

SECURITIES AND EXCHANGE COMMISSION

Washington, DC 20549

FORM 10-Q

[X] QUARTERLY REPORT UNDER SECTION 13 or 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934 For the quarterly Period Ended July 31, 1997

OR

[ ] TRANSITION REPORT PURSUANT TO SECTION 13 OR 15 (d) OF THE SECURITIES EXCHANGE ACT OF 1934 For the transition period from \_\_\_\_\_ to \_\_\_\_\_

Commission File Number 0-16999

Urban Outfitters, Inc.

(Exact name of registrant as specified in its charter)

PENNSYLVANIA 23-2003332 (State or Other Jurisdiction of Incorporation of Organization) (I.R.S. Employer Identification No.)

1809 Walnut Street, Philadelphia, PA 19103 (Address of principal executive office) (Zip Code)

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

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

Indicate by check mark whether the registrant (1) has filed all reports required to be filed by Section 13 or 15 (d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days.

Yes X No

Title of Each Class of Common Stock Number of Shares Outstanding at August 31, 1997

Common shares, par value, \$.0001 per share 17,588,696

INDEX

PAGE

PART I Financial Information

ITEM 1 Financial Statements

Consolidated Balance Sheets at July 31, 1997 (Unaudited) and January 31, 1997 2

Consolidated Statements of Income for the three and six months ended July 31, 1997 and 1996 (Unaudited)	3
Consolidated Statements of Cash Flows for the six months ended July 31, 1997 and 1996 (Unaudited)	4
Notes to Consolidated Financial Statements	5 - 6
ITEM 2 Management's Discussion and Analysis of Financial Condition and Results of Operations	7 - 10

PART II Other Information

ITEM 6 Exhibits and Reports on Form 8-K	11
SIGNATURES	12

URBAN OUTFITTERS, INC.

Consolidated Balance Sheets  
(In thousands, except share and per share data)

	JULY 31, 1997 (UNAUDITED)	JANUARY 31, 1997 (AUDITED)
Assets		
Current assets:		
Cash and cash equivalents.....	\$18,856	\$14,581
Marketable securities.....	10,507	9,255
Accounts receivable, net of allowance for doubtful accounts of \$749 and \$643 at July 31, 1997 and January 31, 1997, respectively.....	4,782	2,827
Inventory.....	20,300	16,965
Prepaid expenses and other current assets....	6,613	7,236
	-----	-----
Total current assets.....	61,058	50,864
Property and equipment, less accumulated depreciation and amortization.....	24,675	25,209
Marketable securities.....	11,813	12,047
Other assets.....	1,523	1,555
	-----	-----
	\$99,069	\$89,675
	=====	=====
Liabilities and shareholders' equity		
Current liabilities:		
Accounts payable.....	\$10,847	\$ 8,699
Income taxes payable.....	1,201	388
Accrued expenses and other current liabilities.....	3,258	2,538
	-----	-----
Total current liabilities.....	15,306	11,625
Accrued rent and other liabilities.....	2,769	2,358
	-----	-----
Total liabilities.....	18,075	13,983
	-----	-----
Shareholders' equity:		
Preferred shares; \$.0001 par, 10,000,000 authorized, none issued.....	--	--
Common shares; \$.0001 par, 50,000,000 shares authorized, 17,588,696 and 17,528,698 issued at July 31, 1997 and January 31, 1997, respectively.....	2	2
Additional paid-in capital.....	20,420	20,396
Retained earnings.....	60,572	55,294
	-----	-----
Total shareholders' equity.....	80,994	75,692
	-----	-----
	\$99,069	\$89,675
	=====	=====

See accompanying notes

URBAN OUTFITTERS, INC.  
 Consolidated Statements of Income  
 (in thousands, except share and per share data)  
 (UNAUDITED)

