

URBAN OUTFITTERS INC
Form 10-Q
September 09, 2015
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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 July 31, 2015

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)

Pennsylvania (State or Other Jurisdiction of Incorporation or Organization)	23-2003332 (I.R.S. Employer Identification No.)
5000 South Broad Street, Philadelphia, PA (Address of Principal Executive Offices) Registrant's telephone number, including area code: (215) 454-5500	19112-1495 (Zip Code)

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 shares, \$0.0001 par value 123,945,773 shares outstanding on September 4, 2015.

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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)**

	July 31, 2015	January 31, 2015	July 31, 2014
ASSETS			
Current assets:			
Cash and cash equivalents	\$ 194,441	\$ 154,558	\$ 145,273
Marketable securities	71,926	104,246	106,721
Accounts receivable, net of allowance for doubtful accounts of \$813, \$850 and \$1,038, respectively	70,014	70,458	72,813
Inventories	384,404	358,237	362,028
Prepaid expenses, deferred taxes and other current assets	118,678	121,618	105,129
Total current assets	839,463	809,117	791,964
Property and equipment, net	900,302	889,232	868,642
Marketable securities	72,764	104,448	157,146
Deferred income taxes and other assets	94,804	85,944	86,394
Total Assets	\$ 1,907,333	\$ 1,888,741	\$ 1,904,146
LIABILITIES AND SHAREHOLDERS EQUITY			
Current liabilities:			
Accounts payable	\$ 134,673	\$ 156,090	\$ 156,810
Accrued expenses, accrued compensation and other current liabilities	218,604	197,650	211,388
Total current liabilities	353,277	353,740	368,198
Long-term debt	115,000		
Deferred rent and other liabilities	207,808	207,032	199,891
Total Liabilities	676,085	560,772	568,089
Commitments and contingencies (see Note 10)			

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Shareholders' equity:

Preferred shares; \$.0001 par value, 10,000,000 shares authorized, none issued			
Common shares; \$.0001 par value, 200,000,000 shares authorized, 125,126,008, 130,502,864 and 134,057,393 shares issued and outstanding, respectively	13	13	13
Additional paid-in-capital			
Retained earnings	1,241,227	1,343,383	1,333,658
Accumulated other comprehensive (loss) income	(9,992)	(15,427)	2,386
Total Shareholders' Equity	1,231,248	1,327,969	1,336,057
Total Liabilities and Shareholders' Equity	\$ 1,907,333	\$ 1,888,741	\$ 1,904,146

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 July 31,		Six Months Ended July 31,	
	2015	2014	2015	2014
Net sales	\$ 867,460	\$ 811,253	\$ 1,606,470	\$ 1,497,563
Cost of sales	549,355	507,995	1,041,944	955,794
Gross profit	318,105	303,258	564,526	541,769
Selling, general and administrative expenses	214,354	198,141	407,721	376,831
Income from operations	103,751	105,117	156,805	164,938
Other expense, net	(596)	(523)	(2,717)	(867)
Income before income taxes	103,155	104,594	154,088	164,071
Income tax expense	36,314	37,085	54,471	59,084
Net income	\$ 66,841	\$ 67,509	\$ 99,617	\$ 104,987
Net income per common share:				
Basic	\$ 0.52	\$ 0.49	\$ 0.77	\$ 0.75
Diluted	\$ 0.52	\$ 0.49	\$ 0.76	\$ 0.74
Weighted-average common shares outstanding:				
Basic	127,910,026	136,453,663	129,529,108	140,201,489
Diluted	129,080,594	138,177,110	130,931,093	141,978,651

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 July 31,		Six Months Ended July 31,	
	2015	2014	2015	2014
Net income	\$ 66,841	\$ 67,509	\$ 99,617	\$ 104,987
Other comprehensive income (loss):				
Foreign currency translation	2,353	828	5,498	3,696
Change in unrealized losses on marketable securities, net of tax	(25)	(162)	(63)	(342)
Total other comprehensive income	2,328	666	5,435	3,354
Comprehensive income	\$ 69,169	\$ 68,175	\$ 105,052	\$ 108,341

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

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URBAN OUTFITTERS, INC.

CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS

(amounts in thousands)

(unaudited)

	Six Months Ended July 31,	
	2015	2014
Cash flows from operating activities:		
Net income	\$ 99,617	\$ 104,987
Adjustments to reconcile net income to net cash provided by operating activities:		
Depreciation and amortization	70,848	68,903
Benefit for deferred income taxes	(8,514)	(15,109)
Excess tax benefits from share-based awards	(5,791)	(968)
Share-based compensation expense	7,672	8,633
Loss on disposition of property and equipment, net	887	673
Changes in assets and liabilities:		
Receivables	(7,582)	(17,475)
Inventories	(25,234)	(69,645)
Prepaid expenses and other assets	13,509	(215)
Payables, accrued expenses and other liabilities	(6,424)	30,817
Net cash provided by operating activities	138,988	110,601
Cash flows from investing activities:		
Cash paid for property and equipment	(69,337)	(106,157)
Cash paid for marketable securities	(150,798)	(258,961)
Sales and maturities of marketable securities	213,930	631,950
Net cash (used in) provided by investing activities	(6,205)	266,832
Cash flows from financing activities:		
Borrowings under long-term debt	191,612	
Repayments of long-term debt	(76,612)	
Proceeds from the exercise of stock options	46,400	2,927
Excess tax benefits from share-based awards	5,791	968
Share repurchases related to share repurchase program	(253,618)	(478,922)
Share repurchases related to taxes for share-based awards	(8,017)	(61)
Net cash used in financing activities	(94,444)	(475,088)
Effect of exchange rate changes on cash and cash equivalents	1,544	870

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Increase (decrease) in cash and cash equivalents	39,883	(96,785)
Cash and cash equivalents at beginning of period	154,558	242,058
Cash and cash equivalents at end of period	\$ 194,441	\$ 145,273
Supplemental cash flow information:		
Cash paid during the year for:		
Income taxes	\$ 29,969	\$ 56,259
Non-cash investing activities Accrued capital expenditures	\$ 26,186	\$ 38,921

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, 2015, filed with the United States Securities and Exchange Commission on April 1, 2015.

The Company 's business experiences seasonal fluctuations and realizes greater net sales and operating income from August 1 through December 31 of the fiscal year (the back-to-school and holiday periods). Historically, and consistent with the retail industry, this seasonality also impacts our working capital requirements, particularly with regard to inventory. Accordingly, the results of operations for the three and six months ended July 31, 2015 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 2016 will end on January 31, 2016.

2. Recently Issued and Adopted Accounting Pronouncements

In July 2015, the Financial Accounting Standards Board (FASB) issued an accounting standards update that clarifies the measurement of inventory. The update applies to entities who utilize the first-in, first-out (FIFO) and average cost methods of measuring inventory and states that an entity should measure inventory at the lower of cost and net realizable value. Net realizable value represents the estimated selling price less costs associated with completion, disposal and transportation. The update will be effective for the Company on February 1, 2017 and early adoption is permitted. The update is to be adopted on a prospective basis. The Company is currently assessing the potential effects this update may have on its consolidated financial statements.

In April 2015, the FASB issued an accounting standards update that clarifies the circumstances in which a customer would account for a cloud computing arrangement as a license of internal-use software. The update will be effective for the Company on February 1, 2016, and early adoption is permitted. The update allows for either retrospective or prospective adoption for all new transactions entered into or materially modified after the date of the adoption. The Company is currently assessing the potential effects this update may have on its consolidated financial statements.

In May 2014, the FASB issued an accounting standards update that clarifies the principles for recognizing revenue from contracts with customers. The update outlines a single comprehensive model for entities to use in accounting for revenue arising from contracts with customers and supersedes most current revenue recognition guidance, including industry-specific guidance. The update states that an entity should recognize revenue to depict the transfer of promised

goods or services to customers in the amount that reflects the consideration to which the entity expects to be entitled in exchange for those goods and services. Entities are required to apply the following steps when recognizing revenue under the update: (1) identify the contract(s) with a customer; (2) identify the performance obligation in the contract; (3) determine the transaction price; (4) allocate the transaction price to the performance obligations in the contract; and (5) recognize revenue when (or as) the entity satisfies a performance obligation. The update allows for a full retrospective adoption, meaning the update is applied to all periods presented, or a modified retrospective adoption, meaning the update is applied only to the most current period presented in the financial statements. In August 2015, the FASB issued an accounting

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standards update which approved a one-year deferral of the effective date that allows the Company to defer the effective date to February 1, 2018 but still permits the Company to adopt the update as of the original February 1, 2017 effective date. The Company is currently evaluating the adoption method to apply and the impact that the update will have on its financial position, results of operations, cash flows and financial statement disclosures.

3. Marketable Securities

During all periods shown, 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 July 31, 2015, January 31, 2015 and July 31, 2014 were as follows:

	Amortized Cost	Unrealized Gains	Unrealized (Losses)	Fair Value
As of July 31, 2015				
Short-term Investments:				
Municipal and pre-refunded municipal bonds	\$ 31,983	\$ 43	\$ (1)	\$ 32,025
Corporate bonds	37,961	1	(60)	37,902
Certificates of deposit	1,999			1,999
	71,943	44	(61)	71,926
Long-term Investments:				
Municipal and pre-refunded municipal bonds	45,405	110	(6)	45,509
Corporate bonds	17,835	1	(39)	17,797
Certificates of deposit	4,436			4,436
Mutual funds, held in rabbi trust	4,964	66	(8)	