

URBAN OUTFITTERS INC
Form 10-Q
December 10, 2012
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UNITED STATES
SECURITIES AND EXCHANGE COMMISSION
WASHINGTON, DC 20549

FORM 10-Q

x **QUARTERLY REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934**

For the Quarterly Period Ended October 31, 2012

OR

.. **TRANSITION REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934**

For the transition period from to

Commission File No. 000-22754

Urban Outfitters, Inc.

(Exact Name of Registrant as Specified in Its Charter)

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Pennsylvania
(State or Other Jurisdiction of

23-2003332
(I.R.S. Employer

Incorporation or Organization)

Identification No.)

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

19112-1495
(Zip Code)

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

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

Indicate by check mark whether the registrant has submitted electronically and posted on its corporate Web site, if any, every Interactive Data File required to be submitted and posted pursuant to Rule 405 of Regulation S-T (§232.405 of this chapter) during the preceding 12 months (or for such shorter period that the registrant was required to submit and post such files). Yes No

Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, a non-accelerated filer or a smaller reporting company. See the definitions of large accelerated filer, accelerated filer and smaller reporting company in Rule 12b-2 of the Exchange Act.

Large accelerated filer

Accelerated filer

Non-accelerated filer (Do not check if a smaller reporting company)

Smaller reporting company

Indicate by check mark whether the registrant is a shell company (as defined in Rule 12b-2 of the Exchange Act). Yes No

Indicate the number of shares outstanding of each of the issuer's classes of common stock, as of the latest practicable date.

Common stock, \$0.0001 par value 145,910,567 shares outstanding on December 4, 2012.

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Table of Contents**PART I****FINANCIAL INFORMATION****Item 1. Financial Statements****URBAN OUTFITTERS, INC.****CONDENSED CONSOLIDATED BALANCE SHEETS**

(amounts in thousands, except share data)

(unaudited)

	October 31, 2012	January 31, 2012	October 31, 2011
ASSETS			
Current assets:			
Cash and cash equivalents	\$ 216,648	\$ 145,273	\$ 83,370
Marketable securities	146,065	89,854	46,649
Accounts receivable, net of allowance for doubtful accounts of \$1,326, \$1,614 and \$1,046, respectively	43,913	36,673	46,830
Inventories	395,406	250,073	367,407
Prepaid expenses, deferred taxes and other current assets	64,233	75,119	64,074
Total current assets	866,265	596,992	608,330
Property and equipment, net	734,793	684,979	670,752
Marketable securities	93,767	126,913	129,146
Deferred income taxes and other assets	60,770	74,824	69,877
Total assets	\$ 1,755,595	\$ 1,483,708	\$ 1,478,105
LIABILITIES AND SHAREHOLDERS' EQUITY			
Current liabilities:			
Accounts payable	\$ 162,542	\$ 95,754	\$ 134,480
Accrued expenses, accrued compensation and other current liabilities	132,547	137,712	130,590
Total current liabilities	295,089	233,466	265,070
Deferred rent and other liabilities	190,648	183,974	179,229
Total liabilities	485,737	417,440	444,299
Commitments and contingencies (see Note 9)			
Shareholders' equity:			
Preferred shares; \$.0001 par value, 10,000,000 shares authorized, none issued			
Common shares; \$.0001 par value, 200,000,000 shares authorized, 145,869,067, 144,633,007 and 144,201,664 shares issued and outstanding, respectively	15	15	15
Additional paid-in-capital	44,168		
Retained earnings	1,232,531	1,077,765	1,041,847
Accumulated other comprehensive loss	(6,856)	(11,512)	(8,056)

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Total shareholders' equity	1,269,858	1,066,268	1,033,806
Total liabilities and shareholders' equity	\$ 1,755,595	\$ 1,483,708	\$ 1,478,105

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

Table of Contents**URBAN OUTFITTERS, INC.****CONDENSED CONSOLIDATED STATEMENTS OF INCOME**

(amounts in thousands, except share and per share data)