	Three Months Ended July 31 1997 ----	1996 -----	Six Months Ended July 31 1997 ----	1996 -----
Net sales	\$ 41,316	\$ 35,898	\$ 78,513	\$ 69,532
Cost of sales	20,966 -----	17,496 -----	39,555 -----	34,066 -----
Gross profit	20,350	18,402	38,958	35,466
Selling, general and administrative expenses	15,824 -----	13,743 -----	30,586 -----	26,086 -----
Income from operations	4,526	4,659	8,372	9,380
Interest (income)	(406)	(355)	(783)	(725)
Other expenses (income), net	52 -----	123 -----	133 -----	189 -----
Income before income taxes	4,880	4,891	9,022	9,916
Income tax expense	2,025 -----	2,042 -----	3,744 -----	4,140 -----
Net income	\$ 2,855 =====	\$ 2,849 =====	\$ 5,278 =====	\$ 5,776 =====
Net income per common share	\$ .16 =====	\$ .16 =====	\$ .30 =====	\$ .33 =====
Weighted average common shares outstanding	17,812,835 =====	17,831,946 =====	17,775,716 =====	17,759,373 =====

See accompanying notes

URBAN OUTFITTERS, INC.  
Consolidated Statements of Cash Flows  
(in thousands)

	SIX MONTHS ENDED JULY 31	
	(UNAUDITED)	(UNAUDITED)
	1997	1996
	-----	-----
Cash flows from operating activities:		
Net income	5,278	\$ 5,776
Adjustments to reconcile net income to net cash provided by operating activities:		
Depreciation and amortization	2,237	1,682
Provision for losses on accounts receivable	106	119
Changes in assets and liabilities:		
Increase in receivables	(2,061)	(2,489)
Increase in inventory	(3,335)	(5,819)
(Increase) decrease in prepaid expenses and other assets	655	(742)
Increase in payables, accrued expenses and other liabilities	4,092	4,254
	-----	-----
Net cash provided by operating activities	6,972	2,781
	-----	-----
Cash flows from investing activities:		
Capital expenditures	(1,703)	(4,319)
Purchase of investments held-to-maturity	(3,648)	(14,096)
Purchase of investments available-for-sale	(3,800)	(1,750)
Maturities of investments held-to-maturity	5,230	6,499
Sale of investments available-for-sale	1,200	3,861
	-----	-----
Net cash used in investing activities	(2,721)	(9,805)
	-----	-----
Cash flows from financing activities:		
Exercise of stock options	24	684
	-----	-----
Net cash provided by financing activities	24	684
	-----	-----
Increase (decrease) in cash and cash equivalents	4,275	(6,340)
Cash and cash equivalents at beginning of period	14,581	20,095
	-----	-----
Cash and cash equivalents at end of period	\$ 18,856	\$ 13,755
	=====	=====

See accompanying notes

URBAN OUTFITTERS, INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

1. Basis of Presentation

The accompanying unaudited consolidated financial statements have been prepared in accordance with generally accepted accounting principles for interim financial information and with the instructions to Form 10-Q and Article 10 of Regulation S-X. Accordingly, they do not include all of the information and footnotes required by generally accepted accounting principles for complete financial statements. In the opinion of management, all adjustments (consisting of normal recurring accruals) considered necessary for a fair presentation have been included. For further information, refer to the consolidated financial statements and footnotes thereto included in the Company's Annual Report on Form 10-K for the fiscal year ended January 31, 1997, filed with the Securities and Exchange Commission on April 21, 1997.

2. Marketable Securities

Marketable securities are classified as follows:

	July 31, 1997	January 31, 1997
	-----	-----
Current portion		
Held-to-maturity.....	\$ 7,607	\$ 8,955
Available-for-sale.....	2,900	300
	-----	-----
	10,507	9,255
	-----	-----
Noncurrent portion		
Held-to-maturity.....	11,813	12,047
	-----	-----
Total marketable securities .....	\$22,320	\$21,302
	=====	=====

3. Stock Split

On May 21, 1996, the Board of Directors of Urban Outfitters, Inc. declared a two-for-one stock split in the form of a stock dividend for shareholders of record on June 1, 1996. That stock split is retroactively reflected in the financial statements for all periods presented.

