

URBAN OUTFITTERS INC
Form 10-Q
September 09, 2015
Table of Contents

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.

Table of Contents

TABLE OF CONTENTS

PART I

FINANCIAL INFORMATION

| | | |
|---------|--|----|
| Item 1. | Financial Statements (unaudited) | |
| | <u>Condensed Consolidated Balance Sheets as of July 31, 2015, January 31, 2015 and July 31, 2014</u> | 1 |
| | <u>Condensed Consolidated Statements of Income for the three and six months ended July 31, 2015 and 2014</u> | 2 |
| | <u>Condensed Consolidated Statements of Comprehensive Income for the three and six months ended July 31, 2015 and 2014</u> | 3 |
| | <u>Condensed Consolidated Statements of Cash Flows for the six months ended July 31, 2015 and 2014</u> | 4 |
| | <u>Notes to Condensed Consolidated Financial Statements</u> | 5 |
| Item 2. | <u>Management's Discussion and Analysis of Financial Condition and Results of Operations</u> | 15 |
| Item 3. | <u>Quantitative and Qualitative Disclosures about Market Risk</u> | 25 |
| Item 4. | <u>Controls and Procedures</u> | 26 |

PART II

OTHER INFORMATION

| | | |
|----------|--|----|
| Item 1. | <u>Legal Proceedings</u> | 27 |
| Item 1A. | <u>Risk Factors</u> | 27 |
| Item 2. | <u>Unregistered Sales of Equity Securities and the Use of Proceeds</u> | 27 |
| Item 6. | <u>Exhibits</u> | 28 |
| | <u>Signatures</u> | 29 |

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) | | | |

Edgar Filing: URBAN OUTFITTERS INC - Form 10-Q

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.

Table of Contents

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 |

Edgar Filing: URBAN OUTFITTERS INC - Form 10-Q

| | | |
|--|------------|------------|
| 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.

Table of Contents

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

Table of Contents

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) | 5,022 |
| | 72,640 | 177 | (53) | 72,764 |
| | \$ 144,583 | \$ 221 | \$ (114) | \$ 144,690 |
| As of January 31, 2015 | | | | |
| Short-term Investments: | | | | |
| Municipal and pre-refunded municipal bonds | \$ 30,509 | \$ 41 | \$ (2) | \$ 30,548 |
| Corporate bonds | 56,594 | 20 | (24) | 56,590 |
| Certificates of deposit | 11,127 | 5 | | 11,132 |
| Treasury bills | 2,033 | 3 | | 2,036 |
| Commercial paper | 3,938 | 2 | | 3,940 |
| | 104,201 | 71 | (26) | 104,246 |
| Long-term Investments: | | | | |
| Municipal and pre-refunded municipal bonds | 42,840 | 113 | (6) | 42,947 |
| Corporate bonds | 46,754 | 22 | (40) | 46,736 |
| Certificates of deposit | 3,066 | | | 3,066 |
| Mutual funds, held in rabbi trust | 3,816 | 16 | (54) | 3,778 |

Edgar Filing: URBAN OUTFITTERS INC - Form 10-Q

| | | | | |
|-----------------------------|------------|--------|----------|------------|
| Treasury bills | 7,111 | 9 | | 7,120 |
| Federal government agencies | 799 | 2 | | 801 |
| | 104,386 | 162 | (100) | 104,448 |
| | \$ 208,587 | \$ 233 | \$ (126) | \$ 208,694 |

As of July 31, 2014

Short-term Investments:

| | | | | |
|--|-----------|-------|--------|-----------|
| Municipal and pre-refunded municipal bonds | \$ 29,022 | \$ 29 | \$ (1) | \$ 29,050 |
| Corporate bonds | 55,849 | 50 | (15) | 55,884 |
| Certificates of deposit | 14,348 | 9 | | 14,357 |
| Treasury bills | 4,530 | 4 | | 4,534 |
| Commercial paper | 2,892 | 4 | | 2,896 |
| | 106,641 | 96 | (16) | 106,721 |

Long-term Investments:

| | | | | |
|--|------------|--------|----------|------------|
| Municipal and pre-refunded municipal bonds | 45,387 | 107 | (18) | 45,476 |
| Corporate bonds | 93,086 | 96 | (143) | 93,039 |
| Certificates of deposit | 2,493 | | | 2,493 |
| Mutual funds, held in rabbi trust | 3,026 | 68 | (5) | 3,089 |
| Treasury bills | 11,264 | 5 | | 11,269 |
| Federal government agencies | 1,777 | 3 | | 1,780 |
| | 157,033 | 279 | (166) | 157,146 |
| | \$ 263,674 | \$ 375 | \$ (182) | \$ 263,867 |

Table of Contents

Proceeds from the sales and maturities of available-for-sale securities were \$213,930 and \$631,950 for the six months ended July 31, 2015 and 2014, respectively. The Company included in Other expense, net, realized gains of \$39 and \$42 for the three and six months ended July 31, 2015, respectively, and realized gains of \$101 and \$171 for the three and six months ended July 31, 2014, respectively. Amortization of discounts and premiums, net, resulted in charges of \$1,042 and \$2,158 for the three and six months ended July 31, 2015, respectively, and \$1,499 and \$4,106 for the three and six months ended July 31, 2014, respectively. Mutual funds represent assets held in an irrevocable rabbi trust for the Company's Non-qualified Deferred Compensation Plan (NQDC). These assets are a source of funds to match the funding obligations to participants in the NQDC but are subject to the Company's general creditors. The Company elected the fair value option for financial assets for the mutual funds held in the rabbi trust resulting in all unrealized gains and losses being recorded in Other expense, net in the Condensed Consolidated Statements of Income and not as a component of accumulated other comprehensive income (loss).

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 Company'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 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 table below:

| | Marketable Securities Fair Value as of | | | |
|--|--|-----------|---------|------------|
| | July 31, 2015 | | | |
| | Level 1 | Level 2 | Level 3 | Total |
| Assets: | | | | |
| Municipal and pre-refunded municipal bonds | \$ | \$ 77,534 | \$ | \$ 77,534 |
| Corporate bonds | 55,699 | | | 55,699 |
| Certificates of deposit | | 6,435 | | 6,435 |
| Mutual funds, held in rabbi trust | 5,022 | | | 5,022 |
| | \$ 60,721 | \$ 83,969 | \$ | \$ 144,690 |

**Marketable Securities Fair Value as of
January 31, 2015**

| | Level 1 | Level 2 | Level 3 | Total |
|--|------------|-----------|---------|------------|
| Assets: | | | | |
| Municipal and pre-refunded municipal bonds | \$ | \$ 73,495 | \$ | \$ 73,495 |
| Corporate bonds | 103,326 | | | 103,326 |
| Certificates of deposit | | 14,198 | | 14,198 |
| Mutual funds, held in rabbi trust | 3,778 | | | 3,778 |
| Treasury bills | 9,156 | | | 9,156 |
| Commercial paper | | 3,940 | | 3,940 |
| Federal government agencies | 801 | | | 801 |
| | \$ 117,061 | \$ 91,633 | \$ | \$ 208,694 |

Table of Contents

| Marketable Securities Fair Value as of July 31, 2014 | | | | |
|---|----------------|----------------|----------------|--------------|
| | Level 1 | Level 2 | Level 3 | Total |
| Assets: | | | | |
| Municipal and pre-refunded municipal bonds | \$ | \$ 74,526 | \$ | \$ 74,526 |
| Corporate bonds | 148,923 | | | 148,923 |
| Certificates of deposit | | 16,850 | | 16,850 |
| Mutual funds, held in rabbi trust | 3,089 | | | 3,089 |
| Treasury bills | 15,803 | | | 15,803 |
| Commercial paper | | 2,896 | | 2,896 |
| Federal government agencies | 1,780 | | | 1,780 |
| | \$ 169,595 | \$ 94,272 | \$ | \$ 263,867 |

Level 1 assets consist of financial instruments whose value has been based on inputs that use, as their basis, readily observable market data that are actively quoted and are validated through external sources, including third-party pricing services and brokers.

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 assets consist of financial instruments where there has been no active market. The Company held no Level 3 assets as of July 31, 2015, January 31, 2015 and July 31, 2014.

The fair value of cash and cash equivalents (Level 1) approximate carrying value since cash and cash equivalents consist of short-term highly liquid investments with maturities of three months or less. As of July 31, 2015, cash and cash equivalents included cash on hand, cash in banks, money market accounts and marketable securities with maturities of less than three months at the time of purchase. The fair value of debt approximates its carrying value since it is variable rate debt.

5. Debt

On July 1, 2015, the Company and its domestic subsidiaries entered into a five-year asset-based revolving Credit Agreement (Credit Agreement) with certain lenders, including JPMorgan Chase Bank, N.A., as administrative agent, and J.P. Morgan Securities LLC and Wells Fargo National Bank, National Association, as joint lead arrangers and co-book managers. The Credit Agreement replaced the Company's unsecured \$175,000 revolving line of credit with Wells Fargo Bank, National Association, which was set to expire in March 2019.

The Credit Agreement provides senior secured revolving credit for loans and letters of credit up to \$400,000 (the Credit Facility), subject to a borrowing base that is comprised of the Company's eligible accounts receivable and inventory. The Credit Facility includes a swing-line sub-facility, a multicurrency sub-facility and the option to expand the facility by up to \$150,000.

