retail – j(1)

Direct to Customer – j(1) & j(2)

Wholesale – j(1) & j(2)

Destruction – j(1) & j(2)

*TBD: Franchises – j(1) & j(2)*

Duty Drawback chapter inserted July 2012, revised 03/23/2018.

## CHAPTER XVIII: LACEY ACT

---

### Introduction

The Lacey Act (16 U.S.C 3371 et seq) combats trafficking in “illegal” wildlife, fish, or plants. Effective May 22, 2008, the Food, Conservation, and Energy Act of 2008 amended the Lacey Act by expanding its protection to a broader range of plants and plant products. As amended, the Lacey Act now makes it unlawful to import, export, transport, sell, receive, acquire, or purchase in interstate or foreign commerce any plant, with some limited exceptions, taken in violation of the laws of a U.S. State or any foreign law that protects plants. The Lacey Act also now makes it unlawful to make or submit any false record, account, or label for, or any false identification of, any plant.

The U.S. Department of Agriculture (USDA) Animal and Plant Health Inspection Service (APHIS) is designated the lead regulatory agency for the Lacey Act requirements. CBP assists APHIS with the electronic collection of data to fulfill the import declaration requirements.

### Requirements

Customs and Border Protection has automated the process for collecting the PPQ 505 (Plant Declaration Form) data elements. Data is transmitted to CBP’s Automated Commercial System (ACS) through the Automated Broker Interface (ABI) in the cargo release module. Importers have the option to complete and present a paper PPQ 505 for each line of the entry. If a paper form is used, it must be mailed to the USDA at the address on the form.

The table below lists the Phase-In Schedule of Enforcement of the Declaration requirement:

Phase-In Schedule of Enforcement of the Declaration Requirement for Goods of, or Containing, Plants or Plant Products*		
II April 1, 2009	III October 1, 2009	IV April 1, 2010
HTS Chapters: Ch. 44 Headings (wood & articles of wood).	HTS Chapters: Ch. 44 Headings (wood & articles of wood).	HTS Chapters: Ch. 44 Headings (wood & articles of wood)
4401--(Fuel wood).....	4402--Wood charcoal.	4421--Other articles of wood.
4403--(Wood in the rough).	4412--Plywood, veneered panels, except 44129906 and 44129957.	Ch. 66 Headings (umbrellas, walking sticks, riding crops).
4404--Hoopwood; poles, piles, stakes).	4414--Wooden frames.	6602--Walking sticks, whips, crops.
4406--Railway or tramway sleepers).	4419--Tableware & kitchenware of	Ch. 82 Headings (tools,

	wood.	implements).
4407--(Wood sawn or chipped lengthwise).	4420--Wood marquetry, caskets, statuettes.	8201--Hand tools.
4408--(Sheets for veneering).	.....	Ch. 92 Headings (musical instruments).
4409--(Wood continuously shaped).	.....	9201--Pianos.
4417--(Tools, tool handles, broom handles).	.....	9202--Other stringed instruments.
4418--(Builders' joinery and carpentry of wood).	.....	Ch. 93 Headings (arms and ammunition). 9302--Revolvers and pistols. 93051020--Parts and accessories for revolvers and pistols.
		Ch. 94 Headings (furniture, etc.). 940169--Seats with wood frames.
		Ch. 95 Headings (toys, games, & sporting equipment). 950420--Articles and accessories for billiards.
		Ch. 97 Headings (works of art). 9703--Sculptures.
	PLUS PHASE II.....	PLUS PHASES II & III.

---

All products that fall into the Sub-Headings in the table above require the following information as part of the Lacey Act Declaration:

Common name

Scientific name (genus and species names)

Country of Origin

Quantity (unit of measure must be in kilograms, meters, meters squared, or meters cubed)



APHIS has acknowledged that there are several issues regarding efficient and accurate completion of the Plant and Plant Product data elements. These issues currently fall into three categories: (1) the possible use of shorthand for common trade groupings of species; (2) the possible difficulties involving in identifying composite, recycled, reused or reclaimed materials to the genus and/or species level; and, (3) the difficulty in identifying the genus and species for certain articles manufactured prior to the passage of the Lacey Act Amendments.

APHIS has compiled the following chart of Special Use Codes to address these issues:

<u>Issue</u>	<u>Genus Code</u>	<u>Species Code</u>
<b>Species groupings</b>		
SPF	Special	SPF
<b>Composite, Recycled, or Reused Plant Materials</b>		
MDF (Medium Density Fiberboard)	Special	MDF
Particle Board	Special	Particleboard
Paper/Paperboard	Special	Paper
Recycled	Special	Recycled
Reused	Special	Reused
Reclaimed	Special	Recycled
<b>Other Special Cases</b>		
Manufactured Prior to May 22, 2008 - Sourcing of Pre-Amendment Materials Untraceable Despite Due Diligence	Special	Pre-Amendment
No Plant Material Present	Special	None

Detailed information on each of these Special Use Codes can be found at the following website: [http://www.aphis.usda.gov/plant\\_health/lacey\\_act/downloads/lacey-act-special-use-codes.pdf](http://www.aphis.usda.gov/plant_health/lacey_act/downloads/lacey-act-special-use-codes.pdf)

## **Policy**

The Urban Outfitters, Inc. Customs Line Review spreadsheet for non-apparel will identify which products (by style #) fall under the Lacey Act requirements. If a product falls under the Lacey Act, the Comments column of the Customs Line review spreadsheet will read “Lacey Act”.

It is the policy of Urban Outfitters, Inc. for all vendors to include the Lacey Act information on their commercial invoices for all products that fall under Declaration table. If the vendor fails to include the Lacey Act information on their invoice or the information is incomplete, the Global Trade and Compliance Department will contact the vendor and request a revised invoice. Once the revised invoice is received, the Global Trade and Compliance Department will send the revised invoice to the appropriate Customs broker.

Lacey Act chapter inserted July 2012

## **CHAPTER XIX: FISH AND WILDLIFE**

---

### **Introduction**

Fish and Wildlife is considered any living or dead wild animal, its parts, and products made from it. This includes mammals, birds, reptiles, amphibians, and fish (including shells). Certain domesticated animals and animal parts are exempt provided they did not originally come from the wild.

The following locations are U.S. Department of Fish and Wildlife authorized entry ports:

Anchorage, Alaska  
Atlanta, Georgia  
Baltimore, Maryland  
Boston, Massachusetts  
Chicago, Illinois  
Dallas, Texas  
Honolulu, Hawaii  
Houston, Texas  
Los Angeles, California  
Louisville, Kentucky  
Memphis, Tennessee  
Miami, Florida  
New Orleans, Louisiana  
New York, New York  
Newark, New Jersey  
Portland, Oregon  
San Francisco, California  
Seattle, Washington

### **Requirements**

A Fish and Wildlife permit is required for all individuals or businesses that engage in business as an importer of wildlife products. This permit, which is valid for one year, must be acquired from the U.S. Fish and Wildlife Service Law Enforcement office within the Region where the applicant is located before any wildlife is imported.

