

URBAN OUTFITTERS INC  
Form 10-Q  
December 10, 2009  
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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, 2009

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 Identification No.)

**Incorporation or Organization)**

**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  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 168,499,638 shares outstanding on December 8, 2009.

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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, 2009	January 31, 2009	October 31, 2008
<b>Assets</b>			
Current assets:			
Cash and cash equivalents	\$ 202,316	\$ 316,035	\$ 71,714
Marketable securities	216,079	49,948	127,335
Accounts receivable, net of allowance for doubtful accounts of \$1,276, \$1,229 and \$2,326, respectively	37,592	36,390	33,822
Inventories	234,521	169,698	252,308
Prepaid expenses, deferred taxes and other current assets	46,987	52,331	64,079
<b>Total current assets</b>	<b>737,495</b>	<b>624,402</b>	<b>549,258</b>
Property and equipment, net	534,260	505,407	513,639
Marketable securities	233,525	155,226	225,364
Deferred income taxes and other assets	35,867	43,974	40,165
<b>Total Assets</b>	<b>\$ 1,541,147</b>	<b>\$ 1,329,009</b>	<b>\$ 1,328,426</b>
<b>Liabilities and Shareholders Equity</b>			
Current liabilities:			
Accounts payable	\$ 93,264	\$ 62,955	\$ 82,432
Accrued expenses, accrued compensation and other current liabilities	88,950	78,195	93,843
<b>Total current liabilities</b>	<b>182,214</b>	<b>141,150</b>	<b>176,275</b>
Deferred rent and other liabilities	143,673	134,084	130,754
<b>Total Liabilities</b>	<b>325,887</b>	<b>275,234</b>	<b>307,029</b>
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, 168,397,488, 167,712,088 and 167,706,788 shares issued and outstanding, respectively	17	17	17
Additional paid-in-capital	179,642	170,166	167,752
Retained earnings	1,043,557	901,339	860,794
Accumulated other comprehensive loss	(7,956)	(17,747)	(7,166)

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Total Shareholders Equity	1,215,260	1,053,775	1,021,397
Total Liabilities and Shareholders Equity	\$ 1,541,147	\$ 1,329,009	\$ 1,328,426

See accompanying notes

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

(amounts in thousands, except per share data)

(unaudited)

	Three Months Ended October 31,		Nine Months Ended October 31,	
	2009	2008	2009	2008
Net sales	\$ 505,900	\$ 477,953	\$ 1,349,322	\$ 1,326,540
Cost of sales, including certain buying, distribution and occupancy costs	295,812	282,557	808,838	785,954
Gross profit	210,088	195,396	540,484	540,586
Selling, general and administrative expenses	114,327	105,017	320,162	304,345
Income from operations	95,761	90,379	220,322	236,241
Other income, net	1,817	1,437	4,847	7,102
Income before income taxes	97,578	91,816	225,169	243,343
Income tax expense	35,186	32,542	82,951	84,524
Net income	\$ 62,392	\$ 59,274	\$ 142,218	\$ 158,819
Net income per common share:				
Basic	\$ 0.37	\$ 0.35	\$ 0.85	\$ 0.95
Diluted	\$ 0.36	\$ 0.35	\$ 0.83	\$ 0.93
Weighted average common shares:				
Basic	168,319,514	167,030,294	167,903,283	166,619,747
Diluted	171,443,902	171,064,904	170,831,491	171,122,246