The Credit Facility provides for interest on borrowings, at the Company's option, at either (i) adjusted LIBOR, CDOR or EURIBOR plus an applicable margin ranging from 1.125% to 1.625%, or (ii) an adjusted ABR plus an applicable margin ranging from 0.125% to 0.625%, each such rate depending on the level of availability under the Credit Facility and the Company's adjusted leverage ratio. Interest is payable either monthly or quarterly depending on the type of

borrowing. A commitment fee is payable quarterly on the unused portion of the Credit Facility based on the Company's adjusted leverage ratio.

All obligations under the Credit Facility are unconditionally guaranteed by the Company and its domestic subsidiaries. The obligations under the Credit Facility are secured by a first-priority security interest in inventory,

Table of Contents

accounts receivable, and certain other assets of the borrowers and guarantors. The Credit Agreement contains customary representations and warranties, negative and affirmative covenants and provisions relating to events of default.

As of July 31, 2015, the Company was in compliance with all terms of the Credit Agreement, borrowings on the Credit Facility totaled approximately \$115,000 and stand-by letters of credit outstanding were \$14,328.

Additionally, the Company has borrowing agreements with two separate financial institutions under which the Company may borrow an aggregate of \$130,000 for the purposes of trade letter of credit issuances. The availability of any future borrowings under the trade letter of credit facilities is subject to acceptance by the respective financial institutions. As of July 31, 2015, the Company had outstanding trade letters of credit of \$72,062. The available trade letters of credit under these facilities are \$57,938.

6. Share-Based Compensation

The Company maintains stock incentive plans pursuant to which it can grant restricted shares, unrestricted shares, incentive stock options, non-qualified stock options, restricted stock units (RSU s), performance stock units (PSU s) or stock appreciation rights (SAR s). A lattice binomial pricing model was used to estimate the fair values of stock options and SAR s. The fair value of each of the PSU s was determined using a Monte Carlo simulation. Share-based compensation expense included in Selling, general and administrative expenses in the Condensed Consolidated Statements of Income, for the three and six months ended July 31, 2015 and 2014 was as follows:

| | Three Months Ended July 31, | | Six Months Ended July 31, | |
|---------------------------|--------------------------------|-----------------|------------------------------|-----------------|
| | 2015 | 2014 | 2015 | 2014 |
| Stock Options | \$ 292 | \$ 395 | \$ 425 | \$ 808 |
| Stock Appreciation Rights | 413 | 605 | 950 | 1,251 |
| Performance Stock Units | 2,854 | 3,035 | 6,274 | 6,495 |
| Restricted Stock Units | | 23 | 23 | 79 |
| Total | \$ 3,559 | \$ 4,058 | \$ 7,672 | \$ 8,633 |

Share-based awards granted and the weighted-average fair value for the six months ended July 31, 2015 was as follows:

| | Six Months Ended July 31, 2015 | |
|---------------------------|-----------------------------------|-----------------------------------|
| | Awards Granted | Weighted Average Fair Value |
| Stock Options | 120,000 | \$ 7.46 |
| Stock Appreciation Rights | | \$ |
| Performance Stock Units | 180,500 | \$ 24.07 |
| Restricted Stock Units | | \$ |

| | |
|-------|---------|
| Total | 300,500 |
|-------|---------|

During the six months ended July 31, 2015, 1,416,990 stock options were exercised, 520,358 stock appreciation rights were exercised, 251,081 performance stock units vested and 5,000 restricted stock units vested.

Table of Contents

The total unrecognized compensation cost related to outstanding share-based awards and the weighted-average period in which the cost is expected to be recognized as of July 31, 2015 is as follows:

| | July 31, 2015 | |
|---------------------------|---|---------------------------------------|
| | Unrecognized Compensation Cost | Weighted Average Years |
| Stock Options | \$ 715 | 0.8 |
| Stock Appreciation Rights | 981 | 1.7 |
| Performance Stock Units | 34,845 | 2.8 |
| Restricted Stock Units | | 0.0 |
| Total | \$ 36,541 | 2.8 |

7. Shareholders Equity

On February 23, 2015, the Company's Board of Directors authorized the repurchase of 20,000,000 common shares under a share repurchase program. Under this authorization, the Company repurchased and retired a total of 4,755,672 common shares for approximately \$170,792 during the three and six months ended July 31, 2015. The average cost per share of these repurchases for the three and six months ended July 31, 2015 was \$35.91, including commissions.

Subsequent to July 31, 2015, the Company repurchased and retired a total of 1,300,000 common shares for approximately \$40,023, at an average price of \$30.79 per share, including commissions, which were funded with the Company's available cash, cash equivalents, and marketable securities.

On May 27, 2014, the Company's Board of Directors authorized the repurchase of 10,000,000 common shares under a share repurchase program. Under this authorization, the Company repurchased and subsequently retired 7,718,531 common shares at a total cost of \$258,160 during fiscal 2015. The average cost per share of these repurchases for fiscal 2015 was \$33.45, including commissions. During the three and six months ended July 31, 2015, the Company repurchased and subsequently retired 1,879,492 and 2,281,469 shares at a total cost of \$65,520 and \$82,826, respectively, which completed this authorization. The average cost per share of these repurchases for the three and six months ended July 31, 2015 were \$34.86 and \$36.30, respectively, including commissions.

In addition to the shares repurchased under the share repurchase programs, during the six months ended July 31, 2015, the Company acquired and subsequently retired 181,890 common shares at a total cost of \$8,017, from employees to meet minimum statutory tax withholding requirements. During the six months ended July 31, 2014, the Company acquired and subsequently retired 1,690 common shares at a total cost of \$61 from employees to meet minimum statutory tax withholding requirements.

As a result of the share repurchase activity during the six months ended July 31, 2015, the Company reduced the balance of additional paid-in-capital to zero with subsequent share repurchase activity recorded as a reduction of retained earnings of \$201,773.

Table of Contents**8. Other Comprehensive Income (Loss) and Accumulated Other Comprehensive Income (Loss)**

The following tables present the changes in accumulated other comprehensive income (loss), by component, net of tax, for the three and six months ended July 31, 2015 and 2014, respectively:

| | Three Months Ended July 31, 2015 | | | Six Months Ended July 31, 2015 | | |
|---|------------------------------------|--------------------------------------|-------------|------------------------------------|--------------------------------------|-------------|
| | Foreign Currency Translation | Available-for- Sale Securities | Total | Foreign Currency Translation | Available-for- Sale Securities | Total |
| Balance at beginning of period | \$ (12,371) | \$ 51 | \$ (12,320) | \$ (15,516) | \$ 89 | \$ (15,427) |
| Other comprehensive income (loss) before reclassifications | 2,353 | (64) | 2,289 | 5,498 | (105) | 5,393 |
| Amounts reclassified from accumulated other comprehensive income (loss) | | 39 | 39 | | 42 | 42 |
| Net current-period other comprehensive income (loss) | 2,353 | (25) | 2,328 | 5,498 | (63) | 5,435 |
| Balance at end of period | \$ (10,018) | \$ 26 | \$ (9,992) | \$ (10,018) | \$ 26 | \$ (9,992) |

| | Three Months Ended July 31, 2014 | | | Six Months Ended July 31, 2014 | | |
|---|------------------------------------|--------------------------------------|----------|------------------------------------|--------------------------------------|----------|
| | Foreign Currency Translation | Available-for- Sale Securities | Total | Foreign Currency Translation | Available-for- Sale Securities | Total |
| Balance at beginning of period | \$ 1,480 | \$ 240 | \$ 1,720 | \$ (1,388) | \$ 420 | \$ (968) |
| Other comprehensive income (loss) before reclassifications | 828 | (263) | 565 | 3,696 | (513) | 3,183 |
| Amounts reclassified from accumulated other comprehensive income (loss) | | 101 | 101 | | 171 | 171 |
| Net current-period other comprehensive income (loss) | 828 | (162) | 666 | 3,696 | (342) | 3,354 |
| Balance at end of period | \$ 2,308 | \$ 78 | \$ 2,386 | \$ 2,308 | \$ 78 | \$ 2,386 |

All unrealized gains and losses on available-for-sale securities reclassified from accumulated other comprehensive income (loss) were recorded in Other expense, net in the Condensed Consolidated Statements of Income.

Table of Contents**9. Net Income per Common Share**

The following is a reconciliation of the weighted-average common shares outstanding used for the computation of basic and diluted net income per common share:

| | Three Months Ended July 31, | | Six Months Ended July 31, | |
|---|--|-------------|----------------------------------|-------------|
| | 2015 | 2014 | 2015 | 2014 |
| Basic weighted-average common shares outstanding | 127,910,026 | 136,453,663 | 129,529,108 | 140,201,489 |
| Effect of dilutive options, stock appreciation rights, performance stock units and restricted stock units | 1,170,568 | 1,723,447 | 1,401,985 | 1,777,162 |
| Diluted weighted-average shares outstanding | 129,080,594 | 138,177,110 | 130,931,093 | 141,978,651 |

For the three months ended July 31, 2015 and 2014, awards to purchase 559,875 common shares with an exercise price range of \$36.07 to \$46.02 and 1,183,390 common shares with an exercise price range of \$35.12 to \$46.02 were excluded from the Company's computation of diluted weighted-average shares outstanding because their effect would have been anti-dilutive. For the six months ended July 31, 2015 and 2014, awards to purchase 329,938 common shares with an exercise price range of \$36.07 to \$46.02 and 1,065,670 common shares with an exercise price range of \$35.12 to \$46.02 were excluded from the Company's computation of diluted weighted-average shares outstanding because their effect would have been anti-dilutive.