Urban Outfitters' Customs broker will annually renew the Fish and Wildlife permit on their behalf.

For individual import shipments, Importers must file a Declaration for Importation of Fish or Wildlife (Form 3-177) with the U.S. Department of Fish and Wildlife at an authorized port of entry and receive clearance before U.S. Customs releases the shipment.

## **Policy**

It is the policy of Urban Outfitters, Inc. for all vendors to include the Fish and Wildlife information on their commercial invoices for all products that include Fish and Wildlife. This information includes the following information:

Common name

Scientific name (genus and species names)

Value

Quantity

Country of Origin

Source of the item (born in captivity or taken from the wild)

If the vendor fails to include the Fish and Wildlife information on their invoice or the information is incomplete, the Global Trade and Compliance Department will contact the vendor and request a revised invoice. Once the revised invoice is received, the Global Trade and Compliance Department will send the revised invoice to the appropriate Customs broker.

Fish and Wildlife chapter inserted July 2012

## **CHAPTER XX: IMPORTER SECURITY FILING (ISF)**

---

### **Introduction**

On January 26, 2009, the new rule titled Importer Security Filing and Additional Carrier Requirements (commonly known as “10+2”) went into effect. This new rule applies to import cargo arriving to the United States by vessel. Failure to comply with the new rule could ultimately result in monetary penalties, increased inspections and delay of cargo. The information submitted in Importer Security Filings improves U.S. Customs and Border Protection’s (CBP) ability to identify high-risk shipments in order to prevent smuggling and ensure cargo safety and security.

Under the new rule, before merchandise arriving by vessel can be imported into the United States, the “Importer Security Filing (ISF) Importer,” or their agent (e.g., licensed customs broker), must electronically submit certain advance cargo information to CBP in the form of an Importer Security Filing. This requirement only applies to cargo arriving in the United States by ocean vessel; it does not apply to cargo arriving by other modes of transportation.

### **Requirements**

The ISF Importer is required to submit the Importer Security Filing. The ISF Importer is the party causing the goods to arrive within the limits of a port in the United States by vessel. Typically, the ISF Importer is the goods’ owner, purchaser, consignee, or agent such as a licensed customs broker.

ISF Importers, or their agent, must provide eight data elements, no later than 24 hours before the cargo is laden aboard a vessel destined to the United States. Those data elements include:

- Seller
- Buyer
- Importer of record number
- Consignee number(s)
- Manufacturer (or supplier)
- Ship to party
- Country of origin
- Commodity Harmonized Tariff Schedule of the United States (HTSUS) number

Two additional data elements must be submitted as early as possible, but no later than 24 hours prior to the ship’s arrival at a U.S. port. These data elements are:

- Container stuffing location; and
- Consolidator

## Policy

It is the policy of Urban Outfitters, Inc. that their Customs brokers submit ISF information to CBP no later than 24 hours before a shipment is laden aboard a vessel destined to the United States.

The ISF data elements are collected by Urban Outfitters' freight forwarders and submitted electronically to Urban Outfitters' customs brokers who submit the ISF entry to U.S. Customs.

The freight forwarders collect the data elements through the following channels:

- Seller: freight forwarders receive from the shipper at the time of shipment booking
- Buyer: freight forwarders receive from the shipper at the time of shipment booking
- Importer of record number: This is a constant data element. Freight forwarders have the number in their system.
- Consignee number: This is a constant data element. Freight forwarders have the number in their system.
- Manufacturer: freight forwarders receive from the shipper at the time of shipment booking
- Ship to party: freight forwarders receive from the shipper at the time of shipment booking
- Country of origin: freight forwarders receive from the shipper at the time of shipment booking
- HTS number: Freight forwarders receive the HTS number electronically from Urban Outfitters, Inc Bamboo Rose system. Bamboo Rose automatically sends the freight forwarder po #'s and their corresponding HTS#'s. These numbers are automatically uploaded into the freight forwarders systems.
- Container stuffing location: The freight forwarders add the location to their system at the time of shipment booking.
- Consolidator: The freight forwarders add the consolidator information to their system at the time of shipment booking.

If any of the data elements are missing from the freight forwarders system, they will request the information from Urban Outfitters. Once the information is received, the freight forwarder will add the information to their system and send the ISF data electronically to the Urban Outfitters Customs Broker. In turn, the Customs Broker will submit the ISF filing to CBP 24 hours prior the shipment loading on aboard the vessel.

## **CHAPTER XXI: LABELING**

---

### **URBN Labeling Policy**

URBN has established processes to ensure that it fully complies with all applicable U.S. federal labeling laws. The labeling requirements are communicated to all URBN suppliers through the URBN vendor website (<http://www.urbanvendor.com/urbanvendor/>).

### **U.S. Textile and Apparel Labeling Laws**

In the United States, labeling requirements are set forth in the *Textile Fiber Products Identification Act*, the *Fur Products Identification Act* and the *Wool Products Labeling Act of 1939*. These laws require that most textile and wool products have a label listing: the fiber content, the country of origin, and the identity of the manufacturer or another business responsible for marketing the item. For more specific information, please review the following guide published by the Federal Trade Commission: <http://business.ftc.gov/documents/bus21-threading-your-way-through-labeling-requirements-under-textile-and-wool-acts>

Care labels for wearing apparel are outlined in the *Care Labeling of Textile Wearing Apparel and Certain Piece Goods, as Amended*, found in the *Code of Federal Regulations*, Title 16, Part 423. The law requires that wearing apparel be labeled with at least one safe cleaning method. Garments that are made and sold without a care label, or garments with inaccurate cleaning instructions, are in violation of this law. The Federal Trade Commission (FTC) regulates the care labeling of wearing apparel.

### **Placement of Labels**

The FTC requires that all labels be easily seen or found by the consumer at time of purchase and remain securely attached to the product through purchase by the consumer. Care labels must be permanently attached and legible through the life of the garment.

### **Placement of Country of Origin Labeling for Apparel Products**

The FTC requires that if the garment has a neckline, the label containing the country of origin must be attached to the inside center of the neck, midway between the shoulder seams. The country of origin should appear on the front of the label. If a garment does not have a neckline, then the country of origin must appear in a conspicuous place on the garment.