See accompanying notes

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

	<b>Nine Months Ended October 31,</b>	
	<b>2009</b>	<b>2008</b>
<b>Cash flows from operating activities:</b>		
Net income	\$ 142,218	\$ 158,819
<b>Adjustments to reconcile net income to net cash provided by operating activities:</b>		
Depreciation and amortization	68,721	60,893
Deferred income taxes	(3,513)	(5,139)
Excess tax benefit on share-based compensation	(3,724)	(11,933)
Share-based compensation expense	3,480	2,752
Loss on disposition of property and equipment, net	152	1
<b>Changes in assets and liabilities:</b>		
Receivables	(989)	(7,767)
Inventories	(63,137)	(83,029)
Prepaid expenses and other assets	21,230	(15,869)
Payables, accrued expenses and other liabilities	45,339	26,125
<b>Net cash provided by operating activities</b>	<b>209,777</b>	<b>124,853</b>
<b>Cash flows from investing activities:</b>		
Cash paid for property and equipment	(84,207)	(86,185)
Cash paid for marketable securities	(544,705)	(568,928)
Sales and maturities of marketable securities	296,791	479,025
<b>Net cash used in investing activities</b>	<b>(332,121)</b>	<b>(176,088)</b>
<b>Cash flows from financing activities:</b>		
Exercise of stock options	2,272	8,864
Excess tax benefits from stock option exercises	3,724	11,933
<b>Net cash provided by financing activities</b>	<b>5,996</b>	<b>20,797</b>
Effect of exchange rate changes on cash and cash equivalents	2,629	(3,119)
<b>Decrease in cash and cash equivalents</b>	<b>(113,719)</b>	<b>(33,557)</b>
Cash and cash equivalents at beginning of period	316,035	105,271
<b>Cash and cash equivalents at end of period</b>	<b>\$ 202,316</b>	<b>\$ 71,714</b>
<b>Supplemental cash flow information:</b>		
<b>Cash paid during the year for:</b>		
Income Taxes	\$ 66,582	\$ 94,925
<b>Non-cash investing activities accrued capital expenditures</b>	<b>\$ 8,948</b>	<b>\$ 13,935</b>

See accompanying notes



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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 of America ( GAAP ) for interim financial information and with the instructions to Form 10-Q and Article 10 of Regulation S-X. Accordingly, they do not include all of the information and footnotes required by GAAP for complete financial statements. In the opinion of management, all adjustments (consisting of normal recurring accruals) considered necessary for a fair presentation have been included. These financial statements should be read in conjunction with the Company s Annual Report on Form 10-K for the fiscal year ended January 31, 2009, filed with the United States Securities and Exchange Commission on April 1, 2009.

The retail segment of the Company s business is subject to seasonal variations in which a greater percent 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, 2009 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 2010 will end on January 31, 2010.

In preparing the accompanying unaudited condensed consolidated financial statements, we have evaluated for material subsequent events through December 10, 2009, the date of the filing of this Form 10-Q. No such events were identified for this period.

**2. Recently Issued Accounting Pronouncements**

In June 2009, the Financial Accounting Standards Board ( FASB ) issued SFAS No. 168, The FASB Accounting Standards Codification and the Hierarchy of Generally Accepted Accounting Principles a replacement of FASB Statement No. 162 . This standard is now included in FASB Accounting Standards Codification Topic 105 and established only two levels of GAAP, authoritative and non-authoritative. The FASB Accounting Standards Codification (the Codification or ASC ) became the source of authoritative, non-governmental GAAP, except for rules and interpretive releases of the SEC, which are sources of authoritative GAAP for SEC registrants. All other non-grandfathered, non-SEC accounting literature not included in the Codification became non-authoritative. This standard is effective for financial statements for interim or annual reporting periods ending after September 15, 2009. Effective August 1, 2009, the Company has adopted the new guidelines and numbering system prescribed by the Codification when referring to GAAP. The adoption had no impact on the Company s financial condition, results of operations or cash flows.

In June 2009, the FASB issued SFAS No. 167, Amendments to FASB Interpretation No. 46(R). This standard responds to concerns about the application of certain key provisions of FASB Interpretation (FIN) 46(R), including those regarding the transparency of the involvement with variable interest entities. Specifically, SFAS No. 167 requires a qualitative approach to identifying a controlling financial interest in a variable interest entity ( VIE ) and requires ongoing assessment of whether an entity is a VIE and whether an interest in a VIE makes the holder the primary beneficiary of the VIE. In addition, the standard requires additional disclosures about the involvement with a VIE and any significant changes in risk exposure due to that involvement. SFAS No. 167 is effective for fiscal years beginning after November 15, 2009. The Company plans to adopt SFAS No. 167 in fiscal 2011 and anticipate the adoption to have no effect on the Company s financial condition, results of operations or cash flows.

**Table of Contents****3. Comprehensive Income**

The Company's total comprehensive income is presented below.

