

Edgar Filing: URBAN OUTFITTERS INC - Form 10-Q

URBAN OUTFITTERS INC  
Form 10-Q  
December 07, 2001

SECURITIES AND EXCHANGE COMMISSION

Washington, DC 20549

-----  
FORM 10-Q

[ X ] QUARTERLY REPORT UNDER SECTION 13 or 15 (d) OF THE  
SECURITIES EXCHANGE ACT OF 1934

For the Quarterly Period Ended October 31, 2001

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 Number 0-16999

-----  
Urban Outfitters, Inc.

(Exact name of registrant as specified in its charter)

PENNSYLVANIA

23-2003332

-----  
(State or Other  
Jurisdiction of  
Incorporation of  
Organization)

-----  
(I.R.S. Employer  
Identification No.)

1809 Walnut Street, Philadelphia, PA  
(Address of principal executive office)

19103  
(Zip Code)

(215) 564-2313  
(Registrant's telephone number including area code)

N/A

(Former name, former address and former fiscal year,  
if changed since last report)

-----  
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            X            No  
-----

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Title of Each Class of Common Stock -----	Number of Shares Outstanding at November 29, 2001 -----
Common Shares, par value, \$.0001 per share	17,286,786

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URBAN OUTFITTERS, INC.

CONDENSED CONSOLIDATED BALANCE SHEETS  
(in thousands, except share and per share data)  
(Unaudited)

October 31,  
2001  
-----

ASSETS  
-----

Current assets:

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Cash and cash equivalents	\$ 7,531
Marketable securities	42
Accounts receivable, net of allowance for doubtful accounts of \$594, \$500, and \$599, respectively	5,352
Inventories	54,258
Prepaid expenses and other current assets	7,774
	-----
Total current assets	74,957
Property and equipment, net	103,581
Other assets	6,127
	-----
	\$ 184,665
	=====

## LIABILITIES AND SHAREHOLDERS' EQUITY

Current liabilities:	
Accounts payable	\$ 23,439
Accrued expenses and other current liabilities	14,881
	-----
Total current liabilities	38,320
Deferred rent	7,497
	-----
Total liabilities	45,817
	=====
Commitments and contingencies (See Note 5)	
Shareholders' equity:	
Preferred shares; \$.0001 par value, 10,000,000 shares authorized, none issued	-
Common shares; \$.0001 par value, 50,000,000 shares authorized, 17,264,486, 17,253,486, and 17,253,486 issued and outstanding, respectively	2
Additional paid-in capital	16,374
Retained earnings	123,345
Accumulated other comprehensive loss	(873)
	-----
Total shareholders' equity	138,848
	-----
	\$ 184,665
	=====

See accompanying notes

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URBAN OUTFITTERS, INC.

CONDENSED CONSOLIDATED STATEMENTS OF INCOME  
(in thousands, except share and per share data)  
(Unaudited)

Three Months Ended  
October 31,

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	2001	2000	
Net sales	\$ 92,859	\$ 77,091	\$
Cost of sales, including certain buying, distribution and occupancy costs	61,615	52,557	
Gross profit	31,244	24,534	
Selling, general and administrative expenses	22,875	20,386	
Income from operations	8,369	4,148	
Other income (expense), net	(87)	(213)	
Income before income taxes	8,282	3,935	
Income tax expense	3,354	1,574	
Net income	\$ 4,928	\$ 2,361	\$
Net income per common share:			
Basic	\$ 0.29	\$ 0.14	\$
Diluted	\$ 0.28	\$ 0.14	\$
Weighted average common shares outstanding:			
Basic	17,263,712	17,259,402	17
Diluted	17,361,188	17,275,640	17

See accompanying notes

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URBAN OUTFITTERS, INC.