(unaudited)

	Three Months Ended October 31,		Nine Months Ended October 31,	
	2012	2011	2012	2011
Net sales	\$ 692,894	\$ 609,953	\$ 1,938,093	\$ 1,743,153
Cost of sales, including certain buying, distribution and occupancy costs	432,043	393,850	1,220,258	1,102,595
Gross profit	260,851	216,103	717,835	640,558
Selling, general and administrative expenses	167,341	142,742	475,472	420,366
Income from operations	93,510	73,361	242,363	220,192
Other income, net	128	2,018	571	4,318
Income before income taxes	93,638	75,379	242,934	224,510
Income tax expense	34,120	24,700	88,168	78,514
Net income	\$ 59,518	\$ 50,679	\$ 154,766	\$ 145,996
Net income per common share:				
Basic	\$ 0.41	\$ 0.34	\$ 1.07	\$ 0.93
Diluted	\$ 0.40	\$ 0.33	\$ 1.06	\$ 0.91
Weighted average common shares outstanding:				
Basic	145,539,816	151,170,175	145,024,545	157,313,818
Diluted	147,086,982	153,434,811	146,092,442	159,751,493

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

Table of Contents**URBAN OUTFITTERS, INC.****CONDENSED CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME****(amounts in thousands)****(unaudited)**

	Three Months Ended October 31,		Nine Months Ended October 31,	
	2012	2011	2012	2011
Net income	\$ 59,518	\$ 50,679	\$ 154,766	\$ 145,996
Foreign currency translation	2,515	(1,405)	3,336	1,299
Change in unrealized gains/ (losses) on marketable securities, net of tax	44	(991)	1,320	907
Comprehensive income	\$ 62,077	\$ 48,283	\$ 159,422	\$ 148,202

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

Table of Contents**URBAN OUTFITTERS, INC.****CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS****(amounts in thousands)****(unaudited)**

	Nine Months Ended October 31,	
	2012	2011
Cash flows from operating activities:		
Net income	\$ 154,766	\$ 145,996
Adjustments to reconcile net income to net cash provided by operating activities:		
Depreciation and amortization	87,384	80,708
Provision for deferred income taxes	(6,564)	(2,322)
Excess tax benefit on share-based compensation	(5,438)	(512)
Share-based compensation expense	10,663	8,344
Loss/(gain) on disposition of property and equipment, net	(82)	857
Changes in assets and liabilities:		
Receivables	(7,261)	(10,304)
Inventories	(144,603)	(137,657)
Prepaid expenses and other assets	37,144	2,151
Payables, accrued expenses and other liabilities	64,383	41,803
 Net cash provided by operating activities	 190,392	 129,064
Cash flows from investing activities:		
Cash paid for property and equipment	(130,470)	(139,566)
Cash paid for marketable securities	(198,730)	(97,180)
Sales and maturities of marketable securities	175,991	384,594
 Net cash (used in) provided by investing activities	 (153,209)	 147,848
Cash flows from financing activities:		
Proceeds from the exercise of stock options	28,068	3,511
Excess tax benefits from stock option exercises	5,438	512
Share repurchases		(538,311)
 Net cash provided by (used in) financing activities	 33,506	 (534,288)
 Effect of exchange rate changes on cash and cash equivalents	 686	 489
 Increase (decrease) in cash and cash equivalents	 71,375	 (256,887)
Cash and cash equivalents at beginning of period	145,273	340,257
 Cash and cash equivalents at end of period	 \$ 216,648	 \$ 83,370
Supplemental cash flow information:		
Cash paid during the year for:		
Income taxes	\$ 63,365	\$ 85,062
 Non-cash investing activities Accrued capital expenditures	 \$ 22,301	 \$ 27,465

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

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URBAN OUTFITTERS, INC.