#### 4. Recent Accounting Pronouncements

Earnings Per Share. In February 1997, FASB Statement 128, "Earnings Per Share" was issued. The provisions of this statement, which supersedes Accounting Principles Board Opinion No. 15, "Earnings Per Share," simplify the computation of earnings per share. FASB Statement 128 will be effective for the Company's financial statements beginning with the quarter ended April 30, 1998. The Company does not expect the adoption of FASB Statement 128 to have a material effect on its calculations of earnings per share.

PART I

FINANCIAL INFORMATION (continued)

ITEM 2 Management's Discussion and Analysis of Financial Condition and Results of Operations

GENERAL

Company sales growth in the second quarter and the first six months of this year was 15 percent and 13 percent, respectively. Those growth rates compare to 20 percent in the same two periods of the prior year. The source of the sales growth in the four comparative periods (second quarter and six months of both years) differs significantly. Last year sales growth was primarily from comparable store sale increases supplemented by new stores and the Wholesale company sales growth. Conversely, this year's comparable store sales were flat during the second quarter and down during the six months. New stores contributed more to sales growth this year, while Wholesale sales growth was about flat. The flat and down comparable store sales resulted from a combination of very high "comp" sales comparisons in the prior year periods, as well as some fashion misses in two Urban Retail product divisions.

The current year sales growth sources contributed less to profit growth than last year's sources. Indeed, the current year's flat and negative comparable store sales made no contribution to profit growth.

- o High comparative store sales in the prior year's periods resulted in lower markdowns, higher gross profit margins and lower operating expenses as a percentage to sales. Flat and negative comparable store sales this year did the reverse.
- o New store sales growth, though higher this year, does not contribute as much to profit as does high comparable store sales. New store sales do not, by themselves, contribute to higher gross profit margins and, unlike comparable store sales, have full store operating expenses to burden the gross profit margin contributions.
- o The Wholesale company sales growth contributed to earnings at about the same level as the prior year's second quarter and six months.

In combination, lower overall sales growth (mid-teens this year compared to 20 in both periods last year) and disappointing comparable store sales led to flat to lower earnings growth in the second quarter and six months, respectively.



Store openings and the timing of those openings will continue to be a risk due to the nature of the stores, and management's very deliberate style in selecting locations and in completing lease negotiations.

## RESULTS OF OPERATIONS

The Company's operating years end on January 31, and include 12 periods ending on the last day of the month. For example, fiscal year 1998 will end on January 31, 1998. This discussion of results of operations covers the second quarter and the first six months of FY98 and FY97.

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

	SECOND QUARTER ENDED JULY 31		SIX MONTHS ENDED JULY 31	
	1997 -----	1996 -----	1997 -----	1996 -----
Net sales	100.0%	100.0%	100.0%	100.0%
Cost of goods sold	50.7%	48.7%	50.4%	49.0%
Gross profit	49.3%	51.3%	49.6%	51.0%
Selling, general and administrative expenses	38.3%	38.3%	39.0%	37.5%
Income from operations	11.0%	13.0%	10.7%	13.5%
Net interest & other income	.9%	.6%	.8%	.8%
Income before income taxes	11.8%	13.6%	11.5%	14.3%
Income tax expense	4.9%	5.7%	4.8%	6.0%
Net income	6.9%	7.9%	6.7%	8.3%
	=====	=====	=====	=====

### SECOND QUARTER ENDED JULY 31, 1997 COMPARED TO THE SECOND QUARTER ENDED JULY 31, 1996

Net sales increased during the second quarter ended July 31, 1997 to \$41.3 million, up 15.1 percent from \$35.9 million during the same period of the prior year. The \$5.4 million increase over the prior year's second quarter was split between new stores of \$4.6 million, and Wholesale sales growth of \$.8 million. Comparable store sales were flat.

Gross profit during the second quarter ended July 31, 1997 was \$20.4 million, up \$1.9 million or 10.6 percent from the prior year quarter. The dollar increase resulted from the volumes described above, offset by higher markdowns in Urban Retail. The percentage of sales decline in gross profit margin

was due to the markdowns previously discussed and a higher sales mix of lower gross profit margin divisions (Wholesale and Anthropologie).

Selling, general and administrative expenses during the second quarter ended July 31, 1997 were \$15.8 million, up \$2.1 million or 15.1 percent from the prior year quarter. These dollar increases were almost entirely attributed to new store openings. Stated as a percentage of sales, selling, general and administrative expenses stayed the same at 38.3 percent.