## CONDENSED CONSOLIDATED STATEMENTS OF SHAREHOLDERS' EQUITY (in thousands, except share data) (Unaudited)

	Comprehensive Income		Common Shares			
	Quarter	Year-to- Date	Number of Shares	Par Value	Additional Paid-in Capital	R E
Balances at February 1, 2001			17,253,486	\$ 2	\$ 16,268	\$ 1
Net Income	\$ 4,928	\$ 9,236				
Foreign currency translation						

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adjustments, net	226	(131)			
Change in unrealized net losses on marketable securities	-	25			
	-----	-----			
Comprehensive income	\$ 5,154	\$ 9,130			
	=====	=====			
Exercise of stock options			11,000		106
			-----	-----	-----
Balances at October 31, 2001			17,264,486	\$ 2	\$ 16,374
			=====	=====	=====
Balances at February 1, 2000			17,358,186	\$ 2	\$ 17,680
Net Income	\$ 2,361	\$ 7,088			
Foreign currency translation adjustments, net	(131)	(487)			
Change in unrealized net losses on marketable securities	63	(26)			
	-----	-----			
Comprehensive income	\$ 2,293	\$ 6,575			
	=====	=====			
Purchases and retirements of common shares			(104,700)		(1,412)
			-----	-----	-----
Balances at October 31, 2000			17,253,486	\$ 2	\$ 16,268
			=====	=====	=====

See accompanying notes

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URBAN OUTFITTERS, INC.

## CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS (in thousands) (Unaudited)

	Nine Months End
	-----
	2001
	-----
Cash flows from operating activities:	
Net income	\$ 9,236
Adjustments to reconcile net income to net cash provided by operating activities:	
Depreciation and amortization	11,433
Changes in assets and liabilities:	
(Increase) decrease in receivables	(1,910)
Increase in inventories	(19,482)
Decrease in prepaid expenses and other assets	2,060
Increase in payables, accrued expenses and other liabilities	5,823
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Net cash provided by operating activities	7,160
Cash flows from investing activities:	
Capital expenditures	(16,260)
Purchases of marketable securities	-
Sales and maturities of marketable securities	297
Net cash used in investing activities	(15,963)
Cash flows from financing activities:	
Exercise of stock options	106
Purchases and retirement of common stock	-
Net cash provided by (used in) financing activities	106
Effect of exchange rate changes on cash and cash equivalents	(58)
Decrease in cash and cash equivalents	(8,755)
Cash and cash equivalents at beginning of period	16,286
Cash and cash equivalents at end of period	\$ 7,531

See accompanying notes

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URBAN OUTFITTERS, INC.

## NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (Unaudited)

### 1. Basis of Presentation

The accompanying unaudited condensed consolidated financial statements have been prepared in accordance with generally accepted accounting principles 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 generally accepted accounting principles 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. The results of operations for the three and nine months ended October 31, 2001 are not necessarily indicative of the results to be expected for the full year. For further information, refer to the consolidated financial statements and footnotes thereto included in the Company's Annual Report on Form 10-K for the fiscal year ended January 31, 2001, filed with the Securities and Exchange Commission on April 16, 2001.

Certain prior period amounts have been reclassified to conform to the current year's presentation.

### 2. Recent Accounting Pronouncements

In August 2001, the Financial Accounting Standards Board issued Statement of Financial Accounting Standards No. 144, "Accounting for the Impairment or Disposal of Long-Lived Assets" ("SFAS No. 144"), which establishes a single accounting model, based on the framework established in SFAS No. 121, "Accounting for the Impairment of Long-Lived Assets and for Long-Lived Assets to

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be Disposed Of," and resolves significant implementation issues related to SFAS No. 121. SFAS No. 144 superceded SFAS No. 121 and Accounting Principles Board Opinion No. 30, "Reporting the Results of Operations - Reporting the Effects of a Disposal of a Segment of a Business, and Extraordinary, Unusual and Infrequently Occurring Events and Transactions." The Company is required to adopt SFAS No. 144 for the fiscal year ending January 31, 2003, however, early application is permitted. Management does not believe that the adoption of SFAS No. 144 will have a material impact on its results of operations.

In October 2000, the Emerging Issues Task Force issued Issue No. 00-10, "Accounting for Shipping and Handling Fees and Costs" ("EITF 00-10"). Under the provisions of EITF 00-10, amounts billed to a customer in a sale transaction related to shipping and handling should be classified as revenue. As required, the Company adopted EITF 00-10 in its consolidated financial statements during the fourth quarter of Fiscal 2001 and has restated all comparative prior period financial statements.

In its financial statements, the Company includes shipping and handling revenues in net sales and shipping and handling costs in cost of sales. Previously, the Company had offset shipping and handling revenues earned from its direct response (catalog and e-commerce) and Wholesale segment activities against shipping and handling costs incurred within cost of sales. Additionally, revenues earned from delivery transactions generated by retail stores were offset against store level costs within selling, general and administrative expenses. The Company's shipping and handling revenues consist of amounts billed to customers for shipping and handling merchandise. Shipping and handling costs include shipping supplies, related labor costs and third-party shipping costs.