Labeling chapter inserted July 2012

## **CHAPTER XXII: NAFTA**

---

### **What is NAFTA?**

The North American Free Trade Agreement (NAFTA) is a trade agreement between the United States, Canada, and Mexico that liberalizes restrictions on trade between the three countries. The most significant aspect of NAFTA has been the elimination of import duties on goods that “originate” in the NAFTA territory. A product will be deemed originating if it can be determined that the article or material was produced in the NAFTA territory and or if the product qualifies under the NAFTA Rules of Origin.

### **How to Determine if a Product Qualifies for NAFTA**

1. Compile a Bill of Materials for the product.
2. Determine the Harmonized Tariff Schedule (HTS) numbers for the finished product and its components.
3. Determine the originating components and the non-originating components of the finished product.
4. Review the Rule of Origin for the product based on the HTS number of the finished product.
  - The NAFTA Rules of Origin are found in General Note 12 of the United States Harmonized Tariff Schedule
5. Based on the Rule of Origin for the finished product, (Tariff Shift or Regional Value Content) determine the product’s eligibility for NAFTA.

### **NAFTA and Apparel**

Textiles and Apparel are subject to very strict NAFTA Rules of Origin.

### **General Summary of Apparel Rules of Origin**

The general rule of origin for apparel product is yarn forward (however, certain products are subject to a fiber forward rule). Yarn forward means that all operations from the creation of the yarn must be performed in the NAFTA Territory. Specifically, a garment subject to a yarn forward rule must meet the following three conditions:

1. Yarn must be spun in the NAFTA territory\*;
2. Fabric must be knit or woven in the NAFTA territory;
3. The garment must be cut and sewn in the NAFTA territory.

\*Please note that the fiber can be non-originating.

## **URBN NAFTA Program**

### **URBN Imports**

URBN will use reasonable care in determining if an import qualifies for duty-free treatment under NAFTA. URBN will take steps to ensure compliance with procedural and documentary requirements for claiming NAFTA tariff preference; therefore, assuring that NAFTA claims are supportable. Customs brokers will not claim NAFTA on any importation without the express authorization of URBN.

### **URBN Exports**

URBN's current NAFTA program for exports is currently under review. At this time, URBN is not claiming NAFTA on its export shipments, with the exception being certain items shipping to Canada for new store openings. The process to claim NAFTA on the eligible product will be determined during the next fiscal year.



## **CHAPTER XXIII: FIRST SALE**

---

### **What is the First Sale principle?**

First Sale for Export (FSFE) is a duty reduction program designed to reduce the dutiable value of eligible products imported into the United States.

In a normal supply chain, an importer pays duty on the value of goods purchased from a middleman (vendor) which includes the middleman's markup. This transaction is known as the 'second sale'. Using the First Sale principle, the importer can declare the goods to Customs using the 'first sale', which is the transaction between the manufacturer and the middleman (vendor), which excludes the middleman's markup, thereby lowering the customs value of the goods and the amount of duties payable. In other words, First Sale for Export establishes the dutiable value based on the transaction between the manufacturer (factory) and the middleman (vendor) instead of between the middleman and the Importer.

### **Policy**

It is the policy of Urban Outfitters, Inc. to accurately report First Sale values to Customs, pay duty on such values and maintain required documentation for these transactions in accordance with all rules and regulations.

### **Requirements**

1. Bona fide sale between middleman and manufacturer
2. Merchandise is clearly destined for export to the U.S. at the time of first sale
3. First sale price must be at arm's length
4. Documentation and recordkeeping - full documentation trail must be presented to Customs that supports the above requirements and clearly establishes the role and purpose of each party in the transaction. Maintain compliance with Customs laws for which documents and the length of time these documents are maintained.

## **First Sale Documentation Trail**

1. Purchase Order 1 – from Urban to vendor
2. Purchase Order 2 – from vendor to factory
3. Invoice 1 – from factory to vendor
4. Invoice 2 – from vendor to Urban
5. Customs Value Worksheet
6. Cost Worksheet
7. Assist Support – material invoice, etc.
8. Payment 1 – from vendor to factory
9. Payment 2 – from Urban to vendor
10. CF 7501
11. Shipping documents, Bill of lading, etc.
12. Accounting Journal Entries
13. Circumstances of Sale Support – related party sales only
  - Evidence of gross profit margin and operating profit margin
  - Bill of Materials corresponding to tested transactions

## **Implementation and Auditing Review**

Urban Outfitters, Inc has enlisted the services of customs attorneys experienced with the First Sale principle for the implementation stage of the first sale program with all vendors chosen to participate.

Periodic auditing reviews with first sale vendors will be performed by the Associate Manager, Customs Compliance.

## **Compliance Team Procedure for First Sale Shipments:**

URBN Compliance team reviews shipping documentation for first sale transactions and insures the inclusion of supporting invoice from factory to vendor and insures proper recordkeeping of shipping documents and CF 7501.

## First Sale Vendor Listing

<b>Middleman</b>	<b>Supplier(s)</b>	<b>First Sale Notice to Customs</b>
<b>Jiing Sheng Knitting Co., Ltd</b>	Jing Hope Knitting Co, Ltd.	11/13/2012
<b>U-Knits Inc.</b>	Puku Vietnam Co., Ltd.	6/18.2012
<b>Koon Fat Garments Ltd.</b>	Guan Cheung Garment Co. Ltd of Don Guan	10/11/2011
<b>Starford International Investments Ltd.</b>	China Best International Holding Ltd.	1/25/2011
<b>Jian Yue International Co., Ltd.</b>	Lee Shin International Co. Ltd and Jen Hsien Industrial Co., Ltd.	8/12/2010
<b>Tun Yun Textile Co., Ltd.</b>	Kendrick Limited	5/28/2010
<b>Perf Star International</b>	Leading Success Enterprises, Inc.	9/16/2009
<b>Your Garment Co., Ltd</b>	Tip Top Garment Co., Ltd	9/16/2009
<b>Jiing Sheng Knitting Co., Ltd</b>	Jiangsu Jing Meng Knitting Co., Ltd	7/10/2009
<b>Jiing Sheng Knitting Co., Ltd</b>	Jing Hope Knitting Co., Ltd	6/17/2009
<b>Yihongrun International Ltd</b>	Sunlight International	5/28/2009
<b>First Glory Limited (Hong Kong)</b>	Grand Bright International Ltd.	11/14/2008

First Sale chapter inserted June 2013

## **CHAPTER XXIII: FREE TRADE AGREEMENTS**

---

### **Policy for Imports**

Urban Outfitters, Inc. will use reasonable care in determining if an import qualifies for duty-free treatment under any of the free trade agreements listed in the Customs and Border Protection Regulations of the United States. Urban Outfitters, Inc. will take steps to ensure compliance with procedural and documentary requirements for claiming any and all tariff preferences; therefore, assuring that any and all claims are supportable. Customs brokers will not claim any free trade preference on any importation without the express authorization of Urban Outfitters, Inc.