Excluded from the calculation of diluted net income per common share as of July 31, 2015 and 2014 were 2,047,250 and 1,744,034 performance-based equity awards, respectively, since they did not meet the required performance criteria.

10. 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 effect on the Company's financial position or results of operations.

11. Segment Reporting

The Company is a global retailer of lifestyle-oriented general merchandise with two reportable segments—Retail and Wholesale. The Company's Retail segment consists of the aggregation of its five brands operating through 556 stores under the retail names Urban Outfitters, Anthropologie, Free People, Terrain and Bhldn and includes their direct-to-consumer channels. Each of the Company's brands, which include the retail stores and direct-to-consumer channels, are considered an operating segment. Net sales from the Retail segment accounted for approximately 91.7% and 92.2% of total consolidated net sales for the three and six months ended July 31, 2015, respectively. Net sales from the Retail segment accounted for approximately 92.7% and 92.9% for the three and six months ended July 31, 2014, respectively. The remaining net sales are derived from the Company's Wholesale segment that distributes apparel to its Retail segment and to approximately 1,600 better department and specialty retailers worldwide.

The Company has aggregated its brands into the Retail segment based upon their shared 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 charges) of the segment. Corporate expenses include expenses incurred and directed by the corporate office that are not allocated to segments. The principal identifiable assets for each reporting segment are inventories and property and equipment. Other assets are comprised primarily of general corporate assets,

Table of Contents

which principally consist of cash and cash equivalents, marketable securities, deferred taxes and prepaid expenses, which are typically not allocated to the Company's segments. The Company accounts for intersegment sales and transfers as if the sales and transfers were made to third parties making similar volume purchases.

The Company's omni-channel strategy enhances its customers' brand experience by providing a seamless approach to the customer shopping experience. The Company has substantially integrated all available shopping channels, including stores, websites (online and through mobile devices) and catalogs. The Company's investments in areas such as marketing campaigns and technology advancements are designed to generate demand for the omni-channel and not the separate store or direct-to-consumer channels. Store sales are primarily fulfilled from that store's inventory, but may also be shipped from any of the Company's fulfillment centers or from a different store location if an item is not available at the original store. Direct-to-consumer orders are primarily shipped to the Company's customers through its fulfillment centers, but may also be shipped from any store, or a combination of fulfillment centers and stores depending on the availability of a particular item. Direct-to-consumer orders may also be picked up at a store location. As the Company's customers continue to shop across multiple channels, the Company has adapted its approach towards meeting this demand. Due to the availability of like product in a variety of shopping channels, the Company now sources these products utilizing single stock keeping units based on the omni-channel demand rather than the demand of the separate channels. These and other technological capabilities allow the Company to better serve its customers and help it to complete a sale that otherwise may not have occurred due to out-of-stock positions. As a result of changing customer behavior and the substantial integration of the operations of the Company's store and direct-to-consumer channels, the Company manages and analyzes its performance based on a single omni-channel rather than separate channels and believes that the omni-channel results present the most meaningful and appropriate measure of the Company's performance.

The accounting policies of the reportable segments are the same as the policies described in Note 2, Summary of Significant Accounting Policies, in the Notes to Consolidated Financial Statements included in the Company's Annual Report on Form 10-K for the fiscal year ended January 31, 2015. Both the Retail and Wholesale segments are highly diversified. No one customer constitutes more than 10% of the Company's total consolidated net sales. A summary of the information about the Company's operations by segment is as follows:

| | July 31, 2015 | January 31, 2015 | July 31, 2014 |
|------------------------------------|--------------------------|-----------------------------|--------------------------|
| Inventories | | | |
| Retail operations | \$ 339,870 | \$ 314,940 | \$ 329,450 |
| Wholesale operations | 44,534 | 43,297 | 32,578 |
| Total inventories | \$ 384,404 | \$ 358,237 | \$ 362,028 |
| Property and equipment, net | | | |
| Retail operations | \$ 896,400 | \$ 885,200 | \$ 864,216 |
| Wholesale operations | 3,902 | 4,032 | 4,426 |
| Total property and equipment, net | \$ 900,302 | \$ 889,232 | \$ 868,642 |

Table of Contents

| | Three Months Ended | | Six Months Ended | |
|---------------------------------------|--------------------|-------------------|---------------------|---------------------|
| | July 31, | | July 31, | |
| | 2015 | 2014 | 2015 | 2014 |
| Net sales | | | | |
| Retail operations | \$ 795,740 | \$ 752,116 | \$ 1,480,749 | \$ 1,392,546 |
| Wholesale operations | 74,627 | 61,966 | 132,241 | 110,256 |
| Intersegment elimination | (2,907) | (2,829) | (6,520) | (5,239) |
| Total net sales | \$ 867,460 | \$ 811,253 | \$ 1,606,470 | \$ 1,497,563 |
| Income from operations | | | | |
| Retail operations | \$ 100,057 | \$ 100,130 | \$ 151,589 | \$ 160,779 |
| Wholesale operations | 17,720 | 15,175 | 28,088 | 25,166 |
| Intersegment elimination | (253) | (259) | (606) | (499) |
| Total segment operating income | 117,524 | 115,046 | 179,071 | 185,446 |
| General corporate expenses | (13,773) | (9,929) | (22,266) | (20,508) |
| Total income from operations | \$ 103,751 | \$ 105,117 | \$ 156,805 | \$ 164,938 |

The Company has foreign operations in Europe and Canada. Revenues and long-lived assets, based upon the Company's domestic and foreign operations, are as follows:

| | July 31, 2015 | January 31, 2015 | July 31, 2014 |
|--|-------------------|---------------------|-------------------|
| Property and equipment, net | | | |
| Domestic operations | \$ 760,042 | \$ 745,504 | \$ 712,987 |
| Foreign operations | 140,260 | 143,728 | 155,655 |
| Total property and equipment, net | \$ 900,302 | \$ 889,232 | \$ 868,642 |

| | Three Months Ended | | Six Months Ended | |
|------------------------|--------------------|-------------------|---------------------|---------------------|
| | July 31, | | July 31, | |
| | 2015 | 2014 | 2015 | 2014 |
| Net Sales | | | | |
| Domestic operations | \$ 756,487 | \$ 701,763 | \$ 1,406,205 | \$ 1,302,675 |
| Foreign operations | 110,973 | 109,490 | 200,265 | 194,888 |
| Total net sales | \$ 867,460 | \$ 811,253 | \$ 1,606,470 | \$ 1,497,563 |

Table of Contents**Item 2. Management's Discussion and Analysis of Financial Condition and Results of Operations**

Certain matters contained in this filing with the United States Securities and Exchange Commission (SEC) may contain forward-looking statements and are being made pursuant to the safe harbor provisions of the Private Securities Litigation Reform Act of 1995. When used in this Quarterly Report on Form 10-Q, the words project, believe, plan, will, 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, lowered levels of consumer confidence and higher levels of unemployment, continuation of lowered levels of consumer spending resulting from a worldwide political and economic crisis, any effects of terrorist acts or war, natural disasters or severe weather conditions, availability of suitable retail space for expansion, timing of store openings, risks associated with international expansion, seasonal fluctuations in gross sales, the departure of one or more key senior executives, import risks, including potential disruptions and changes in duties, tariffs and quotas, the closing of any of our distribution centers, our ability to protect our intellectual property rights, risks associated with internet sales, response to new store concepts, failure of our suppliers to adhere to our vendor compliance program, changes in accounting standards and subjective assumptions, regulatory changes and legal matters and other risks identified in our filings with the SEC, including those set forth in Item 1A of our Annual Report on Form 10-K for the fiscal year ended January 31, 2015, filed on April 1, 2015. We disclaim 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.

Unless the context otherwise requires, all references to Urban Outfitters, the Company, we, us, our or our company refer to Urban Outfitters, Inc., together with its subsidiaries.

Overview

We operate two reportable segments: a leading lifestyle specialty Retail segment and a Wholesale segment. Our Retail segment consists of our Urban Outfitters, Anthropologie, Free People, Terrain and Bhldn brands, whose merchandise is sold directly to our customers through retail stores, websites, mobile applications, catalogs and customer contact centers. Our Wholesale segment consists of the Free People wholesale division that primarily designs, develops and markets young women's contemporary casual apparel.

Our fiscal year ends on January 31. All references to our fiscal years refer to the fiscal years ended on January 31 in those years. For example, our fiscal year 2016 will end on January 31, 2016.