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### URBAN OUTFITTERS, INC.

#### NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS-(Continued)

In June 1998, the Financial Accounting Standards Board issued Statement of Financial Accounting Standards No. 133, "Accounting for Derivative Instruments and Hedging Activities" ("SFAS No. 133"), which is required to be adopted in Fiscal 2002. The Company currently enters into short-term foreign currency forward exchange contracts to manage exposures related to its Canadian dollar denominated investments and anticipated cash flow. The amounts of the contracts and related gains and losses have not been material. The adoption of SFAS No. 133 on February 1, 2001 did not have a significant effect on the financial position or results of operations of the Company.

#### 3. Marketable Securities

All marketable securities are classified as available for sale for all periods presented:

	October 31, 2001 -----	January 31, 2001 ----- (in thousands)	October 31, 2000 -----
Current			
Available-for-sale.....	\$ 42 -----	\$ 314 -----	\$ 1,602 -----

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Total marketable securities.....	\$ 42	\$ 314	\$ 1,602
	=====	=====	=====

### 4. Line of Credit

On September 12, 2001, the Company entered into a new \$25 million line of credit facility with one of its banks. The new credit facility, which replaced the Company's former \$16.2 million discretionary line of credit with the bank, is a one-year committed line of credit to fund working capital requirements and letters of credit. The new line of credit contains sub-limits for letters of credit and European subsidiary borrowings. Cash advances bear interest at LIBOR plus 1.25% to 1.75% based on the Company's achievement of prescribed adjusted debt ratios. The agreement subjects the Company to various restrictive covenants, including maintenance of certain financial ratios such as a fixed charge coverage ratio, adjusted debt ratio and minimum tangible net worth and limits the Company's capital expenditures and share repurchases while prohibiting the payment of cash dividends on common stock. At October 31, 2001, the Company was in compliance with all covenants under this facility. The Company also continues to maintain an additional \$10 million discretionary line of credit with another bank, which expires on December 31, 2001. Combined line of credit facilities aggregate \$35 million to facilitate letter of credit transactions and cash borrowings. As of and during the nine months ended October 31, 2001, there were no borrowings. Outstanding letters of credit totaled \$11.6 million, \$8.0 million and \$8.5 million at October 31, 2001, January 31, 2001 and October 31, 2000, respectively. The fair value of these letters of credit is estimated to be the same as the contract values.

### 5. Commitments and Contingencies

The Company is party to various legal proceedings arising from normal business activities. Management believes that the ultimate resolution of these matters will not have a material adverse effect on the Company's financial condition or results of operations.

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URBAN OUTFITTERS, INC.

### NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS--(Continued)

### 6. Common Stock Purchase and Retirement

In February 2000, the Company purchased and retired 104,700 shares of its common stock at a cost of \$1.4 million, in open market transactions, pursuant to a Board resolution adopted in January 2000. This resolution authorizes the Company to purchase up to 1,000,000 shares of the Company's common stock, from time-to-time, based on prevailing market conditions. As of October 31, 2001, up to 880,500 additional shares are authorized for purchase under the January 2000 buy-back plan.

### 7. Net Income Per Share

The difference between the number of weighted average common shares outstanding used for basic net income per share and the number used for dilutive net income per share represents the share effect of dilutive stock options.

Options to purchase 1,451,700 and 1,181,000 shares were outstanding at October 31, 2001 and 2000, respectively, but were not included in the computation of EPS because their effect would be antidilutive.



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## 8. Segment Reporting

Urban Outfitters is a national retailer of lifestyle-oriented general merchandise through 79 stores operating under the retail names "Urban Outfitters" and "Anthropologie," and through a catalog and two web sites. Sales from this retail segment account for over 90% of total consolidated sales for the fiscal year ended January 31, 2001. The remainder of the Company's sales are derived from a wholesale division that manufactures and distributes apparel to the retail segment and to approximately 1,300 better specialty stores worldwide.