### **Recordkeeping Requirements**

The record keeping requirements for all free trade agreements are outlined in the Customs and Border Protection Regulations of the United States and the Harmonized Tariff Schedule of the United States in the general notes section.

Urban Outfitter's Inc. will provide all required documents upon request.

### **Responsible Party(s)**

The Import Customs Compliance Team is primarily responsible for ensuring the correct determination as to the eligibility of imports for any free trade preference claimed.

### **Procedures and Controls for Free Trade**

1. The Senior Manager – Customs Compliance is primarily responsible for ensuring the correct determination as to the eligibility of imports under any free trade agreement. The Senior Manager - Customs Compliance will verify that the product is eligible for a specific free trade agreement preference by reviewing the Special Duty Rate column next to the classification in the Harmonized Tariff Schedule of the United States. The Senior Manager - Customs Compliance will also verify that the product will be shipped directly to the United States or if traveling “in bond”, that the documents indicate United States as the final destination. The Senior Manager - Customs Compliance will then advise the responsible Urban Outfitters, Inc. buyer as to whether the item in question qualifies for the specific free trade agreement preference treatment.
2. After the purchase of merchandise that may be eligible for free trade from a foreign vendor, the responsible Urban Outfitter's Inc. buyer/production area will inform the Import Customs Compliance team of the product, the foreign vendor, and the country of origin during the customs line review meeting.

3. The Import Customs Compliance Team will inform the authorized Customs broker that a specified free trade preference duty status should be claimed or not claimed for the import via email.
4. The Associate Manager - Customs Compliance will periodically review entries prepared by the Customs broker to ensure that the free trade preference was only claimed for articles where they were instructed to claim the specified free trade. The Associate Manager - Customs Compliance will also periodically verify the vendor provided documents were obtained for entries for which free trade was claimed on the CF 7501.
5. If the Import Customs Compliance Team identifies an entry in which the Customs broker claimed free trade and they were instructed not to claim free trade, the Import Customs Compliance Team will contact the Customs broker. If the claim was made in error, the Customs broker will be instructed to amend the entry. The Import Customs Compliance Team will notify the Senior Manager – Customs Compliance of the error, resolution and a copy of the documentation will be attached to the file copy of the related entry package.

Procedures and Controls for GSP inserted 4/26/2007 and updated to be for all free trade 6/15/2018.

### **Procedures for Verifying Claimed Free Trade Preferences**

- The Associate Manager – Customs Compliance will periodically review entries prepared by the Customs broker to ensure that GSP claims are sufficiently documented. Periodically, the Associate Manager – Customs Compliance will verify that either the invoice contains the required vendor documents obtained for entries for which free trade eligibility was claimed on the CF 7501. Please see Appendix B for cost sheet and instructions.
- If the Import Customs Compliance Team identifies an entry in which the Customs broker claimed free trade eligibility and a vendor statement was not included on the invoice or proper required documentation obtained, the Import Customs Compliance Team will contact the Customs broker to determine why the claim was made on the entry. The Import Customs Compliance Team will also maintain copies of all correspondence with the Customs broker regarding resolution of the matter. If the claim was made in error, the Customs broker will be instructed to amend the entry. The Import Customs Compliance Team will make note and keep record of the error, resolution and a copy of the documentation will be attached to the file copy of the related entry package.

### **Procedures for Verifying Free Trade for Expiration and Renewal**

Since some free trade preferences can change annually with regards to eligible countries, products eligible for benefits or benefits granted, the Import Customs Compliance Team must verify all free trade agreements eligibility annually. The Import Customs Compliance Team will also review Customs Bulletins accompanying all free trade expiration/renewal on a retroactive basis for procedures used to handle claims under these circumstances.

## **Common Errors**

The following are errors which commonly occur regarding imports under and free trade preferential trade program:

- Inability to produce records to support the preference group provision;
- Foreign manufacturer commingled materials purchased from both beneficiary & non- beneficiary vendors and importer is unable to identify when non- beneficiary components were used in an imported article;
- U.S. Goods Returned erroneously claimed as imported per free trade agreement articles;
- Free trade articles erroneously classified and if properly classified, the articles would not be eligible for free trade;
- Articles originated in an ineligible country for free trade; and
- Importer could not provide evidence of direct shipment of the product from the beneficiary to the United States when the shipment entered an intermediate country in route to the United States.

## **Policy for EU Imports**

URBN UK Limited will use reasonable care in determining if an import qualifies for duty-free treatment as per HM Revenue and Customs.

# Glossary of International Trade Terms

ACCEPTANCE	Any agreement to purchase goods under specified terms. An agreement to purchase goods at a stated price and under stated terms.
AD VALOREM	According to value
ADVANCE AGAINST DOCUMENTS	A loan made on the security of the documents covering the shipment.
ADVISING BANK	A bank, operating in the exporter's country, that handles LETTERS OF CREDIT for a foreign bank by notifying the exporter that the credit has been opened in his or her favor.
ADVISORY CAPACITY	A term indicating that shipper's agent or representative is not empowered to make definitive decisions or adjustments without approval of the group or individual represented.
AIR WAYBILL	A BILL OF LADING that covers both domestic and international flights transporting goods to a specified destination.
ALONGSIDE	A phrase referring to the side of a ship. Goods to be delivered "alongside" are to be placed on the dock or barge within reach of the transport ship's tackle so that they can be loaded aboard the ship.
ALTERATION	A change in the boundaries of an activated zone or subzone.
ALTERNATIVE INVENTORY CONTROL SYSTEM (AICS)	A former system of inventory control, manual or automated, based on records maintained by a zone grantee, operator or individual zone user.
APPLICANT	A corporation applying for the right to establish, operate and maintain a foreign-trade zone.
ARBITRAGE	The process of buying FOREIGN EXCHANGE, stocks, bonds and other commodities in one market and immediately selling them in another market at higher prices.
ASIAN DOLLARS	U.S. dollars deposited in Asia and the Pacific basin.
ATTRIBUTIVE BASIS	Method of accounting for merchandise where direct identification of the goods with the shipment as admitted to the zone has been lost.
AUDIT-INSPECTION PROCEDURES	Provide the framework for Customs to reduce on-site supervision of zones and for zone operators/users to increase zone-operating flexibility through the method of supervising zones.
BALANCE OF TRADE	The difference between a country's total imports and exports.
BARTER	Trade in which merchandise is exchanged directly for other merchandise without use of money.
BENEFICIARY	The person in whose favor a LETTER OF CREDIT is issued or a DRAFT is drawn.