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

(dollars in thousands, except share and per share data)

(unaudited)

1. Basis of Presentation

The accompanying unaudited condensed consolidated financial statements have been prepared in accordance with generally accepted accounting principles in the United States (U.S. GAAP) for interim financial information and with the instructions to Form 10-Q and Article 10 of Regulation S-X. In the opinion of management, all adjustments (consisting of normal recurring accruals) considered necessary for a fair presentation have been included. These condensed financial statements should be read in conjunction with Urban Outfitters, Inc.'s (the Company's) Annual Report on Form 10-K for the fiscal year ended January 31, 2012, filed with the United States Securities and Exchange Commission on April 2, 2012.

The Company's business is subject to seasonal variations in which a greater percentage of the Company's annual net sales and net income typically occur during the period from August 1 through December 31 of the fiscal year. Accordingly, the results of operations for the three and nine months ended October 31, 2012 are not necessarily indicative of the results to be expected for the full year.

The Company's fiscal year ends on January 31. All references in these notes to the Company's fiscal years refer to the fiscal years ended on January 31 in those years. For example, the Company's fiscal year 2013 will end on January 31, 2013.

2. Recently Issued and Adopted Accounting Pronouncements

In May 2011, the Financial Accounting Standards Board (FASB) issued an update that amended fair value measurements and disclosures. This amendment provides that the inputs and measures used to value assets that fall within Level 3 of the valuation hierarchy be quantitatively presented as well as various other fair value disclosure requirements. Application is required prospectively for interim and annual periods beginning after December 15, 2011. The Company adopted the provisions of this amendment beginning February 1, 2012. Other than the enhanced disclosures, this accounting standards update did not have an impact on the Company's financial position, results of operations or cash flows.

In June 2011, the FASB issued an update that requires an increase in the prominence of other comprehensive income and its components within the financial statements. The update provides entities the option to present the components of net income and other comprehensive income in either one or two consecutive financial statements. It also eliminates the option to present other comprehensive income in the statements of shareholders' equity. This update also required companies to present reclassification adjustments out of accumulated other comprehensive income by component in both the statement in which net income is presented and the statement in which other comprehensive income is presented. However, in December 2011, the FASB issued an additional update which indefinitely defers the requirement related to the presentation of reclassification adjustments. These updates became effective for the Company beginning February 1, 2012. In accordance with these updates the Company has presented two separate but consecutive statements which include the components of net income and other comprehensive income. Other than the change in presentation, these accounting standards updates did not have an impact on the Company's financial position, results of operations or cash flows.

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During all periods presented, marketable securities are classified as available-for-sale. The amortized cost, gross unrealized gains (losses) and fair value of available-for-sale securities by major security type and class of security as of October 31, 2012, January 31, 2012 and October 31, 2011 were as follows:

	Amortized Cost	Unrealized Gains	Unrealized (Losses)	Fair Value
As of October 31, 2012				
Short-term Investments:				
Corporate bonds	\$ 64,975	\$ 89	\$ (7)	\$ 65,057
Municipal and pre-refunded municipal bonds	29,937	98	(6)	30,029
Certificate of deposit	28,676	28		28,704
Treasury bills	10,582	4		10,586
Commercial paper	8,178	11		8,189
Federal government agencies	3,500			3,500
	145,848	230	(13)	146,065
Long-term Investments:				
Corporate bonds	46,507	155	(57)	46,605
Municipal and pre-refunded municipal bonds	21,456	47	(27)	21,476
Certificate of deposit	1,925	1		1,926
Treasury bills	18,211	7	(1)	18,217
Federal government agencies	1,211	2		1,213
Auction rate securities	4,925		(595)	4,330
	94,235	212	(680)	93,767
	\$ 240,083	\$ 442	\$ (693)	\$ 239,832
As of January 31, 2012				
Short-term Investments:				
Corporate bonds	\$ 34,899	\$ 7	\$ (28)	\$ 34,878
Municipal and pre-refunded municipal bonds	41,519	135	(10)	41,644
Certificate of deposit	5,225			5,225
Commercial paper	3,580	12		3,592
Federal government agencies	4,513	2		4,515
	89,736	156	(38)	89,854
Long-term Investments:				
Corporate bonds	60,852	277	(72)	61,057
Municipal and pre-refunded municipal bonds	18,410	186	(6)	18,590
Certificate of deposit	6,970		(1)	6,969
Treasury bills	14,982	6		14,988
Federal government agencies	5,111	2	(1)	5,112
Auction rate securities	22,975		(2,778)	20,197
	129,300	471	(2,858)	126,913
	\$ 219,036	\$ 627	\$ (2,896)	\$ 216,767