Retail Segment

Our omni-channel strategy enhances our customers' brand experience by providing a seamless approach to the customer shopping experience. We have substantially integrated all available shopping channels, including stores, websites (online and through mobile devices) and catalogs. Our investments in areas such as marketing campaigns and technology advancements are designed to generate demand for the omni-channel and not the separate store or direct-to-consumer channels. Store sales are primarily fulfilled from that store's inventory, but may also be shipped from any of our fulfillment centers or from a different store location if an item is not available at the original store. Direct-to-consumer orders are primarily shipped to our customers through our fulfillment centers, but may also be shipped from any store, or a combination of fulfillment centers and stores depending on the availability of particular items. Direct-to-consumer orders may also be picked up at a store location. As our customers continue to shop across

multiple channels, we have adapted our approach towards meeting this demand. Due to the availability of like product in a variety of shopping channels, we now source these products utilizing single stock keeping units based on the omni-channel demand rather than the demand of

Table of Contents

the separate channels. These and other technological capabilities allow us to better serve our customers and help us complete sales that otherwise may not have occurred due to out-of-stock positions. As a result of changing customer behavior and the substantial integration of the operations of our store and direct-to-consumer channels, we manage and analyze our performance based on a single omni-channel rather than separate channels and believe that the omni-channel results present the most meaningful and appropriate measure of our performance.

Our comparable Retail segment net sales data is equal to the sum of our comparable store and comparable direct-to-consumer channel net sales. A store is considered to be comparable if it has been open at least twelve full months, unless it was materially expanded or remodeled within that year or was not otherwise operating at its full capacity within that year. A direct-to-consumer channel is considered to be comparable if it has been operational for at least twelve full months. There is no overlap between comparable store net sales and comparable direct-to-consumer net sales. Sales from stores and direct-to-consumer channels that do not fall within the definition of comparable store or channel are considered to be non-comparable. The effects of foreign currency translation are also considered non-comparable.

Although we have no precise empirical data as it relates to customer traffic or customer conversion rates within our stores, we believe that, based only on our observations, changes in transaction volume in our stores, as discussed in our results of operations, may correlate to changes in customer traffic. We are able to monitor customer sessions, average order value and conversion rate on our websites. We believe that changes in any of these metrics may be caused by a response to our brands' fashion offerings, our marketing campaigns, circulation of our catalogs and an overall growth in brand recognition as we expand our store base.

As of July 31, 2015, we operated 238 Urban Outfitters stores of which 178 were located in the United States, 17 were located in Canada and 43 were located in Europe. For the six months ended July 31, 2015, we opened two new Urban Outfitters stores, one in the United States and one in Canada, and closed two Urban Outfitters stores, both of which were located in the United States. Store square footage increased 1.9% over the prior year period to 2.1 million. Urban Outfitters operates websites in North America and Europe that capture the spirit of the brand by offering a similar yet broader selection of merchandise as found in our stores. Urban Outfitters offers a catalog in Europe offering select merchandise, most of which is also available in our Urban Outfitters stores. Urban Outfitters targets young adults aged 18 to 28 through a unique merchandise mix and compelling store environment and website. Urban Outfitters' product offering includes women's and men's fashion apparel, intimates, footwear, beauty, accessories, activewear and gear, electronics, as well as an eclectic mix of apartment wares and gifts. We plan to open additional stores over the next several years. Urban Outfitters' North American and European Retail segment net sales accounted for approximately 32.0% and 7.7% of consolidated net sales, respectively, for the six months ended July 31, 2015, compared to 32.1% and 8.4%, respectively, for the comparable period in fiscal 2015.

The Anthropologie Group consists of the Anthropologie, Bhldn and Terrain brands. We initially operated the Bhldn and Terrain brands as standalone concepts and opened two Bhldn stores and two Terrain stores. We ultimately determined that the Bhldn and Terrain brands were complimentary to the Anthropologie brand and integrated those brands into the Anthropologie Group in fiscal 2015 and 2016, respectively. As of July 31, 2015, we operated 210 Anthropologie Group stores, of which 190 were located in the United States, 12 were located in Canada and eight were located in Europe. For the six months ended July 31, 2015, we opened four new Anthropologie Group stores, three of which were located in the United States and one was located in Europe. Store square footage increased 5.7% over the prior year period to 1.5 million. The Anthropologie Group operates websites in North America and Europe that capture the spirit of the brands by offering a similar yet broader selection of merchandise as found in our stores. Anthropologie offers registry services through our website and mobile applications and in all of our stores throughout the United States. Registry services allow our customers to create gift registries for any occasion and customers can select from any of the products offered by the brand. The Anthropologie brand offers a catalog in North America and

in Europe that markets select merchandise, most of which is also available in our Anthropologie stores. The Anthropologie brand tailors its merchandise to sophisticated and contemporary women aged 28 to 45. Anthropologie's product assortment includes women's

Table of Contents

casual apparel and accessories, intimates, shoes, beauty, home furnishings and a diverse array of gifts and decorative items. The Bhldn brand offers a curated collection of heirloom quality wedding gowns, bridesmaid frocks, party dresses, assorted jewelry, headpieces, footwear, lingerie and decorations. The Terrain brand is designed to appeal to women and men interested in a creative, sophisticated outdoor living and gardening experience. Terrain creates a compelling shopping environment through its large and freestanding sites. Merchandise includes lifestyle home and garden products combined with antiques, live plants, flowers, wellness products and accessories. Both Terrain locations offer a full-service restaurant and coffee bar. We plan to open additional Anthropologie stores over the next several years, some of which will include Bhldn or Terrain shop-within-shop locations. The Anthropologie Group's North American and European Retail segment net sales accounted for approximately 40.9% and 1.6% of consolidated net sales, respectively, for the six months ended July 31, 2015, compared to 42.3% and 1.4%, respectively, for the comparable period in fiscal 2015.

As of July 31, 2015, we operated 108 Free People stores, of which 104 were located in the United States and four were located in Canada. During the six months ended July 31, 2015, we opened seven new Free People stores and closed one Free People store due to lease expiration, all of which were located in the United States. Store square footage increased 20.7% over the prior year period to 177 thousand. Free People operates websites in North America, Europe and Asia that capture the spirit of the brand by offering a similar yet broader selection of merchandise as found in our stores, as well as substantially all of the Free People wholesale offerings. Free People also offers a catalog that markets select merchandise, most of which is also available in our Free People stores. Free People primarily offers private label branded merchandise targeted to young contemporary women aged 25 to 30. Free People provides a unique merchandise mix of casual women's apparel, intimates, shoes, activewear, accessories and gifts. We plan to open additional stores over the next several years, some of which may be outside the United States. Free People's Retail segment net sales accounted for approximately 10.0% of consolidated net sales for the six months ended July 31, 2015, compared to approximately 8.8% for the comparable period in fiscal 2015.

For all brands combined, we plan to open approximately 30 to 35 new stores during fiscal 2016, including four Urban Outfitters stores, 13 Anthropologie Group stores and 15 Free People stores.

Wholesale Segment

The Free People wholesale division designs, develops and markets young women's contemporary casual apparel. Free People's range of tops, bottoms, sweaters, dresses, intimates and shoes are sold through approximately 1,600 better department and specialty stores worldwide, including in North America, Europe and Asia, and our own Free People stores. Free People's Wholesale segment net sales accounted for approximately 7.8% of consolidated net sales for the six months ended July 31, 2015, compared to 7.0% for the comparable period in fiscal 2015.

Critical Accounting Policies and Estimates

Our condensed consolidated financial statements have been prepared in accordance with generally accepted accounting principles in the United States. These generally accepted accounting principles require management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of net sales and expenses during the reporting period.

Our senior management has reviewed the critical accounting policies and estimates with our audit committee. Our significant accounting policies are described in Note 2 Summary of Significant Accounting Policies, in the Notes to our Consolidated Financial Statements for the fiscal year ended January 31, 2015, which are included in our Annual Report on Form 10-K filed with the SEC on April 1, 2015. We believe that the following discussion addresses our

critical accounting policies, which are those that are most important to the portrayal of our financial condition, results of operations and cash flows and require management's most

Table of Contents

difficult, subjective and complex judgments, often as a result of the need to make estimates about the effect of matters that are inherently uncertain. If actual results were to differ significantly from estimates made, the reported results could be materially affected. We are not currently aware of any reasonably likely events or circumstances that would cause our actual results to be materially different from our estimates.

Revenue Recognition

Revenue is recognized by the Retail segment at the point-of-sale for merchandise the customer takes possession of at the retail store or when merchandise is shipped to the customer, in each case, net of estimated customer returns. Revenue is recognized by the Wholesale segment when merchandise is shipped to the customer, net of estimated customer returns. Revenue is presented on a net basis and does not include any tax assessed by a governmental or municipal authority. Payment for merchandise in our Retail segment is tendered by cash, check, credit card, debit card or gift card. Therefore, our need to collect outstanding accounts receivable for our Retail segment is negligible and mainly results from returned checks or unauthorized credit card transactions. We maintain an allowance for doubtful accounts for the Wholesale segment accounts receivable, which management reviews on a regular basis and believes is sufficient to cover potential credit losses and billing adjustments.

We account for a gift card transaction by recording a liability at the time the gift card is issued to the customer in exchange for consideration from the customer. A liability is established and remains on our books until the card is redeemed by the customer, at which time we record the redemption of the card for merchandise as a sale, or when we determine the likelihood of redemption is remote. We determine the probability of the gift cards being redeemed to be remote based on historical redemption patterns. Revenues attributable to the reduction of gift card liabilities for which the likelihood of redemption becomes remote are included in sales and are not material. Our gift cards do not expire.