BILL OF LADING	A document that establishes the terms of a contract between a shipper and a transportation company under which freight is to be moved between specified points for a specified charge.
BONDED WAREHOUSE	A warehouse authorized by CUSTOMS authorities for storage of goods on which payment of DUTIES is deferred until the goods are removed.
BOOKING	An arrangement with a steamship company for the acceptance and carriage of freight.
CARNET	A customs document permitting the holder to carry or send merchandise temporarily into certain foreign countries without paying duties or posting bonds.
CASH AGAINST DOCUMENTS (C.A.D.)	Payments for goods in which a commission house or other intermediary transfers title documents to the buyer upon payment in cash.
CASH IN ADVANCE (C.I.A.)	Payment for goods in which the price is paid in full before shipment is made.
CASH WITH ORDER (C.W.O.)	Payment for goods in which the buyer pays when ordering and in which the transaction is binding on both parties.
CERTIFICATE OF INSPECTION	A document certifying that merchandise was in good condition immediately prior to its shipment.
CERTIFICATE OF MANUFACTURE	A statement in which a producer of goods certifies that manufacture has been completed and that the goods are now at the disposal of the buyer.
CERTIFICATE OF ORIGIN	A document, certifying the country of origin of specified goods.
COST AND FREIGHT (C & F)	A pricing term indicating that the cost of the goods and freight charges are included in the quoted price.
CHARTER PARTY	Written contract between the owner of a vessel and a "charterer" who rents use of the vessel or a part of its freight space.
COST AND INSURANCE (C & I)	A pricing term indicating that the cost of the product and insurance are included in the quoted price.
COST, INSURANCE, FREIGHT	A pricing term indicating that the cost of the goods, insurance, and freight are included in the quoted price.
CLEAN BILL OF LADING	A receipt for goods issued by a carrier that indicates that the goods were received in "apparent good order and condition", without damages or other irregularities.
CLEAN DRAFT	A draft to which no documents have been attached.
COLLECTION PAPERS	All documents submitted to a buyer for the purpose of receiving payment for a shipment.



COMMERCIAL ATTACHÉ	The commerce expert on the diplomatic staff of his/her country's embassy or large consulate.
COMMERCIAL INVOICE	An itemized list of goods shipped, usually among an exporter's COLLECTION PAPERS.
COMMON CARRIER	An individual, partnership, or corporation that transports persons or goods for compensation.
CONFIRMED LETTER OF CREDIT	A letter of credit issued by a foreign bank, whose validity has been confirmed by a U.S. bank.
CONSIGNMENT	Delivery of merchandise from an exporter (consignor) to an agent (consignee) under agreement that the agent sell the merchandise for the account of the exporter.
CONSTRUCTIVE TRANSFER	A legal fiction which permits acceptance of a Customs entry for merchandise in a zone before its physical transfer to the Customs territory.
CONSULAR INVOICE	A document required by some foreign countries, describing a shipment of goods and showing information such as the consignor, consignee, and value of the shipment.
CONVERTIBLE CURRENCY	A currency that can be bought and sold for other currencies at will.
CORPORATION, PRIVATE	Any corporation which is organized for the purpose of establishing, operating and maintaining a foreign-trade zone and which is chartered under a special act of the State within which it is to operate such a zone.
CORPORATION, PUBLIC	A State, political subdivision thereof, a municipality, a public agency of a State, political subdivision thereof, or municipality, or a corporate municipal instrumentality of one or more States.
CORRESPONDENT BANK	A bank that, in its own country, handles the business of a foreign bank.
COUNTERTRADE	The sale of goods or services that are paid in whole or in part by the transfer of goods or services from a foreign country.
CREDIT RISK INSURANCE	Insurance designed to cover risks of nonpayment for delivered goods.
CUSTOMS	The authorities designated to collect duties levied by a country on imports and exports.
CUSTOMS TERRITORY	Territory of the U.S. in which the general tariff laws of the U.S. apply.
CUSTOMHOUSE BROKER	An individual or firm licensed to enter and clear goods through Customs.
DATE DRAFT	A draft that matures in a specified number of days after the date it is issued, without regard to the date of ACCEPTANCE.
DEACTIVIZATION	Voluntary discontinuation of the activation of an entire zone or subzone by the grantee or operator.

DEFAULT	An act or omission that will result in a claim for duties, taxes, charges or liquidated damages under the FTZ Operator's Bond
DEFERRED PAYMENT CREDIT	Type of LETTER OF CREDIT providing for payment some time after presentation of shipping documents by exporter.
DESTINATION CONTROL STATEMENT	Any of various statements that the U.S. Government requires to be displayed on export shipments and that specify the destinations for which export of the shipment has been authorized.
DEVALUATION	The official lowering of the value of one country's currency in terms of one or more foreign currencies.
DISCREPANCY - LETTER OF CREDIT	When documents presented do not conform to the letter of credit.
DISPATCH	An amount paid by a vessel's operator to a charterer if loading or unloading is completed in less time than stipulated in the charter party.
DISTRIBUTOR	A foreign agent who sells for a supplier directly and maintains an inventory of the supplier's products.
DISTRICT DIRECTOR	The district director of customs in whose district the zone is located
DISTRICT ENGINEER	The engineer of the Department of the Army in whose district the zone is located.
DOCK RECEIPT	A receipt issued by an ocean carrier to acknowledge receipt of a shipment at the carrier's dock or warehouse facilities.
DOCUMENTARY AGAINST ACCEPTANCE (D/A)	Instructions given by a shipper to a bank indicating that documents transferring title to goods should be delivered to the buyer only upon the buyer's acceptance of the attached draft.
DRAFT	An unconditional order in writing from one person (the drawer) to another (the drawee), directing the drawee to pay a specified amount to a named drawer at a fixed or determinable future date.
DRAWBACK	Articles manufactured or produced in the United States with the use of imported components or raw materials and later exported are entitled to a refund of up to 99% of the duty charged on the imported components.
DRAWEE	The individual or firm on whom a draft is drawn and who owes the stated amount.
DRAWER	The individual or firm that issues or signs a draft and thus stands to receive payment of the stated amount from the drawee.
DUMPING	Exporting/Importing merchandise into a country below the costs incurred in production and shipment.
DUTY	A tax imposed on imports by the customs authority of a country.