The Company has aggregated its operations into these two reportable segments based upon their unique management, customer base and economic characteristics. Reporting in this format provides management with the financial information necessary to evaluate the success of the segments and the overall business. The Company evaluates the performance of the segments based on the net sales and pre-tax income from operations (excluding intercompany royalty and interest charges) of the segment. Corporate expenses include expenses incurred in and directed by the corporate office that are not allocated to segments. The principal identifiable assets for each operating segment are inventory and fixed assets. Other assets are comprised primarily of general corporate assets, which principally consist of cash and cash equivalents, marketable securities, accounts receivable and other assets. The Company accounts for intersegment sales and transfers as if the sales and transfers were made to third parties making similar volume purchases.

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## URBAN OUTFITTERS, INC.

### NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS-(Continued)

Both the retail and wholesale segment are highly diversified. No customer comprises more than 10% of sales. Foreign operations are not material relative to the overall Company.

	Three months ended October 31,		N
	2001	2000	2000
Net Sales			
Retail operations.....	\$ 86,599	\$ 72,227	\$229,8
Wholesale operations.....	9,105	6,914	20,9
Intersegment elimination.....	(2,845)	(2,050)	(5,6
	-----	-----	-----
Total net sales.....	\$ 92,859	\$ 77,091	\$245,0
	=====	=====	=====
Income from operations			
Retail operations.....	\$ 8,942	\$ 4,664	\$ 17,5
Wholesale operations.....	778	607	1,8
Intersegment elimination.....	(646)	(382)	(1,2
	-----	-----	-----
Total segment operating income.....	9,074	4,889	18,0
General corporate expenses.....	(705)	(741)	(2,2
	-----	-----	-----
Total income from operations.....	\$ 8,369	\$ 4,148	\$ 15,8
	=====	=====	=====

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	October 31, 2001 -----	January 31, 2001 -----
Property and equipment, net		
Retail operations.....	\$ 102,648	\$ 96,890
Wholesale operations.....	932	1,010
Corporate.....	1	1
	-----	-----
Total property and equipment, net.....	\$ 103,581	\$ 97,901
	=====	=====
Inventories		
Retail operations.....	\$ 52,606	\$ 31,845
Wholesale operations.....	1,652	2,941
	-----	-----
Total inventories.....	\$ 54,258	\$ 34,786
	=====	=====

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## Item 2. Management's Discussion and Analysis of Financial Condition and Results of Operations

### GENERAL

This Securities and Exchange Commission filing is being made pursuant to the "safe harbor" provisions of the Private Securities Litigation Reform Act of 1995. Certain matters contained in this filing may constitute forward-looking statements. When used in this Form 10-Q, the words "project," "believe," "anticipate," "expect" and similar expressions are intended to identify forward-looking statements, although not all forward-looking statements contain these identifying words. Any one, or all, of the following factors could cause actual financial results to differ materially from those financial results mentioned in the forward-looking statements: the difficulty in predicting and responding to shifts in fashion trends, changes in the level of competitive pricing and promotional activity and other industry factors, overall economic and market conditions and the resultant impact on consumer spending patterns, including any effects of terrorist acts or war, availability of suitable retail space for expansion, timing of store openings, seasonal fluctuations in gross sales, the departure of one or more key senior managers, import risks, including potential disruptions and changes in duties, tariffs and quotas and other risks identified in filings with the Securities and Exchange Commission. The Company disclaims any intent or obligation to update forward-looking statements even if experience or future changes make it clear that actual results may differ materially from any projected results expressed or implied therein.

Thus far this fiscal year, the Company has opened seven new Urban Outfitters stores and four new Anthropologie stores. Management plans to open one more Anthropologie store prior to the end of the fiscal year.

### RESULTS OF OPERATIONS

The Company's fiscal year ends on January 31. All references in this discussion to fiscal years of the company refer to the fiscal years ended on January 31 in those years. For example, the Company's "Fiscal 2002" ("FY 2002")

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will end on January 31, 2002. This discussion of results of operations addresses the third quarter and first nine months of FY 2002 and FY 2001.