Sales Return Reserve

We record a reserve for estimated product returns where the sale has occurred during the period reported, but the return is likely to occur subsequent to the period reported. The reserve for estimated product returns is based on our most recent historical return trends. If the actual return rate or experience is materially different than our estimate, sales returns would be adjusted in the future. As of July 31, 2015, January 31, 2015 and July 31, 2014, reserves for estimated sales returns totaled \$23.7 million, \$19.8 million and \$19.3 million, representing 3.5%, 3.5% and 3.4% of total liabilities, respectively.

Marketable Securities

All of our marketable securities as of July 31, 2015, January 31, 2015 and July 31, 2014 are classified as available-for-sale and are carried at fair value, which approximates amortized cost. Interest on these securities, as well as the amortization of discounts and premiums, is included in *Other expense, net* in the Condensed Consolidated Statements of Income. We record unrealized gains and losses on these securities (other than mutual funds, held in the rabbi trust for the Urban Outfitters, Inc. Non-qualified Deferred Compensation Plan (See Note 3, *Marketable Securities*, in the Notes to Condensed Consolidated Financial Statements included in this Quarterly Report on Form 10-Q)) as a component of *Other comprehensive income* in the Condensed Consolidated Statement of Comprehensive Income and in *Accumulated other comprehensive (loss) income* within *Shareholders' equity* until realized, except when we consider declines in value to be other than temporary. Other than temporary impairment losses related to credit losses are considered to be realized losses. Mutual funds held in the rabbi trust have been accounted for under the fair value option, which results in all unrealized gains and losses being recorded in *Other expense, net* in the Condensed Consolidated Statements of Income. When available-for-sale securities are sold, the cost of the securities is specifically identified and is used to determine the realized gain or loss. Securities classified as current assets have

maturity dates of less than or equal to one year from the balance sheet date. Securities classified as non-current assets have maturity dates greater than one year from the balance sheet date.

Table of Contents*Inventories*

We value our inventories, which consist primarily of general consumer merchandise held for sale, at the lower of cost or market. Cost is determined on the first-in, first-out method and includes the cost of merchandise and import related costs, including freight, import taxes and agent commissions. A periodic review of inventory is performed in order to determine if inventory is properly stated at the lower of cost or market. Factors related to current inventories such as future expected consumer demand and fashion trends, current aging, current and anticipated retail markdowns or wholesale discounts and class or type of inventory are analyzed to determine estimated net realizable value. Criteria that we utilize to quantify aging trends includes factors such as average selling cycle and seasonality of merchandise, the historical rate at which merchandise has sold below cost during the prior twelve months and the value and nature of merchandise currently priced below original cost. A provision is recorded to reduce the cost of inventories to the estimated net realizable values, if appropriate. Our estimates generally have been accurate and our reserve methods have been applied on a consistent basis. We expect the amount of our provision and related inventories to increase over time as we increase our sales. The majority of inventory at July 31, 2015, January 31, 2015 and July 31, 2014 consisted of finished goods. Raw materials and work-in-process were not material to the overall inventory value. Inventories as of July 31, 2015, January 31, 2015 and July 31, 2014 totaled \$384.4 million, \$358.2 million and \$362.0 million, representing 20.2%, 19.0% and 19.0% of total assets, respectively. Any significant unanticipated changes in the factors noted above could have a significant impact on the value of our inventories and our reported operating results.

Long-Lived Assets

Our long-lived assets consist principally of store leasehold improvements, buildings, furniture and fixtures, and other operating equipment and are included in the Property and equipment, net line item in our Condensed Consolidated Balance Sheets. Store leasehold improvements are recorded at cost and are amortized using the straight-line method over the lesser of the applicable store lease term, including lease renewals which are reasonably assured, or the estimated useful life of the leasehold improvements. The typical initial lease term for our stores is ten years. Buildings are recorded at cost and are amortized using the straight-line method over 39 years. Furniture and fixtures are recorded at cost and are amortized using the straight-line method over their useful life, which is typically five years. Other operating equipment is recorded at cost and amortized using the straight-line method over their useful life, which is three to ten years. Net property and equipment as of July 31, 2015, January 31, 2015 and July 31, 2014 totaled \$900.3 million, \$889.2 million and \$868.6 million, representing 47.2%, 47.1% and 45.6% of total assets, respectively.

In assessing potential impairment of these assets, we make estimates regarding forecasted operating results and cash flows on a store-by-store basis. Newly opened stores may take time to generate positive operating and cash flow results. Factors such as store type (e.g., mall versus free-standing), store location (e.g., urban area versus college campus or suburb), current marketplace awareness of our brands, local customer demographic data and current fashion trends are all considered in determining the time frame required for a store to achieve positive financial results, which, in general, is assumed to be within three years from the date a store location has opened. We record impairment losses when events indicate that an asset may be impaired and the estimated undiscounted cash flows are less than the carrying amount of the assets. For the six months ended July 31, 2015 and 2014, as well as for fiscal 2015, impairment losses were not material.

We have not historically encountered material early retirement charges related to our long-lived assets. The cost of assets sold or retired and the related accumulated depreciation or amortization is removed from the accounts with any resulting gain or loss included in net income. Maintenance and repairs are charged to expense as incurred. Major renovations or improvements that extend the service lives of our assets are capitalized over the extension period or life of the improvement, whichever is less.

Accounting for Income Taxes

As part of the process of preparing our condensed consolidated financial statements, we are required to estimate our income taxes in each of the tax jurisdictions in which we operate. This process involves estimating

Table of Contents

our actual current tax obligations together with assessing temporary differences resulting from differing treatment of certain items for tax and accounting purposes, such as depreciation of property and equipment and valuation of inventories. These temporary differences result in deferred tax assets and liabilities, which are included within our Condensed Consolidated Balance Sheets. We then assess the likelihood that our deferred tax assets will be recovered from future taxable income. A valuation allowance is recognized if, based on the weight of available evidence, it is more-likely-than not (likelihood of more than 50 percent) that some portion, or all, of the deferred tax asset will not be realized. In making such a determination, we consider all material available positive and negative evidence, including future reversals of existing taxable temporary differences, projected future taxable income, tax-planning strategies, and results of recent operations. Actual results could differ from this assessment if adequate taxable income is not generated in future periods. Net deferred tax assets as of July 31, 2015, January 31, 2015 and July 31, 2014 totaled \$77.2 million, \$68.7 million and \$82.4 million, representing 4.1%, 3.6% and 4.3% of total assets, respectively.

To the extent we believe that recovery of an asset is at risk, we establish valuation allowances. To the extent we establish valuation allowances or increase the allowances in a period, we record additional income tax expense in the Condensed Consolidated Statements of Income. Valuation allowances as of July 31, 2015, January 31, 2015 and July 31, 2014 were \$0.2 million, \$0.1 million and \$0.0 million, respectively. Valuation allowances are based on evidence of our ability to generate sufficient taxable income in certain foreign and state jurisdictions. In the future, if enough evidence of our ability to generate sufficient future taxable income in these jurisdictions becomes apparent, we would be required to reduce our valuation allowances, resulting in a reduction in income tax expense in the Condensed Consolidated Statements of Income. On a quarterly basis, management evaluates the likelihood that we will realize the deferred tax assets and adjusts the valuation allowances, if appropriate.

We record uncertain tax positions on the basis of a two-step process whereby (1) we determine whether it is more likely than not that the tax positions will be sustained on the basis of the technical merits of the position and (2) for those tax positions that meet the more-likely-than-not recognition threshold, we recognize the largest amount of tax benefit that is more than 50 percent likely to be realized upon ultimate settlement with the related tax authority.

Our tax liability for uncertain tax positions contains uncertainties because we are required to make assumptions and to apply judgment to estimate the exposures associated with our various filing positions. Although we believe that the judgments and estimates discussed herein are reasonable, actual results may differ, and we may be exposed to losses or gains that could be material.

We consider the earnings of all non-U.S. subsidiaries to be indefinitely invested outside the United States on the basis of estimates that future United States cash generation will be sufficient to meet future United States cash needs and our specific plans for reinvestment of those subsidiary earnings. Should we decide to repatriate the foreign earnings, we would need to adjust our income tax provision in the period we determined that the earnings will no longer be indefinitely invested outside the United States.

Accounting for Contingencies

From time to time, we are named as a defendant in legal actions arising from our normal business activities. We are required to record an estimated loss contingency when information available prior to issuance of our financial statements indicates that it is probable that a liability has been incurred at the date of the financial statements and the amount of the loss can be reasonably estimated. Accounting for contingencies arising from contractual disputes or legal proceedings requires management to use its best judgment when estimating an accrual related to such contingencies. As additional information becomes known, our accrual for a loss contingency could fluctuate, thereby creating variability in our results of operations from period to period. Likewise, an actual loss arising from a loss contingency which significantly exceeds the amount accrued in our financial statements could have a material adverse

impact on our operating results for the period in which such actual loss becomes known.

Table of Contents*Share-Based Compensation*

Accounting for share-based compensation requires measurement of compensation cost for all share-based awards at fair value on the date of grant and recognition of compensation over the service period, net of estimated forfeitures.