Income from operations during the second quarter ended July 31, 1997 was \$4.5 million, just slightly below the prior year's second quarter.

The effective income tax rate for the quarter of 42 percent remains unchanged from last year.

Net income during the second quarter ended July 31, 1997 was \$2.9 million, essentially flat to the prior year's second quarter.

SIX MONTHS ENDED JULY 31, 1997  
COMPARED TO THE SIX MONTHS ENDED JULY 31, 1996

Net sales increased during the six months ended July 31, 1997 to \$78.5 million, up 12.9 percent from \$69.5 million during the same period last year. The \$9.0 million increase over the prior year's first six months was split between sales from new stores of \$9.3, and Wholesale sales growth of \$1.7 million. Offsetting the sales increases were negative comparable store sales of \$2.0 million in the first six months of this year when compared to last.

Gross profit during the six months ended July 31, 1997 was \$39.0 million, up \$3.5 million from the same prior year period, a 9.8 percent increase. The dollar increases came from the volume growth previously described. Gross profit margins stated as a percentage of sales decreased from 51.0 percent last year to 49.6 percent this year. The reasons for the decrease were higher markdowns on negative comparable store sales combined with a higher sales mix of lower gross profit margin divisions (Wholesale and Anthropologie).

Selling, general and administrative expenses during the six months ended July 31, 1997 were \$30.6 million, up \$4.5 million or 17.2 percent from the same period in the prior year. These dollar increases were attributed almost entirely to newly opened stores. Stated as a percentage of sales, selling, general and administrative expenses increased to 39.0 percent from 37.5 percent during the six months compared to the same period in the preceding year. The percent is almost entirely from Urban Retail, which in the prior year experienced excellent leveraging in high comparable store sales. This year, reverse leveraging on negative comparable store sales was the case.

Income from operations during the six months ended July 31, 1997 was \$8.4 million, down \$1.0 million or 10.7 percent from the same period in the prior year.

The effective income tax rate for the six months of 42 percent remains unchanged from last year.

Net income during the six months ended July 31, 1997 was \$5.3 million, down \$0.5 million or 8.6 percent from the same period in the prior year.

#### LIQUIDITY AND CAPITAL RESOURCES

Cash and cash equivalents increased \$4.3 million to \$18.9 million at July 31, 1997 from \$14.6 million at January 31, 1997. The increase in cash and cash equivalents during the six months was a net result of cash provided by operating activity of \$7.0 million, less net purchase of investments of \$1.0 million and capital expenditures of \$1.7 million.

The Company's net working capital increased from \$39.2 million at January 31, 1997 to \$45.8 million at July 31, 1997. The \$6.6 million net working capital increase is primarily a result of cash from operating activity kept as cash/cash equivalents and current marketable securities.

The Company maintains a line of credit of \$10.0 million, which is available for any combination of cash borrowing or letters of credit. The line is unsecured and any cash borrowing under the line would accrue interest at the LIBOR rate plus 1/2 of one percent. The Company uses international letters of credit to purchase private label merchandise and merchandise for the Wholesale company. Outstanding balances of letters of credit at January 31, 1997 and at July 31, 1997 were \$4.3 million and \$7.7 million, respectively. The Company has never borrowed against the available cash line of credit. The last long-term borrowing was paid down to zero during the second quarter of fiscal 1994. There were no loan balances at January 31, 1997 or July 31, 1997.

The Company expects that capital expenditures during FY98 will be approximately \$6 to \$10 million depending upon the number of stores opened and stores enlarged or improved during the year. In future years, the Company expects to invest an amount equal to or greater than that figure, again depending on new and existing store plans. The Company believes that existing cash, marketable securities at July 31, 1997, and cash from future operations will be sufficient to meet the Company's cash needs for at least the next three years.