EURODOLLARS	U.S. dollars placed on deposit in banks outside the United States; usually in Europe.
EXCHANGE PERMIT	A government permit sometimes required by the importer's government to enable the importer to convert his or her own country's currency into foreign currency with which to pay a seller in another country.
EXCHANGE RATE	The price of one currency in terms of another, i.e., the number of units of one currency that may be exchanged for one unit of another currency.
EXHIBITION	The showing of merchandise within a zone, usually to prospective buyers.
EXIMBANK	The Export-Import Bank of the United States.
EXPORT BROKER	An individual or firm that brings together buyers and sellers for a fee but does not take part in actual sales.
EXPORT COMMISSION HOUSE	An organization which, for a commission, acts as a purchasing agent for a foreign buyer.
EXPORT LICENSE	A government document that permits the "Licensee" to engage in the export of designated goods to certain destinations.
EXPORT MANAGEMENT COMPANY	A private firm that serves as the export department for several manufacturers, soliciting and transacting export business on behalf of its clients in return for a commission, salary, or retainer plus commission.
EXPORT TRADING COMPANY	A firm similar or identical to an export management Company.
FIRST IN-FIRST OUT (FIFO)	An accounting method based on an assumption regarding the flow of goods that older stock is disposed of first, in accordance with good merchandising policy.
FORCE MAJEURE	The title of a standard clause in marine contracts exempting the parties for nonfulfillment of their obligations as a result of conditions beyond their control, such as earthquakes, floods, or war.
FOREIGN EXCHANGE	The currency or credit instruments of a foreign country.
FOREIGN FIRST (FOFI)	An accounting method based on an assumption regarding the flow of goods that foreign status merchandise is disposed of first.
FOREIGN SALES AGENT	An individual or firm that serves as the foreign representative of a domestic supplier and seeks sales abroad for the supplier.
FOREIGN-TRADE ZONE/FREE TRADE ZONE	A port designated by the government of a country for duty-free entry of any non-prohibited goods. Merchandise may be stored, displayed, or

	used for manufacturing, etc., within the zone and reexported without duties being paid.
FOREIGN-TRADE ZONES ACT	The Foreign-Trade Zones Act of June 18, 1934, (48 Stat. 998-1003; 19 U.S.C. 81a-81u) as amended.
FOREIGN-TRADE ZONES BOARD	The Board, which is established to carry out the provisions of the Foreign-Trade Zones Act.
FOUL BILL OF LADING	A receipt of goods issued by a carrier with an indication that the goods were damaged when received.
FREE ALONGSIDE (F.A.S.)	A pricing term indicating that the quoted price includes the cost of delivering the goods alongside a designated vessel.
FREE IN (F.I.)	A pricing term indicating that the charter of a vessel is responsible for the cost of loading and unloading goods from the vessel.
FREE PORT	An area such as a port city into which merchandise may be legally moved without payment of duties.
FREIGHT FORWARDER	An independent business which handles export shipments for compensation.
GATT/GENERAL AGREEMENT ON TARIFFS AND TRADE	A multilateral treaty intended to help reduce trade barriers between the signatory countries and to promote trade through tariff concessions.
GENERAL EXPORT LICENSE	Any various export licenses covering export commodities for which VALIDATED EXPORT LICENSES are not required.
GRANTEE	A corporation to which the privilege of establishing, operating, and maintaining a foreign-trade zone has been granted by the Foreign-Trade Zones Board.
GROSS WEIGHT	The full weight of a shipment, including goods and packaging.
IMPORT LICENSE	A document required and issued by some national governments authorizing the importation of goods into their individual countries.
INLAND BILL OF LADING	A bill of lading used in transporting goods overland to the exporter's international carrier.
IRREVOCABLE LETTER OF CREDIT	A letter of credit in which the specified payment is guaranteed by the bank if all terms and conditions are met by the drawee.
LETTER OF CREDIT (L/C)	A document, issued by a bank per instructions by a buyer of goods, authorizing the seller to draw a specified sum of money under specified terms, usually the receipt by the bank of certain documents within a given time.
LICENSING	A business arrangement in which the manufacturer of a product grants permission to some other group or individual to manufacture that product in return for specified royalties.

MANIPULATION	Processing wherein merchandise is packed, unpacked, repacked, cleaned, sorted, graded or otherwise changed in condition but not manufactured.
MANUFACTURE	Generally, the production of articles for use from raw or prepared materials by substantially transforming such materials into new forms.
MARINE INSURANCE	Insurance that compensates the owners of goods transported overseas in the event of loss that cannot be legally recovered from the carrier.
MARKING	Letters, numbers, and other symbols on cargo packages to facilitate identification.
MERCHANDISE	Includes goods, wares, and chattels of every description except Prohibited Merchandise, building materials, production equipment and supplies for use in operation of a zone.
MERCHANDISE, DOMESTIC	Merchandise which has been produced in the U.S. and not exported therefrom.
MERCHANDISE, FOREIGN	Imported Merchandise that has not been properly released from Customs custody into the Customs territory of the U.S.
MERCHANDISE, FUNGIBLE	Merchandise which for commercial purposes is identical and interchangeable in all situations.
MERCHANDISE, MIXED STATUS	Foreign Merchandise which has been combined with Domestic Merchandise in the zone.
MERCHANDISE/OPERATIONS, PROHIBITED	Merchandise, the importation of which is prohibited by law on grounds of public policy or morals or excluded by order of the Foreign-Trade Zones Board.
MERCHANDISE/OPERATIONS, RESTRICTED	Merchandise that may not be authorized for delivery from Customs custody without a special permit, or a waiver thereof by an agency of the U.S. Government.
NONPRIVILEGED FOREIGN (NPF)	Foreign Merchandise or non-tax-paid domestic merchandise upon which the duty and applicable taxes will be determined at the time of entry from the zone for consumption.
OCEAN BILL OF LADING	A bill of lading indicating that the exporter consigns a shipment to an int'l carrier for transportation to a specified foreign market.
ON BOARD BILL OF LADING	A bill of lading in which a carrier certifies that goods have been placed on board a certain vessel.
OPEN ACCOUNT	A trade arrangement in which goods are shipped to a foreign buyer without guarantee of payment.
OPEN INSURANCE POLICY	A marine insurance policy that applies to all shipments made by an exporter over a period of time rather than to one shipment only.