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	Amortized Cost	Unrealized Gains	Unrealized (Losses)	Fair Value
As of October 31, 2011				
Short-term Investments:				
Corporate bonds	\$ 15,846	\$ 1	\$ (67)	\$ 15,780
Municipal and pre-refunded municipal bonds	28,129	25	(21)	28,133
Certificate of deposit	735			735
Federal government agencies	2,000	1		2,001
	46,710	27	(88)	46,649
Long-term Investments:				
Corporate bonds	65,626	261	(260)	65,627
Municipal and pre-refunded municipal bonds	36,041	311	(23)	36,329
Certificates of deposit	6,234	1	(1)	6,234
Auction rate securities	23,650		(2,694)	20,956
	131,551	573	(2,978)	129,146
	\$ 178,261	\$ 600	\$ (3,066)	\$ 175,795

Proceeds from the sale and maturities of available-for-sale securities were \$175,991 and \$384,594 for the nine months ended October 31, 2012 and 2011, respectively. The Company included in other income, net, realized gains of \$36 and \$249 for the three and nine months ended October 31, 2012, respectively. The Company included in other income, net, realized gains of \$1,064 and \$1,115 for the three and nine months ended October 31, 2011, respectively. Amortization of discounts and premiums, net, resulted in charges of \$1,179 and \$3,657 for the three and nine months ended October 31, 2012, respectively. Amortization of discounts and premiums, net, resulted in charges of \$1,776 and \$6,105 for the three and nine months ended October 31, 2011, respectively.

As of October 31, 2012, the par value of the Company's Auction Rate Securities (ARS) was \$4,925 and the estimated fair value was \$4,330. The Company's ARS portfolio consists of A or better rated ARS that represent interests in municipal obligations. To date, the Company has collected all interest payable on outstanding ARS when due and has not been informed by the issuers that accrued interest payments are currently at risk. The Company does not intend to sell the underlying securities prior to their recovery and the Company believes it is not likely that it will be required to sell the underlying securities prior to their anticipated recovery of full amortized cost.

4. Fair Value

The Company utilizes a hierarchy that prioritizes fair value measurements based on the types of inputs used for the various valuation techniques (market approach, income approach and cost approach that relate to its financial assets and financial liabilities). The levels of the hierarchy are described as follows:

Level 1: Observable inputs such as quoted prices in active markets for identical assets or liabilities.

Level 2: Inputs other than quoted prices that are observable for the asset or liability, either directly or indirectly; these include quoted prices for similar assets or liabilities in active markets and quoted prices for identical or similar assets or liabilities in markets that are not active.

Level 3: Unobservable inputs that reflect the reporting entity's own assumptions.

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Management's assessment of the significance of a particular input to the fair value measurement requires judgment and may affect the valuation of financial assets and liabilities and their placement within the fair value hierarchy. The Company's financial assets that are accounted for at fair value on a recurring basis are presented in the tables below:

	Marketable Securities Fair Value as of			Total
	Level 1	Level 2	Level 3	
Assets:				
Corporate bonds	\$ 111,662	\$	\$	\$ 111,662
Municipal and pre-refunded municipal bonds		51,505		51,505
Certificate of deposit		30,630		30,630
Treasury bills	28,803			28,803
Commercial paper		8,189		8,189
Federal government agencies	4,713			4,713
Auction rate securities			4,330	4,330
	\$ 145,178	\$ 90,324	\$ 4,330	\$ 239,832