The following table sets forth, for the periods indicated, the percentage of the Company's net sales represented by certain income statement data. The following discussion should be read in conjunction with the table that follows:

	Three months ended October 31,		
	2001	2000	
	----	----	----
Net sales	100.0%	100.0%	100.0%
Cost of sales, including certain buying, distribution and occupancy costs	66.4%	68.2%	68.2%
	-----	-----	-----
Gross profit	33.6%	31.8%	31.8%
Selling, general and administrative expenses	24.6%	26.4%	26.4%
	-----	-----	-----
Income from operations	9.0%	5.4%	5.4%
Other income (expense), net	(0.1%)	(0.3%)	(0.3%)
	-----	-----	-----
Income before income taxes	8.9%	5.1%	5.1%
Income tax expense	3.6%	2.0%	2.0%
	-----	-----	-----
Net income	5.3%	3.1%	3.1%
	=====	=====	=====

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### THREE MONTHS ENDED OCTOBER 31, 2001 COMPARED TO THREE MONTHS ENDED OCTOBER 31, 2000

Net sales increased during the third quarter ended October 31, 2001 to \$92.9 million, up 20.5% from \$77.1 million for the same quarter last year. The \$15.8 million increase over the prior year's third quarter was primarily the result of new and noncomparable store sales increases of \$11.4 million, comparable store sales increases of \$1.7 million or 2.5%, Wholesale segment sales increases of \$1.4 million or 28.7% and direct response sales increases of \$1.3 million or 26.3%. The 2.5% increase in comparable store sales was the result of strengthened customer response to the Company's fashion offerings, especially in the women's apparel and accessory categories. The increase in Wholesale sales was due to an increase in sales of off-price merchandise, as current season full-price Fall and Holiday shipments were flat versus the comparable prior year period. Direct response sales increased as a result of continued growth of the Urban web site and increased customer response to the Anthropologie catalog and web site.

The Company's gross profit margin, expressed as a percentage of sales, increased to 33.6% from 31.8% for the comparable period last year. Decreased markdown requirements at the retail stores more than offset the increase in occupancy costs attributable to the impact of noncomparable and new stores and the reduction in Wholesale gross margin caused by the off-price liquidation of excess inventories.

Selling, general and administrative expenses, expressed as a percentage

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of sales, decreased to 24.6% from 26.4% for the quarter ended October 31, 2001 versus the same quarter last year. The leveraging of operating costs for the Anthropologie direct and urbn.com operations was the greatest contributor to the savings, which together with improvements in comparable store efficiencies more than offset the impact of the less efficient noncomparable and new stores.

Net income for the quarter ended October 31, 2001 increased by 109.0% to \$4.9 million versus \$2.4 million for the comparable quarter last year.

### NINE MONTHS ENDED OCTOBER 31, 2001 COMPARED TO NINE MONTHS ENDED OCTOBER 31, 2000

Net sales increased during the nine months ended October 31, 2001 to \$245.1 million, up 16.8% from \$209.8 million for the same period last year. The \$35.3 million increase over the prior year's first nine months was the result of new and noncomparable store sales increases of \$32.5 million, direct response sales increases of \$2.9 million or 20.3%, and comparable store sales increases of \$0.9 million or 0.5%. These increases were partially offset by a Wholesale segment sales decrease of \$1.0 million or 6.0%. Direct response sales increased as a result of an increase in response to the Anthropologie catalog and web site and the Urban web site, which launched in May 2000. The decline in Wholesale sales was attributable to lower sales of Spring and Summer goods due to a lackluster response to the Company's fashion offerings and production problems with the Spring line, offset, in part, by an increase in off-price prior season merchandise shipments compared to last year. Current season full-price Fall and Holiday shipments were flat versus the comparable prior year period.

The Company's gross profit margin for the nine months ended October 31, 2001, expressed as a percentage of sales, decreased slightly to 32.1% from 32.2% for the comparable period last year. Decreased retail markdown requirements were almost sufficient to offset the increase in occupancy costs attributable to noncomparable and new stores and the reduction in Wholesale gross margin.

Selling, general and administrative expenses, expressed as a percentage of sales, decreased to 25.7% from 26.4% for the nine months ended October 31, 2001 versus the comparable period last year. The Company's cost control efforts continued to reduce operating expense levels, especially at the Anthropologie direct and urbn.com operations. These efforts more than offset the impact of increased costs, as a percentage of sales, for new and noncomparable stores.

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Net income for the nine months ended October 31, 2001 increased by 30.3% to \$9.2 million versus \$7.1 million for the comparable period last year.

### LIQUIDITY AND CAPITAL RESOURCES

Cash, cash equivalents and marketable securities were \$7.6 million at October 31, 2001, as compared to \$16.6 million at January 31, 2001 and \$8.8 million at October 31, 2000. The Company's net working capital was \$36.6 million at October 31, 2001, as compared to \$31.7 million at January 31, 2001 and \$35.5 million at October 31, 2000. The decrease in cash, cash equivalents and marketable securities at October 31, 2001 from year end principally reflects the increase in purchases of inventories for new stores and funding FY 2002's capital expenditures, primarily for new store construction. Cash requirements for these activities more than offset other cash generated from operations.