OPERATOR	A corporation, partnership, or person that operates a zone or subzone under the terms of an agreement with the Grantee.
OPERATOR'S BOND	All zone operators must submit a bond to Customs to assure compliance with Customs regulations.
ORDER BILL OF LADING	A negotiable bill of lading made out to the order of the shipper.
PACKING LIST	A list showing the number and kinds of items being shipped, as well as other information needed for transportation purposes.
PARCEL POST RECEIPT	The postal authorities' signed acknowledgment of delivery to receiver of a shipment made by parcel post.
PRIVATE EXPORT FUNDING CORPORATION (PEFCO)	Lends to foreign buyers to finance exports from U.S.
PERILS OF THE SEA	A marine insurance term used to designate heavy weather, stranding, lightning, collision, and seawater damage.
PHYTOSANITARY INSPECTION CERTIFICATE	A certificate, issued by the U.S. Department of Agriculture to satisfy import regulations for foreign countries, indicating that a U.S. shipment has been inspected and is free from harmful pests and plant diseases.
POLITICAL RISK	In export financing the risk of loss due to such causes as currency, inconvertibility, government action preventing entry of goods, expropriation or confiscation, war, etc.
PRIVILEGED FOREIGN (PF)	Foreign merchandise or non-tax paid domestic merchandise upon which the duty and applicable taxes have been determined at the time this status is approved.
PRO FORMA INVOICE	An invoice provided by a supplier prior to the shipment of merchandise, informing the buyer of the kinds and quantities of goods to be sent, their value, and important specifications.
PURCHASING AGENT	An agent who purchases goods in his or her own country on behalf of foreign importers such as government agencies and large private concerns.
QUOTA	The quantity of goods of a specific kind that a country permit to be imported without restriction or imposition of additional DUTIES.
QUOTATION	An offer to sell goods at a stated price and under specified conditions.
REACTIVATION	A resumption of the activated status of an entire area that was previously deactivated without any change in the operator or the area boundaries.
REGIONAL COMMISSIONER	The Regional Commissioner of Customs for the Customs Region in which the zone is located.
REMITTING BANK	Bank that sends the draft to overseas bank for collection.

RESIDENT MEMBER	The official that has been delegated authority by the Secretary of the Army to act on nondiscretionary zone matters.
RETAIL TRADE	Generally, sales or offers to sell goods or services to individuals for personal use.
REVOCABLE LETTER OF CREDIT	A letter of credit that can be canceled or altered by the drawee (buyer) after it has been issued by the drawee's bank
SCHEDULE B	Refers to Schedule B, Statistical Classification of Domestic and Foreign Commodities exported from the United States.
SHIPPER'S EXPORT DECLARATION	A form required for all shipments by the U.S. Treasury Department and prepared by a shipper, indicating the value, weight, destination, and other basic information about an export shipment.
SHIP'S MANIFEST	An instrument in writing, signed by the captain of a ship, that lists the individual shipments constituting the ship's cargo.
SIGHT DRAFT	A draft that is payable upon presentation to the drawee.
SPOT EXCHANGE	The purchase or sale of foreign exchange for immediate delivery.
STANDARD INDUSTRIAL CLASSIFICATION (SIC)	A standard numerical code system used by the U.S. Government to classify products and services.
STANDARD INTERNATIONAL TRADE CLASSIFICATION (SITC)	A standard numerical code system developed by the U.S. to classify commodities used in international trade.
STATE	Any State, the District of Columbia, and Puerto Rico.
STEAMSHIP CONFERENCE	A group of steamship operators that operate under mutually agreed upon freight rates.
STRAIGHT BILL OF LADING	A nonnegotiable bill of lading in which the goods are consigned directly to a named consignee.
SUBZONE	A special purpose zone established as part of a zone project for a limited purpose that cannot be accommodated within an existing zone.
TARE WEIGHT	The weight of a container and packing materials without the weight of the goods it contains.
TENOR	Designation of a payment as being due at sight, a given number of days after sight, or a given number of days after date.
THROUGH BILL OF LADING	A single bill of lading covering both the domestic and international carriage of an export shipment.
TIME DRAFT	A draft that matures either a certain number of days after acceptance or a certain number of days after the date of the draft.
TRAMP STEAMER	A ship not operating on regular routes or schedules.

TRANSACTION STATEMENT	A document that delineates the terms and conditions agreed upon between the importer and exporter.
TRANSFER	To take merchandise with zone status from a zone for consumption, transportation, exportation, warehousing, cartage or lighterage, vessel supplies and equipment, admission to another zone, and like purposes.
TRUST RECEIPT	Release of merchandise by a bank to a buyer in which the bank retains title to the merchandise.
UNIQUE IDENTIFIER NUMBER (UIN)	This inventory method controls merchandise in a zone by unique numbers and/or letters that identify merchandise admitted to a zone.
USER	A person or firm using a zone for storage, handling or processing of merchandise.
VALIDATED EXPORT LICENSE	A required document issued by the U.S. Government authorizing the export of specific commodities.
VESSEL/AIRCRAFT SUPPLY	The supply of goods or equipment free of duties and taxes under section 309 of the Tariff Act, to eligible vessels or aircraft for use while actually engaged in foreign trade, or in transit to any U.S. possession.
WAREHOUSE RECEIPT	A receipt issued by a warehouse listing goods received for storage.
WHARFAGE	A charge assessed by a pier or dock owner for handling incoming or outgoing cargo.
WITHOUT RESERVE	A term indicating that a shipper's agent or representative is empowered to make definitive decisions and adjustments abroad without approval of the group or individual represented.
ZONE LOT NUMBER (ZLN)	A collection of merchandise maintained under an inventory control method based on specific identification of merchandise admitted to a zone by lot and lot number.
ZONE PROJECT	All of the zone and subzone sites under a single grantee, normally in a single port of entry.
ZONE RESTRICTED (ZR)	Merchandise admitted to a zone for the sole purpose of exportation or destruction.
ZONE SITE	The physical location of a zone or subzone.
ZONE STATUS	The status of merchandise admitted to a Foreign-Trade Zone, i.e., domestic (D), non-privileged foreign (NPF), privileged foreign (PF), or zone restricted (ZR) status.



## **APPENDIX A: CLASSIFICATION AUDIT INSTRUCTIONS AND SUMMARY**

---

### Classification Audit Instructions

Steps: system→docs→ entry→payment→accurate classification

1. Bamboo Rose Invoice
  2. Entry
  3. Bamboo Rose Materials
  4. PO Price (FOB Price)
- Create ACE report
    1. Use instructions in Audit Info folder
    2. Use AM-068 entry summary report in ACE
      - Edit to get entry #, year auditing, port codes and numbers
    3. Export to excel and filter out ports using for audit
    4. Use total number of lines and divide by 25
      - Use that number to get the 25 random lines using for the audit
  - Create a new tab with all the information you are looking up
    1. Entry number
    2. Port code
    3. Entry date
    4. Entry line number
    5. PO number
    6. Style number
    7. Sku
    8. Description
    9. Country of origin
    10. Bamboo Rose PO date
    11. Bamboo Rose PO unit price
    12. Bamboo Rose invoice unit price
    13. Entry PO unit price
    14. Bamboo Rose PO HTS number
    15. Bamboo Rose invoice HTS number
    16. Entry PO HTS number
    17. Bamboo Rose entered price
    18. Total entry entered price for line number
    19. Price paid
  - Save entries from Geodis and FTN websites
  - Go through and record information listed on entries and in Bamboo Rose under appropriate columns in the new tab created
  - Look up photos in Bamboo Rose for any ownbrand styles. Any apparel styles without photos, email Kate Ryan. For any non-apparel styles, email Brent Elliott. Use cross to verify all HTS numbers listed are correct.
  - Record date audit is completed and audit results on Risk Audit Strategy list.
  - Write up audit summary and save.