We use a lattice binomial pricing model to determine the fair value of our stock options and stock appreciation rights. This model uses assumptions including the risk free rate of interest, expected volatility of our stock price and expected life of the awards. A Monte Carlo simulation, which utilizes similar assumptions, is used to determine the fair value of performance-based awards. We review our assumptions and the valuations provided by independent third-party valuation advisors in order to determine the fair value of share-based compensation awards at the date of grant. The assumptions used in calculating the fair value of these share-based payment awards represent our best estimates, but these estimates involve inherent uncertainties and the application of judgment. Changes in these assumptions can materially affect the fair value estimate.

Additionally, we make certain estimates about the number of awards which will become vested under performance-based incentive plans. We record expense for performance-based awards based on our current expectations of the probable number of shares that will ultimately vest. The estimation of share-based awards that will ultimately vest requires judgment, and to the extent actual results or updated estimates differ from our current estimates, such amounts will be recorded as a cumulative adjustment in the period estimates are revised and could be materially different from share-based compensation expense recorded in prior periods.

We also estimate the expected forfeiture rate. We consider many factors when estimating expected forfeitures, including types of awards and historical experience. We revise our forfeiture rates, when necessary, in subsequent periods if actual forfeitures differ from those originally estimated. As a result, if the actual forfeiture rate is different from the estimate at the completion of the vesting period, the share-based compensation expense may not be comparable to amounts recorded in prior periods.

Results of Operations*As a Percentage of Net Sales*

The following table sets forth, for the periods indicated, the percentage of our net sales represented by certain income statement data and the change in certain income statement data from period to period. This table should be read in conjunction with the discussion that follows:

| | Three Months Ended July 31, | | Six Months Ended July 31, | |
|--|------------------------------------|-------------|----------------------------------|-------------|
| | 2015 | 2014 | 2015 | 2014 |
| Net sales | 100.0% | 100.0% | 100.0% | 100.0% |
| Cost of sales | 63.3 | 62.6 | 64.9 | 63.8 |
| Gross profit | 36.7 | 37.4 | 35.1 | 36.2 |
| Selling, general and administrative expenses | 24.7 | 24.4 | 25.3 | 25.2 |
| Income from operations | 12.0 | 13.0 | 9.8 | 11.0 |
| Other expense, net | (0.1) | (0.1) | (0.2) | 0.0 |

Edgar Filing: URBAN OUTFITTERS INC - Form 10-Q

| | | | | |
|----------------------------|------|------|------|------|
| Income before income taxes | 11.9 | 12.9 | 9.6 | 11.0 |
| Income tax expense | 4.2 | 4.6 | 3.4 | 4.0 |
| Net income | 7.7% | 8.3% | 6.2% | 7.0% |

21

Table of Contents**Three Months Ended July 31, 2015 Compared To Three Months Ended July 31, 2014**

Net sales in the second quarter of fiscal 2016 increased by 6.9% to \$867.5 million, from \$811.3 million in the second quarter of fiscal 2015. The \$56.2 million increase was attributable to a \$43.6 million, or 5.8%, increase in Retail segment net sales and an \$12.6 million, or 21.3%, increase in our Wholesale segment net sales. Retail segment net sales for the second quarter of fiscal 2016 accounted for 91.7% of total net sales compared to 92.7% of total net sales in the second quarter of fiscal 2015.

The growth in our Retail segment net sales during the second quarter of fiscal 2016 was driven by an increase of \$28.8 million, or 4.0%, in Retail segment comparable net sales, which includes our direct-to-consumer channel, and an increase of \$14.8 million in non-comparable and new store net sales. Our total company comparable Retail segment net sales increase was comprised of increases of 14.4%, 3.9% and 2.1% at Free People, Urban Outfitters and the Anthropologie Group, respectively. The increase in the Retail segment was driven by continued growth in the direct-to-consumer channel and was partially offset by negative comparable store net sales. Direct-to-consumer net sales were driven by an increase in sessions, orders, average order value and conversion rate. The negative comparable store net sales resulted from a reduction in transactions and units per transaction, which were partially offset by an increase in average unit selling price. The increase in net sales attributable to non-comparable and new stores was primarily the result of operating 46 new stores during the second quarter of fiscal 2016 that were not in operation for the full comparable quarter in fiscal 2015. Thus far during the third quarter of fiscal 2016, comparable Retail segment net sales are low single-digit positive.

The increase in Wholesale segment net sales in the second quarter of fiscal 2016, as compared to the second quarter of fiscal 2015, was primarily due to increased sales to department and specialty stores. Wholesale sales growth was driven by an increase in units that was partially offset by a decrease in average unit selling price.

Gross profit percentage for the second quarter of fiscal 2016 decreased to 36.7% of net sales, from 37.4% of net sales in the comparable quarter in fiscal 2015. The decrease in gross profit percentage was primarily driven by higher delivery and fulfillment center expenses largely related to the increase in direct-to-consumer sales penetration as well as incremental costs associated with the transition of our South Carolina fulfillment center operations to our new Gap, Pennsylvania fulfillment facility. Gross profit increased to \$318.1 million in the second quarter of fiscal 2016 compared to \$303.3 million in the comparable quarter in fiscal 2015. The increase was primarily due to higher net sales and was partially offset by the lower gross profit percentage. Total inventories at July 31, 2015 increased by \$22.4 million, or 6.2%, to \$384.4 million from \$362.0 million at July 31, 2014. This increase was primarily related to the acquisition of inventory to stock new and non-comparable stores. Comparable Retail segment inventories as of July 31, 2015 decreased 1.6% at cost while decreasing 7.0% in units.

Selling, general and administrative expenses as a percentage of net sales increased during the second quarter of fiscal 2016 to 24.7% of net sales, compared to 24.4% of net sales for the second quarter of fiscal 2015. The increase was primarily due to increased marketing and technology expenses, which drove higher direct-to-consumer traffic. Selling, general and administrative expenses increased by \$16.2 million, or 8.2%, to \$214.4 million, in the second quarter of fiscal 2016, from \$198.1 million in the second quarter of fiscal 2015. The dollar increase versus the prior year was primarily related to increased marketing and technology expenses that were used to drive higher direct-to-consumer traffic and the operating expenses of new and non-comparable stores.

Income from operations decreased to 12.0% of net sales, or \$103.8 million, for the second quarter of fiscal 2016 compared to 13.0%, or \$105.1 million, for the second quarter of fiscal 2015.

Our effective tax rate for the second quarter of fiscal 2016 was 35.2% of income before income taxes compared to 35.5% of income before income taxes in the second quarter of fiscal 2015.

Table of Contents**Six Months Ended July 31, 2015 Compared To Six Months Ended July 31, 2014**

Net sales for the six months ended July 31, 2015 increased by 7.3% to \$1.61 billion, from \$1.50 billion in the comparable period of fiscal 2015. The \$108.9 million increase was attributable to an \$88.2 million, or 6.3%, increase in Retail segment net sales and a \$20.7 million, or 19.7%, increase in our Wholesale segment net sales. Retail segment net sales for the six months ended July 31, 2015 accounted for 92.2% of total net sales compared to 93.0% of total net sales during the six months ended July 31, 2014.

The growth in Retail segment net sales during the first six months of fiscal 2016 was driven by an increase of \$54.4 million, or 4.1%, in Retail segment comparable net sales, which includes our direct-to-consumer channel, and a \$33.8 million increase in our new and non-comparable stores. Our total company comparable Retail segment net sales increase was comprised of increases of 16.0%, 4.5% and 1.4% at Free People, Urban Outfitters and the Anthropologie Group, respectively. The increase in the Retail segment was driven by continued growth in the direct-to-consumer channel partially offset by negative comparable store net sales. Direct-to-consumer net sales were driven by an increase in sessions, orders, average order value and conversion rate. The negative comparable store net sales resulted from a reduction in transactions and units per transaction, partially offset by an increase in average unit selling price. The increase in net sales attributable to non-comparable and new stores was primarily the result of operating 51 new stores during the first half of fiscal 2016 that were not in operation for the full comparable first half of fiscal 2015.

The increase in Wholesale segment net sales during the first six months of fiscal 2016, as compared to the first six months of fiscal 2015, was primarily due to increased sales to department and specialty stores. Wholesale sales growth was driven by an increase in units that was partially offset by a decrease in average unit selling price.

Gross profit percentage for the first six months of fiscal 2016 decreased to 35.1% of net sales from 36.2% of net sales in the comparable period in fiscal 2015. The decline in gross profit rate was primarily driven by higher delivery and fulfillment center expenses largely related to the increase in direct-to-consumer sales penetration as well as incremental costs associated with the transition of our South Carolina fulfillment center operations to our new Gap, Pennsylvania fulfillment facility. Gross profit for the first six months of fiscal 2016 increased by \$22.7 million, or 4.2%, to \$564.5 million from \$541.8 million in the comparable period in fiscal 2015. The increase was primarily due to higher net sales and was partially offset by the lower gross profit percentage.

Selling, general and administrative expenses as a percentage of net sales were flat during the first six months of fiscal 2016 compared to the first six months of fiscal 2015. Selling, general and administrative expenses increased by \$30.9 million, or 8.2%, to \$407.7 million, in the first half of fiscal 2016, from \$376.8 million in the first half of fiscal 2015. The dollar increase versus the prior year was primarily related to increased marketing and technology expenses, which drove higher direct-to-consumer traffic, and the operating expenses of new and non-comparable stores.