Total inventories at October 31, 2001 increased by \$9.3 million or 20.6% versus the comparable period end last year, principally attributable to the increase in the number of new retail stores opened since October 31, 2000.

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Comparable in-store inventories at October 31, 2001 increased by 6.0% versus the comparable period in the prior year. The retail store inventory increase was in the women's and women's accessories categories, which have experienced comparable store sales gains, while comparable store inventories of men's and home merchandise have decreased. Wholesale inventories decreased as a result of liquidation of prior season merchandise.

Management expects that capital expenditures for the quarter ending January 31, 2002 will be approximately \$8-10 million, bringing total capital expenditures for the current fiscal year to \$24-26 million. Existing cash and investments at October 31, 2001, together with cash from future operations and available credit under the Company's line of credit facilities, are expected to be sufficient to meet the Company's cash needs through January 31, 2003.

Accrued expenses and other current liabilities increased to \$14.9 million as of October 31, 2001 from \$10.6 million at October 31, 2000. The increase in the components of accrued expenses and other current liabilities (which includes accrued incentive and other compensation, accrued benefits and accrued income taxes) is primarily attributable to additional stores and incentive compensation accruals associated with improved profitability.

On September 12, 2001, the Company entered into a new \$25 million line of credit facility with one of its banks. The new credit facility, which replaced the Company's former \$16.2 million discretionary line of credit with the bank, is a one-year committed line of credit to fund working capital requirements and letters of credit. The new line of credit contains sublimits for letters of credit and European subsidiary borrowings. Cash advances bear interest at LIBOR plus 1.25% to 1.75% based on the Company's achievement of prescribed adjusted debt ratios. The agreement subjects the Company to various restrictive covenants, including maintenance of certain financial ratios such as a fixed charge coverage ratio, adjusted debt ratio and minimum tangible net worth and limits the Company's capital expenditures and share repurchases while prohibiting the payments of cash dividends on common stock. At October 31, 2001, the Company was in compliance with all covenants under this facility. The Company also continues to maintain an additional \$10 million discretionary line of credit with another bank, which expires on December 31, 2001. Combined line of credit facilities now aggregate \$35 million to facilitate letter of credit transactions and cash borrowings. As of and during the nine months ended October 31, 2001, there were no borrowings. Outstanding letters of credit totaled \$11.6 million, \$8.0 million and \$8.5 million at October 31, 2001, January 31, 2001 and October 31, 2000, respectively. The fair value of these letters of credit is estimated to be the same as the contract values.

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### OTHER MATTERS

On September 11, 2001, acts of terrorism occurred in the United States. As a result of these events, a majority of the Company's retail stores either did not open or were closed early on that day. The Company's seven stores located in New York City were closed from between two to four days, depending on the stores location within Manhattan. Management of the Company is not aware of any physical damage to its stores. These closings adversely affected the Company's sales during the third quarter of Fiscal 2002. Management of the Company is unable to determine the long-term impact, if any, of these events on the Company's future sales.

### Recent Accounting Pronouncements

In August 2001, the Financial Accounting Standards Board issued Statement of Financial Accounting Standards No. 144, "Accounting for the Impairment or

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Disposal of Long-Lived Assets" ("SFAS No. 144"), which establishes a single accounting model, based on the framework established in SFAS No. 121, "Accounting for the Impairment of Long-Lived Assets and for Long-Lived Assets to be Disposed Of," and resolves significant implementation issues related to SFAS No. 121. SFAS No. 144 superceded SFAS No. 121 and Accounting Principles Board Opinion No. 30, "Reporting the Results of Operations - Reporting the Effects of a Disposal of a Segment of a Business, and Extraordinary, Unusual and Infrequently Occurring Events and Transactions." The Company is required to adopt SFAS No. 144 for the fiscal year ending January 31, 2003, however, early application is permitted. Management does not believe that the adoption of SFAS No. 144 will have a material impact on its results of operations.