## **Audit Summary:**

### **Classification**

Report Date: June 7, 2017

#### **Objectives:**

The objective of this audit is as follows:

- Verify the data entry in Bamboo Rose match the import entry documents
- Ensure the broker is using the information given by the customs compliance team
- Verify classification of our products is correct
- Verify the prices paid against the broker bill invoices

#### **Scope**

The scope of this audit is as follows:

- Time frame – once a year, (February 1<sup>st</sup>-January 31<sup>st</sup>), completed May 23, 2017
- Target 25 random lines to ensure accuracy in Bamboo Rose, on the broker entries and by customs standards

#### **Audit Details**

We selected 25 entries randomly, from all of the entries reported for the year 2016 via a report pulled from ACE. Of those 25 entries, both ocean and air, OHL and FTN, we randomly selected one line from each entry for one single style. We made sure that each line selected had the same information listed in Bamboo Rose as on the entry submitted to customs. We verified that the PO price, style number, description, HTS, country of origin, and broker fees paid matched both systems.

#### **Audit Conclusion**

Based on our review of the 25 randomly selected entries/lines/styles, our classification process and entry reporting process are complaint with regards to U.S. Customs standards and guidelines. We concluded that our classification of products, in this case, is 100% accurate as well as the comparison from our records to our submitted entries.

The results can be found [here](#).

## **APPENDIX B: FREE TRADE AUDIT INSTRUCTIONS, SUMMARY AND COST SHEET**

---

### **GSP Audit Instructions\***

1. Pulled ACE report for desired HTS#s and countries (as per Brent or Mike)
  - a. AM-001 Entry Summary Lines by HTS Number Report
2. Get list of vendors for desired HTS#s and countries
  - a. Delete any domestic vendors. Only need Import or ownbrand vendors.
  - b. Separate tabs for each country.
  - c. Create a tab for the data analyzing
    - i. Vendor Name
    - ii. Vendor ID#
    - iii. Styles
    - iv. PO#s
    - v. HTS#s
    - vi. FOB price
    - vii. PO Year
    - viii. Emails
    - ix. Date Sent
    - x. Date Received
    - xi. Qualified
    - xii. Notes
3. Identify GSP eligibility requirements for desired HTS#s
4. Analyze two styles/PO#s from each vendor that are from that specific country with desired HTS#
5. Once confirmed, alert broker to claim GSP for all import entries with desired HTS#s

To get a list of vendors we claim free trade or GSP for in Tradestone:

1. Tradestone Query
  - a. FTZ-Data Mgmt → SPI/GSP-Manage History
  - b. Update the HTS STATUS = ASSIGNED
  - c. Update SPI/GSP/XX TO WAIVE = A or XX

\*These instructions are tailored to each individual Free Trade Claim.

## **Audit Summary:**

### **GSP Eligibility**

Report Date: September 22, 2017

#### **Objectives:**

The objective of this audit is as follows:

- Identify HTS numbers/styles that may qualify for GSP
- Ensure that the HTS number/styles still qualify for the GSP free trade program by having the vendors fill out a cost sheet for each style we are auditing
- Ensure that we can obtain the proper documentation required by customs in order to declare GSP on our import entries
- Ensure the information given is correct and matches our records

#### **Scope**

The scope of this audit is as follows:

- Time frame – every year, (Feb 1<sup>st</sup> to Jan 31<sup>st</sup>), completed September 5, 2017
- Target correct documentation showing proof of GSP eligibility for imported styles that qualify

#### **Audit Details**

We randomly choose 6 vendors and requested that they fill out a [cost sheet](#). We choose 2 styles for each vendor that pertain to the HTS number and COO for the specific GSP declaration we were looking into. We used total FOB prices for the year 2016 to determine which vendors to pick from. Each style belongs to a PO that was issued in 2017 to ensure that it is still relevant. All our findings are listed on a [spreadsheet](#) that shows the vendor name, style, FOB prices, PO#, COO, HTS number, who was contacted and the final results based on the questionnaires sent back to us.

We received a completed cost sheet for all 6 requested vendors. Vendors Bandana Limited, Lucifer Research Co, and Tangerine Design PVT Ltd all do not qualify for GSP. LL Expo Impo, V & M, and Vivaldi Leather PVT Ltd do qualify for GSP based on the cost sheets provided. All vendors have been notified that we may request back up documents at any time to ensure the information that they already provided on the cost sheet is accurate.

#### **Audit Conclusion**

Based on our review of the cost sheets, sent to 6 vendors for 11 different styles, half would qualify for the new GSP claim for HTS number 4202 and the other half would not. Each vendor is aware, that on any occasion, we may ask for documentation that proves the duty-free claim to show CBP.

(Insert Company letterhead or Company name here)

<b>COST SHEET: GENERALIZED SYSTEM OF PREFERENCES</b>					
VENDOR:					
FACTORY:					
PRODUCT TYPE:					
PO:					
COUNTRY OF ORIGIN:					
			COST BREAKDOWN OF MATERIALS PER PRODUCT UNIT		
	<b>COMPONENT DESCRIPTION</b>	<b>ORIGIN</b>	<b>USAGE/UNIT</b>	<b>UNIT PRICE</b>	<b>TOTAL</b>
					\$0.00
					\$0.00
					\$0.00
	<b>Raw Material or Component</b>				\$0.00
					\$0.00
					\$0.00
					\$0.00
					\$0.00
					\$0.00
					\$0.00
					\$0.00
<b>TOTAL COMPONENTS</b>					<b>\$0.00</b>
<b>Labor and Construction</b>					
<b>TOTAL LABOR AND CONSTRUCTION</b>					<b>\$0.00</b>
<b>Profit &amp; General Expenses</b>					
<b>TOTAL PROFIT &amp; GENERAL EXPENSES:</b>					<b>\$0.00</b>
<b>Packing</b>					
<b>TOTAL PACKING:</b>					<b>\$0.00</b>
<b>TOTAL COST (FOB) PER PRODUCT</b>					
<b>TOTAL QUALIFYING COST PER GARMENT</b>					
<b>TOTAL NON-QUALIFYING COST PER GARMENT</b>					
<b>PERCENTAGE OF ORIGINATING COST:</b>					<b>#DIV/0!</b>
Company Signature		Name/Title		Date	
General Instructions:					
1	One Cost sheet per PO				
2	All Origins must be listed for each raw material				
3	Costs should be on a per unit basis				
4	Profit and expenses should be separated out from the raw materials and labor				
5	Total FOB cost should be cost paid by URBN				
6	Add lines for additional cost that need to be added.				

This Cost Sheet is tailored for each individual Free Trade Claim.