Income from operations decreased to 9.8% of net sales, or \$156.8 million, for the first half of fiscal 2016 compared to 11.0%, or \$164.9 million, for the first half of fiscal 2015.

Our effective tax rate for the first half of fiscal 2016 was 35.4% of income before income taxes compared to 36.0% of income before taxes in the first half of fiscal 2015. The decrease in the rate was due to state tax adjustments in the prior year period.

Liquidity and Capital Resources

Cash, cash equivalents and marketable securities were \$339.1 million as of July 31, 2015, as compared to \$363.3 million as of January 31, 2015 and \$409.1 million as of July 31, 2014. The decrease was primarily due to cash used

for share repurchases under the May 27, 2014 and February 23, 2015 share repurchase programs. Our

Table of Contents

working capital was \$486.2 million at July 31, 2015 compared to \$455.4 million at January 31, 2015 and \$423.8 million at July 31, 2014. The increase in working capital during the first half of fiscal 2016 was primarily due to the increase in inventories and the timing of disbursements.

Cash provided by operating activities during the first half of fiscal 2016 increased by \$28.4 million to \$139.0 million from \$110.6 million in the first half of fiscal 2015. This increase was primarily due to changes in overall working capital in the first half of fiscal 2016 as compared to the first half of fiscal 2015.

Cash used in investing activities during the first half of fiscal 2016 was \$6.2 million, primarily related to purchases of marketable securities and property and equipment and was partially offset by the sale and maturities of marketable securities.

Cash used in financing activities during the first half of fiscal 2016 was \$94.4 million, primarily related to the repurchase of our common shares under the May 27, 2014 and February 23, 2015 repurchase programs and was partially offset by net borrowings of long-term debt.

During the last two years, we have primarily satisfied our cash requirements through our cash flow from operating activities. Our primary uses of cash have been to repurchase common shares, open new stores, purchase inventories and expand our home offices and fulfillment facilities. We have also continued to invest in our omni-channel efforts, technology and our international operations. Cash paid for property and equipment for the six months ended July 31, 2015 and 2014 was \$69.3 million and \$106.2 million, respectively, and was used primarily to expand or renovate our store base in fiscal 2016 and our store base, home offices and fulfillment facilities in fiscal 2015.

On July 1, 2015, we entered into a five-year asset-based revolving Credit Agreement (**Credit Agreement**) with certain lenders including JPMorgan Chase Bank, N.A., as administrative agent, and J.P. Morgan Securities LLC and Wells Fargo Bank, National Association, as joint lead arrangers and co-book managers. The Credit Agreement replaced our unsecured \$175.0 million revolving line of credit with Wells Fargo Bank, National Association, which was set to expire in March 2019.

The Credit Agreement provides senior secured revolving credit for loans and letters of credit up to \$400.0 million (the **Credit Facility**), subject to a borrowing base that is comprised of our eligible accounts receivable and inventory. The Credit Facility includes a swing-line sub-facility, a multicurrency sub-facility and the option to expand the facility by up to \$150.0 million. The funds available under the Credit Facility may be used for working capital and other general corporate purposes.

The Credit Facility provides for interest on borrowings, at our option, at either (i) adjusted LIBOR, CDOR or EURIBOR plus an applicable margin ranging from 1.125% to 1.625%, or (ii) an adjusted ABR plus an applicable margin ranging from 0.125% to 0.625%, each such rate depending on the level of availability under the Credit Facility and our adjusted leverage ratio. Interest is payable either monthly or quarterly depending on the type of borrowing. A commitment fee is payable quarterly, on the unused portion of the Credit Facility, based on our adjusted leverage ratio.

All obligations under the Credit Facility are unconditionally guaranteed by us and our domestic subsidiaries. The obligations under the Credit Facility are secured by a first-priority security interest in inventory, accounts receivable, and certain other assets of the borrowers and guarantors. The Credit Agreement contains customary representations and warranties, negative and affirmative covenants and provisions relating to events of default.

Edgar Filing: URBAN OUTFITTERS INC - Form 10-Q

As of July 31, 2015, we were in compliance with all terms of the Credit Agreement, borrowings on the Credit Facility totaled approximately \$115.0 million, which were used to repurchase common shares of the Company, and stand-by letters of credit outstanding were \$14.3 million.

Additionally, we have borrowing agreements with two separate financial institutions under which we may borrow an aggregate of \$130.0 million for the purposes of trade letter of credit issuances. The availability of any

Table of Contents

future borrowings under the trade letter of credit facilities is subject to acceptance by the respective financial institutions. As of July 31, 2015, we had outstanding trade letters of credit of \$72.1 million. The available trade letters of credit under these facilities are \$57.9 million.

During fiscal 2016, we plan to construct and open approximately 30 to 35 new stores, renovate certain existing stores, increase our fulfillment capabilities, upgrade our systems, increase our investments in omni-channel marketing and purchase inventories for our Retail and Wholesale segments at levels appropriate to maintain our planned sales growth. We believe that our marketing, social media, merchandise expansion, website and mobile initiatives are a significant contributor to our Retail segment sales growth. During fiscal 2016, we plan to continue our investment in these initiatives for all brands. We anticipate our capital expenditures during fiscal 2016 to be approximately \$140 to \$150 million, all of which are expected to be financed by cash flow from operating activities. We believe that our new store investments have the potential to generate positive cash flow within a year. We believe the expansion of our home offices and distribution and fulfillment facilities are necessary to adequately support our growth. We may also enter into one or more acquisitions or transactions related to the expansion of our brand offerings. We believe that our existing cash and cash equivalents, available credit facilities and future cash flows from operations will be sufficient to fund these initiatives.

On February 23, 2015, our Board of Directors authorized the repurchase of 20.0 million common shares under a share repurchase program. Under this authorization, we repurchased and retired at total of 4.8 million common shares for approximately \$170.8 million during the six months ended July 31, 2015. The average cost per share of these repurchases for the six months ended July 31, 2015 was \$35.91, including commissions.

Subsequent to July 31, 2015, we repurchased and retired a total of 1.3 million common shares for approximately \$40.0 million, at an average price of \$30.79 per share, including commissions, which were funded with our available cash, cash equivalents, and marketable securities.

On May 27, 2014, our Board of Directors authorized the repurchase of 10.0 million common shares under a share repurchase program. During the six months ended July 31, 2015, we repurchased and subsequently retired 2.3 million shares at a total cost of \$82.8 million for an average cost per share of \$36.30, including commissions, which completed this authorization. Under this authorization, the Company repurchased and subsequently retired 7.7 million common shares at a total cost of \$258.2 million during fiscal 2015. The average cost per share of these repurchases for fiscal 2015 was \$33.45, including commissions.

Off-Balance Sheet Arrangements

As of and for the six months ended July 31, 2015, except for operating leases entered into in the normal course of business, we were not party to any material off-balance sheet arrangements that are reasonably likely to have a current or future effect on our financial condition, revenues, expenses, results of operations, liquidity, capital expenditures or capital resources.

Other Matters

See Note 2 Recently Issued and Adopted Accounting Pronouncements, of the Notes to Condensed Consolidated Financial Statements included in this Quarterly Report on Form 10-Q for a description of recently issued and adopted accounting pronouncements.

Item 3. Quantitative and Qualitative Disclosures About Market Risk

We are 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 our inventory turnover rate and our historical ability to pass through the impact of any generalized changes in our cost of goods to our customers through pricing adjustments, commodity and other

Table of Contents

product risks are not expected to be material. We purchase the majority of our merchandise in U.S. dollars, including a majority of the goods for our stores located in Canada and a portion of the goods for our stores located in Europe.

Our exposure to market risk for changes in foreign currencies is due to our financial statements being presented in U.S. dollars but our international subsidiaries transact in currencies other than U.S. dollars. Fluctuations in exchange rates in effect during or at the end of the reporting period may affect the value of the reported amounts of revenues, expenses, assets and liabilities. As we expand our international operations, the potential impact of currency fluctuations increases.

Our exposure to market risk for changes in interest rates relates to our cash, cash equivalents and marketable securities and the Credit Facility. As of July 31, 2015, January 31, 2015 and July 31, 2014, our cash, cash equivalents and marketable securities consisted primarily of cash on hand and in banks, money market accounts, corporate bonds rated BBB or better, municipal and pre-refunded municipal bonds rated BBB or better, treasury bills, certificates of deposit, federal government agencies, commercial paper rated BBB or better, which bear interest at variable rates, and mutual funds. Due to the short average maturity and conservative nature of our investment portfolio, we believe a 100 basis point change in interest rates would not have a material effect on the Condensed Consolidated Financial Statements. As the interest rates on a material portion of our cash, cash equivalents and marketable securities are variable; a change in interest rates earned on the cash, cash equivalents and marketable securities would impact interest income along with cash flows, but would not impact the fair market value of the related underlying instruments.

The Credit Facility provides us with available borrowings in the amount up to \$400.0 million. We will be exposed to market risks relating to changes in interest rates on any outstanding balance because the Credit Facility bears interest at a variable rate. A ten percent change in our applicable interest rate would have minimal impact to interest expense for the three months ended July 31, 2015.