	Three Months Ended October 31,		Nine Months Ended October 31,	
	2009	2008	2009	2008
Net income	\$ 62,392	\$ 59,274	\$ 142,218	\$ 158,819
Foreign currency translation	532	(12,174)	9,026	(12,514)
Unrealized gains/(losses) on marketable securities, net of tax	318	(978)	765	(1,887)
Comprehensive income	\$ 63,242	\$ 46,122	\$ 152,009	\$ 144,418

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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, 2009, January 31, 2009 and October 31, 2008 were as follows:

	Amortized Cost	Unrealized Gains	Unrealized (Losses)	Fair Value
<b>As of October 31, 2009</b>				
Short-term Investments:				
Municipal & Pre-Refunded Municipal bonds	\$ 70,146	\$ 292	\$ (1)	\$ 70,437
Federal government agencies	143,949	171	(9)	144,111
Equities	1,800		(269)	1,531
	215,895	463	(279)	216,079
Long-term Investments:				
Municipal & Pre-Refunded Municipal bonds	33,980	267	(4)	34,243
Federal government agencies	107,334	370	(37)	107,667
Auction rate securities (1)	41,250		(4,950)	36,300
FDIC insured corporate bonds	54,967	348		55,315
	237,531	985	(4,991)	233,525
	\$ 453,426	\$ 1,448	\$ (5,270)	\$ 449,604
<b>As of January 31, 2009</b>				
Short-term Investments:				
Municipal & Pre-Refunded Municipal bonds	\$ 15,814	\$ 123	\$	\$ 15,937
Mutual Funds	5,046			5,046
Federal government agencies	24,975			24,975
Demand notes and equities	4,840	2	(852)	3,990
	50,675	125	(852)	49,948
Long-term Investments:				
Municipal & Pre-Refunded Municipal bonds	76,517	1,239	(10)	77,746
Auction rate securities (1)	44,025		(5,283)	38,742
Federal government agencies	25,640		(141)	25,499
FDIC insured corporate bonds	13,318		(79)	13,239
	159,500	1,239	(5,513)	155,226
	\$ 210,175	\$ 1,364	\$ (6,365)	\$ 205,174
<b>As of October 31, 2008</b>				
Short-term Investments:				
Municipal & Pre-Refunded Municipal bonds	\$ 36,176	\$ 159	\$ (38)	\$ 36,297
Auction rate securities	8,000			8,000
Federal government agencies	79,926			79,926
Demand notes and equities	3,120		(8)	3,112
	127,222	159	(46)	127,335

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Long-term Investments:				
Municipal & Pre-Refunded Municipal bonds	169,436	825	(972)	169,289
Auction rate securities (1)	56,075			56,075
	225,511	825	(972)	225,364
	\$ 352,733	\$ 984	\$ (1,018)	\$ 352,699

(1) Auction Rate Securities ( ARS ) have been classified as long-term assets in marketable securities in the Company's Condensed Consolidated Balance Sheet as of October 31, 2009, January 31, 2009 and October 31, 2008 due to ARS auction failures.

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Proceeds from the sale and maturities of available-for-sale securities were \$296,791 and \$479,025 for the nine months ended October 31, 2009 and 2008, respectively. For the three and nine months ended October 31, 2009 the Company included net realized gains of \$536 and \$1,284, respectively, in other income. For the three and nine months ended October 31, 2008 the Company included net realized losses of \$2,419 and \$2,303, respectively, in other income. Amortization of discounts and premiums, net, resulted in charges of \$1,712 and \$4,248 for the three and nine months ended October 31, 2009, respectively. Amortization of discounts and premiums, net, resulted in charges of \$599 and \$1,807 for the three and nine months ended October 31, 2008, respectively.

As of October 31, 2009, the par value of the Company's Auction Rate Securities (ARS) was \$41,250 and the estimated fair value was \$36,300. The Company's ARS portfolio consists of A or better rated ARS that represent interests in municipal and student loan related collateralized debt obligations, all of which are guaranteed by either government agencies and/or insured by private insurance agencies at 97% or greater of par value. To date, we have collected all interest payable on outstanding ARS when due and have not been informed by the issuers that accrued interest payments are currently at risk. As of October 31, 2009 none of the Company's investments have been in a loss position for greater than 12 months. The Company does not have the intent to sell the underlying securities prior to their full recovery and the Company believes that it is not likely that the Company will be required to sell the underlying securities prior to their anticipated recovery of full amortized cost.

**5. Fair Value of Financial Assets**

ASC Topic 820 establishes 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). 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.