PART II

OTHER INFORMATION

ITEM 6 Exhibits and Reports on Form 8-K

(a) Exhibits: Income Per Share Calculation

(b) Reports on Form 8-K: None

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

URBAN OUTFITTERS, INC.  
(Registrant)

By: /s/ Richard A. Hayne  
-----  
Richard A. Hayne  
Chairman of the Board of  
Directors

By: /s/ Kenneth K. Cleeland  
-----  
Kenneth K. Cleeland  
Treasurer  
(Chief Financial Officer)

Dated: September 12, 1997

INCOME PER SHARE CALCULATION:  
JULY 31, 1997 & 1996

## INCOME PER SHARE CALCULATION:

	Three Months Ended July 31			
	1997		1996	
	\$	Per Share	\$	Per Share
NET INCOME	2,855,000	\$0.16	2,849,000	\$0.16
WEIGHTED AVERAGE COMMON SHARES & COMMON SHARE EQUIVALENTS OUTSTANDING		17,812,836		17,831,946

COMPUTATION OF COMMON SHARES  
& COMMON SHARE EQUIVALENTS OUTSTANDING:

	Three Months Ended July 31,			
	1997		1996	
	End of Period	Weighted Ave.	End of Period	Weighted Ave.
COMMON SHARES OUTSTANDING	17,588,696	17,588,696	17,505,966	17,471,225
COMMON SHARE EQUIVALENTS:				
OPTIONS	546,270	546,270	495,669	530,411
ASSUMED REPURCHASED AT AVERAGE PRICE		(322,130)		(169,690)
WEIGHTED AVERAGE COMMON EQUIVALENTS		224,140		360,721
TOTAL WEIGHTED AVERAGE COMMON SHARES & COMMON SHARE EQUIVALENTS OUTSTANDING		17,812,836		17,831,946

## INCOME PER SHARE CALCULATION:

	Six Months Ended July 31			
	1997		1996	
	\$	Per Share	\$	Per Share
NET INCOME	5,278,000	\$0.30	5,776,000	\$0.33
WEIGHTED AVERAGE COMMON SHARES & COMMON SHARE EQUIVALENTS OUTSTANDING		17,775,716		17,759,373

COMPUTATION OF COMMON SHARES  
& COMMON SHARE EQUIVALENTS OUTSTANDING:

	Six Months Ended July 31,			
	1997		1996	
	End of Period	Weighted Ave.	End of Period	Weighted Ave.
COMMON SHARES OUTSTANDING	17,588,696	17,588,696	17,505,966	17,471,225
COMMON SHARE EQUIVALENTS:				
OPTIONS	546,270	546,270	495,669	530,411
ASSUMED REPURCHASED AT AVERAGE PRICE		(322,130)		(169,690)
WEIGHTED AVERAGE COMMON EQUIVALENTS		224,140		360,721
TOTAL WEIGHTED AVERAGE COMMON SHARES & COMMON SHARE EQUIVALENTS OUTSTANDING		17,812,836		17,831,946

	End of Period	Weighted Ave.	End of Period	Weighted Ave.
	-----	-----	-----	-----
COMMON SHARES OUTSTANDING	17,588,696	17,563,078	17,505,966	17,334,014
		-----		-----
COMMON SHARE EQUIVALENTS:				
OPTIONS	546,270	535,221	495,669	598,961
ASSUMED REPURCHASED				
AT AVERAGE PRICE		(322,583)		(173,602)
		-----		-----
WEIGHTED AVERAGE COMMON				
EQUIVALENTS		212,638		425,359
		-----		-----
TOTAL WEIGHTED AVERAGE				
COMMON SHARES & COMMON				
SHARE EQUIVALENTS OUTSTANDING		17,775,716		17,759,373
		=====		=====

0000912615  
 Quarterly Report  
 1,000  
 U.S. Dollars

6-MOS

	JAN-31-1998	JUL-31-1997	SEP-30-1997
	1		
		18,856	
	10,507		
	4,782		
	0		
	20,300		
	61,058	24,675	
	0		
	99,069		
15,306		0	
0		0	
		2	
		80,992	
99,069			
		78,513	
	78,513		
		39,555	
	39,555		
	30,586		
	0		
	(783)		
	9,022		
	3,744		
5,278			
	0		
	0		
		0	
	5,278		
	.30		
	.30		