Item 4. Controls and Procedures

We maintain disclosure controls and procedures designed to ensure that information required to be disclosed by us in our Securities Exchange Act of 1934 reports is recorded, processed, summarized and reported on a timely basis and that such information is accumulated and communicated to management, including the Principal Executive Officer and the Principal Financial Officer, as appropriate, to allow timely decisions regarding the required disclosure. As of the end of the period covered by this Quarterly Report on Form 10-Q, an evaluation was performed under the supervision and with the participation of our management, including the Principal Executive Officer and the Principal Financial Officer, of the effectiveness of the design and operation of these disclosure controls and procedures. Based on that evaluation, the Principal Executive Officer and the Principal Financial Officer concluded that our disclosure controls and procedures were effective.

There have been no changes in our internal controls over financial reporting during the quarter ended July 31, 2015 that have materially affected, or are reasonably likely to materially affect, our internal controls over financial reporting.

Table of Contents**PART II****OTHER INFORMATION****Item 1. Legal Proceedings**

We are 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 our financial position, results of operations or cash flows.

Item 1A. Risk Factors

There have been no material changes in our risk factors since January 31, 2015. Please refer to our 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, for our risk factors.

Item 2. Unregistered Sales of Equity Securities and the Use of Proceeds

A summary of the repurchase activity under the 2014 and 2015 share repurchase programs for the quarter ended July 31, 2015 is as follows:

| | Total Number of Shares (or Units) Purchased | Average Price Paid per Share (or Unit) | Total Number of Shares (or Units) Purchased as Part of Publicly Announced Plans or Programs | Maximum Number of Shares (or Units) that May Yet Be Purchased Under the Plans or Programs ⁽¹⁾⁽²⁾ |
|---|--|---|--|--|
| May 1, 2015 through May 31, 2015 | 1,656,000 | \$ 34.82 | 1,656,000 | 20,223,492 |
| June 1, 2015 through June 30, 2015 | 3,865,000 | 35.94 | 3,865,000 | 16,358,492 |
| July 1, 2015 through July 31, 2015 | 1,114,164 | 35.65 | 1,114,164 | 15,244,328 |
| Total Fiscal 2016 Second Quarter | 6,635,164 | | 6,635,164 | 15,244,328 |

¹ On May 27, 2014, the Company's Board of Directors authorized the repurchase of 10,000,000 common shares under a share repurchase program.

² On February 23, 2015, the Company's Board of Directors authorized the repurchase of 20,000,000 shares under a subsequent share repurchase program.

Table of Contents**Item 6. Exhibits**

(a) Exhibits

| Exhibit Number | Description |
|-----------------------|---|
| 3.1 | Amended and Restated Articles of Incorporation are incorporated by reference to Exhibit 3.1 of the Company's Quarterly Report on Form 10-Q (file no. 000-22754) filed on September 9, 2004. |
| 3.2 | Amendment No. 1 to Amended and Restated Articles of Incorporation is incorporated by reference to Exhibit 3.2 of the Company's Quarterly Report on Form 10-Q (file no. 000-22754) filed on September 9, 2004. |
| 3.3 | Amendment No. 2 to Amended and Restated Articles of Incorporation is incorporated by reference to Exhibit 3.1 of the Company's Current Report on Form 8-K filed on May 31, 2013. |
| 3.4 | Second Amended and Restated By-laws are incorporated by reference to Exhibit 3.2 of the Company's Current Report on Form 8-K filed on December 3, 2012. |
| 10.1*+ | Credit Agreement, dated July 1, 2015, by and among Urban Outfitters, Inc., its domestic subsidiaries, JPMorgan Chase Bank, N.A., as administrative agent, J.P. Morgan Securities LLC and Wells Fargo Bank, National Association, as joint lead arrangers and co-book managers, and certain other lenders party thereto. |
| 10.2* | Pledge and Security Agreement, dated July 1, 2015, by and among Urban Outfitters, Inc., its domestic subsidiaries, and JPMorgan Chase Bank, N.A., in its capacity as administrative agent. |
| 31.1* | Rule 13a-14(a)/15d-14(a) Certification of the Principal Executive Officer. |
| 31.2* | Rule 13a-14(a)/15d-14(a) Certification of the Principal Financial Officer. |
| 32.1** | Section 1350 Certification of the Principal Executive Officer. |
| 32.2** | Section 1350 Certification of the Principal Financial Officer. |
| 101.INS* | XBRL Instance Document. |
| 101.SCH* | XBRL Taxonomy Extension Schema. |
| 101.CAL* | XBRL Taxonomy Extension Calculation Linkbase. |
| 101.LAB* | XBRL Taxonomy Extension Label Linkbase. |
| 101.PRE* | XBRL Taxonomy Extension Presentation Linkbase. |
| 101.DEF* | XBRL Taxonomy Extension Definition Linkbase. |

* Filed herewith

** Furnished herewith

+ Confidential treatment has been requested with respect to portions of a certain schedule to this agreement pursuant to Rule 24b-2 of the Securities Exchange Act of 1934 and these confidential portions have been redacted. A complete copy of this agreement, including the redacted portions, has been separately filed with the Securities and Exchange Commission.

Edgar Filing: URBAN OUTFITTERS INC - Form 10-Q

Attached as Exhibits 101 to this report are the following financial statements from the Company's Quarterly Report on Form 10-Q for the three and six months ended July 31, 2015, filed with the Securities and Exchange Commission on September 9, 2015, formatted in XBRL (eXtensible Business Reporting Language): (i) the Condensed Consolidated Balance Sheets; (ii) the Condensed Consolidated Statements of Income; (iii) the Condensed Consolidated Statements of Comprehensive Income; (iv) the Condensed Consolidated Statements of Cash Flows and (v) the Notes to Condensed Consolidated Financial Statements.

Table of Contents

SIGNATURES

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.

Date: September 9, 2015

By:

/s/ RICHARD A. HAYNE
Richard A. Hayne
Chief Executive Officer

(Principal Executive Officer)

URBAN OUTFITTERS, INC.

Date: September 9, 2015

By:

/s/ FRANCIS J. CONFORTI
Francis J. Conforti
Chief Financial Officer

(Principal Financial Officer)

Table of Contents**EXHIBIT INDEX**

| Exhibit Number | Description |
|-----------------------|---|
| 3.1 | Amended and Restated Articles of Incorporation are incorporated by reference to Exhibit 3.1 of the Company's Quarterly Report on Form 10-Q (file no. 000-22754) filed on September 9, 2004. |
| 3.2 | Amendment No. 1 to Amended and Restated Articles of Incorporation is incorporated by reference to Exhibit 3.2 of the Company's Quarterly Report on Form 10-Q (file no. 000-22754) filed on September 9, 2004. |
| 3.3 | Amendment No. 2 to Amended and Restated Articles of Incorporation is incorporated by reference to Exhibit 3.1 of the Company's Current Report on Form 8-K filed on May 31, 2013. |
| 3.4 | Second Amended and Restated By-laws are incorporated by reference to Exhibit 3.2 of the Company's Current Report on Form 8-K filed on December 3, 2012. |
| 10.1*+ | Credit Agreement, dated July 1, 2015, by and among Urban Outfitters, Inc., its domestic subsidiaries, JPMorgan Chase Bank, N.A., as administrative agent, J.P. Morgan Securities LLC and Wells Fargo Bank, National Association, as joint lead arrangers and co-book managers, and certain other lenders party thereto. |
| 10.2* | Pledge and Security Agreement, dated July 1, 2015, by and among Urban Outfitters, Inc., its domestic subsidiaries, and JPMorgan Chase Bank, N.A., in its capacity as administrative agent. |
| 31.1* | Rule 13a-14(a)/15d-14(a) Certification of the Principal Executive Officer. |
| 31.2* | Rule 13a-14(a)/15d-14(a) Certification of the Principal Financial Officer. |
| 32.1** | Section 1350 Certification of the Principal Executive Officer. |
| 32.2** | Section 1350 Certification of the Principal Financial Officer. |
| 101.INS* | XBRL Instance Document. |
| 101.SCH* | XBRL Taxonomy Extension Schema. |
| 101.CAL* | XBRL Taxonomy Extension Calculation Linkbase. |
| 101.LAB* | XBRL Taxonomy Extension Label Linkbase. |
| 101.PRE* | XBRL Taxonomy Extension Presentation Linkbase. |
| 101.DEF* | XBRL Taxonomy Extension Definition Linkbase. |

* Filed herewith

** Furnished herewith

+ Confidential treatment has been requested with respect to portions of a certain schedule to this agreement pursuant to Rule 24b-2 of the Securities Exchange Act of 1934 and these confidential portions have been redacted. A complete copy of this agreement, including the redacted portions, has been separately filed with the Securities and Exchange Commission.

Edgar Filing: URBAN OUTFITTERS INC - Form 10-Q

Attached as Exhibits 101 to this report are the following financial statements from the Company's Quarterly Report on Form 10-Q for the three and six months ended July 31, 2015, filed with the Securities and Exchange Commission on September 9, 2015, formatted in XBRL (eXtensible Business Reporting Language): (i) the Condensed Consolidated Balance Sheets; (ii) the Condensed Consolidated Statements of Income; (iii) the Condensed Consolidated Statements of Comprehensive Income; (iv) the Condensed Consolidated Statements of Cash Flows and (v) the Notes to Condensed Consolidated Financial Statements.