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 financial liabilities and their placement within the fair value hierarchy. The level in the fair value hierarchy within which the fair value measurement in its entirety falls shall be determined based on the lowest level input that is significant to the fair value measurement in its entirety. The Company's financial assets that are accounted for at fair value on a recurring basis are presented in the tables below:

	Investments Fair Value as of			Total
	Level 1	Level 2	Level 3	
<b>Assets:</b>				
Municipal & Pre-Refunded Municipal bonds	\$	\$ 104,680	\$	\$ 104,680
Auction rate securities			36,300	36,300
Federal government agencies	251,778			251,778
FDIC insured corporate bonds	55,315			55,315
Equities	1,531			1,531
	\$ 308,624	\$ 104,680	\$ 36,300	\$ 449,604

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	Investments Fair Value as of			
	Level 1	Level 2	Level 3	Total
<b>Assets:</b>				
Municipal & Pre-Refunded Municipal bonds	\$	\$ 93,683	\$	\$ 93,683
Mutual funds	5,046			5,046
Auction rate securities			38,742	38,742
Federal government agencies	50,474			50,474
FDIC insured corporate bonds	13,239			13,239
Demand notes and equities	988	3,002		3,990
	\$ 69,747	\$ 96,685	\$ 38,742	\$ 205,174

	Investments Fair Value as of			
	Level 1	Level 2	Level 3	Total
<b>Assets:</b>				
Municipal & Pre-Refunded Municipal bonds	\$	\$ 205,586	\$	\$ 205,586
Auction rate securities		8,000	56,075	64,075
Federal government agencies		79,926		79,926
Demand notes and equities		3,112		3,112
	\$	\$ 296,624	\$ 56,075	\$ 352,699

Level 1 assets consist of financial instruments whose value has been based on quoted market prices for identical financial instruments in an active market.

Level 2 assets consist of financial instruments whose value has been based on quoted prices for similar assets and liabilities in active markets as well as quoted prices for identical or similar assets or liabilities in markets that are not active.

Level 3 consists of financial instruments where there was no active market as of October 31, 2009, January 31, 2009 and October 31, 2008. As of October 31, 2009 all of the Company's level 3 financial instruments consisted of failed ARS of which there was insufficient observable market information to determine fair value. The Company estimated the fair values for these securities by incorporating assumptions that it believes market participants would use in their estimates of fair value. Some of these assumptions included credit quality, collateralization, final stated maturity, estimates of the probability of being called or becoming liquid prior to final maturity, redemptions of similar ARS, previous market activity for the same investment security, impact due to extended periods of maximum auction rates and valuation models. As a result of this review, the Company determined its ARS to have a temporary impairment of \$4,950 as of October 31, 2009. The estimated fair values could change significantly based on future market conditions. The Company will continue to assess the fair value of its ARS for substantive changes in relevant market conditions, changes in its financial condition or other changes that may alter its estimates described above. Failed ARS represent approximately 5.6% of the Company's total cash, cash equivalents and marketable securities as of October 31, 2009. As of October 31, 2009 none of the Company's investments have been in a loss position for greater than 12 months.

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Below is a reconciliation of the beginning and ending ARS balances that the Company valued using a Level 3 valuation for the periods shown.

	<b>Three Months Ended October 31, 2009 Auction Rate Securities</b>	<b>Fiscal Year Ended January 31, 2009 Auction Rate Securities</b>	<b>Three Months Ended October 31, 2008 Auction Rate Securities</b>
Balance at beginning of period	\$ 37,884	\$ 61,375	\$ 52,100
Total gains or (losses) realized/unrealized:			
Included in earnings		(2,880)	(2,880)
Included in other comprehensive income	216	(5,283)	540
Purchases, issuances and settlements	(1,800)	(17,350)	6,315
Transfers in and/or out of Level 3		2,880	
<b>Ending balance at end of period</b>	<b>\$ 36,300</b>	<b>\$ 38,742</b>	<b>\$ 56,075</b>
Total losses for the period included in other comprehensive income attributable to the change in unrealized gains or losses related to assets still held at reporting date	\$ 4,950	\$ 5,283	\$ 540

	<b>Nine Months Ended October 31, 2009 Auction Rate Securities</b>	<b>Nine Months Ended October 31, 2008 Auction Rate Securities</b>
Balance at beginning of period	\$ 38,742	\$ 61,375
Total gains or (losses) realized/unrealized:		
Included in earnings		(2,880)
Included in other comprehensive income	333	
Purchases, issuances and settlements	(2,775)	(2,420)
Transfers in and/or out of Level 3		
<b>Ending balance at end of period</b>	<b>\$ 36,300</b>	<b>\$ 56,075</b>
Total losses for the period included in other comprehensive income attributable to the change in unrealized gains or losses related to assets still held at reporting date	\$ 4,950	\$