In October 2000, the Emerging Issues Task Force issued Issue No. 00-10, "Accounting for Shipping and Handling Fees and Costs" ("EITF 00-10"). Under the provisions of EITF 00-10, amounts billed to a customer in a sale transaction related to shipping and handling should be classified as revenue. As required, the Company adopted EITF 00-10 in its consolidated financial statements during the fourth quarter of Fiscal 2001 and has restated all comparative prior period financial statements.

In its financial statements, the Company includes shipping and handling revenues in net sales and shipping and handling costs in cost of sales. Previously, the Company had offset shipping and handling revenues earned from its direct response (catalog and e-commerce) and Wholesale segment activities against shipping and handling costs incurred within cost of sales. Additionally, revenues earned from delivery transactions generated by retail stores were offset against store level costs within selling, general and administrative expenses. The Company's shipping and handling revenues consist of amounts billed to customers for shipping and handling merchandise. Shipping and handling costs include shipping supplies, related labor costs and third-party shipping costs.

In June 1998, the Financial Accounting Standards Board issued Statement of Financial Accounting Standards No. 133, "Accounting for Derivative Instruments and Hedging Activities" ("SFAS No. 133"), which is required to be adopted in Fiscal 2002. The Company currently enters into short-term foreign currency forward exchange contracts to manage exposures related to its Canadian dollar denominated investments and anticipated cash flow. The amounts of the contracts and related gains and losses have not been material. The adoption of SFAS No. 133 on February 1, 2001 did not have a significant effect on the financial position or results of operations of the Company.

### Seasonality and Quarterly Results

While Urban Outfitters has been profitable in each of its last 47 operating quarters, its operating results are subject to seasonal fluctuations. While the Company's positive comparable store sales trend has continued since October 31, 2001, results of operations in any one fiscal quarter are not necessarily indicative of the results of operations that can be expected for any other fiscal quarter or for the full fiscal year. The Company's highest sales levels have historically occurred during the five-month period from August 1 to December 31 of each year (the "Back-to-School" and Holiday periods). Sales generated during these periods have traditionally had a significant impact on the Company's results of

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operations.

The Company's results of operations may also fluctuate from quarter to quarter as a result of the amount and timing of expenses incurred in connection with, and sales contributed by, new stores, store expansions and the integration

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of new stores into the operations of the Company or by the size and timing of mailings and web site traffic for the Company's direct response operations. Fluctuations in the bookings and shipments of Wholesale merchandise between quarters can also have positive or negative effects on earnings during the quarters.

### Item 3. Quantitative and Qualitative Disclosure About Market Risk

The Company is exposed to the following types of market risks - fluctuations in the purchase price of merchandise, as well as other goods and services; the value of foreign currencies in relation to the U.S. dollar; and changes in interest rates. Due to the Company's inventory turn and its historical ability to pass through the impact of any generalized changes in its cost of goods to its customers through pricing adjustments, commodity and other product risks are not expected to be material. The Company purchases substantially all its merchandise in U.S. dollars, including a portion of the goods for its stores located in Canada and Europe. As explained in the section above on "Recent Accounting Pronouncements," market risks are further limited by the Company's purchase of short-term foreign currency forward exchange contracts.

Since the Company has not been a borrower thus far this year, its exposure to interest rate fluctuations has been limited to the impact on its holdings. The impact of a hypothetical one percent increase or decrease in prevailing interest rates would not materially affect the Company's consolidated financial position or results of operations.

## PART II

### OTHER INFORMATION

### Item 6. Exhibits and Reports on Form 8-K

(a) Exhibits: 3.1 The Company's Amended and Restated Articles of Incorporation (incorporated by reference to Exhibit 3.1 to the Company's Registration Statement on Form S-1 (File No. 33-69378), filed on September 24, 1993).

3.2 The Company's Amended and Restated Bylaws (incorporated by reference to Exhibit 3.2 to the Company's Registration Statement on Form S-1 (File No. 33- 69378), filed on September 24, 1993).

10.9 Credit Agreement, dated September 12, 2001, between the Company and First Union National Bank

(b) Reports on Form 8-K: None

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Pursuant to the requirements of the Securities Exchange Act of 1934, the Registrant has duly caused this report to be signed on its behalf by the undersigned thereunto duly authorized.

URBAN OUTFITTERS, INC.  
(Registrant)

By: /s/ Richard A. Hayne

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Richard A. Hayne

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Chairman of the Board of  
Directors

By: /s/ Stephen A. Feldman

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Stephen A. Feldman  
Chief Financial Officer

Dated: