

Under Armour, Inc.  
Form 10-Q  
May 04, 2011  
Table of Contents

**UNITED STATES**  
**SECURITIES AND EXCHANGE COMMISSION**

Washington, D.C. 20549

**Form 10-Q**

(Mark One)

**QUARTERLY REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934**

For the quarterly period ended March 31, 2011

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. 001-33202

**UNDER ARMOUR, INC.**

Edgar Filing: Under Armour, Inc. - Form 10-Q

(Exact name of registrant as specified in its charter)

**Maryland**  
(State or other jurisdiction of  
incorporation or organization)

**52-1990078**  
(I.R.S. Employer  
Identification No.)

**1020 Hull Street**

**Baltimore, Maryland 21230**  
(Address of principal executive offices) (Zip Code)

**(410) 454-6428**  
(Registrant's telephone number, including area 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 definitions of large accelerated filer, accelerated filer and smaller reporting company in Rule 12b-2 of the Exchange Act.

Large accelerated filer

Accelerated filer

Non-accelerated filer

Smaller reporting company

Indicate by check mark whether the registrant is a shell company (as defined in Rule 12b-2 of the Exchange Act). Yes  No

As of April 30, 2011, there were 39,571,758 shares of Class A Common Stock and 12,134,500 shares of Class B Convertible Common Stock outstanding.

**Table of Contents**

**UNDER ARMOUR, INC.**

**MARCH 31, 2011**

**INDEX TO FORM 10-Q**

**PART I. FINANCIAL INFORMATION**

Item 1.	<u>Financial Statements:</u>	
	<u>Unaudited Consolidated Balance Sheets as of March 31, 2011, December 31, 2010 and March 31, 2010</u>	1
	<u>Unaudited Consolidated Statements of Income for the Three Months Ended March 31, 2011 and 2010</u>	2
	<u>Unaudited Consolidated Statements of Cash Flows for the Three Months Ended March 31, 2011 and 2010</u>	3
	<u>Notes to the Unaudited Consolidated Financial Statements</u>	4
Item 2.	<u>Management's Discussion and Analysis of Financial Condition and Results of Operations</u>	11
Item 3.	<u>Quantitative and Qualitative Disclosures About Market Risk</u>	18
Item 4.	<u>Controls and Procedures</u>	19

**PART II. OTHER INFORMATION**

Item 1A.	<u>Risk Factors</u>	20
Item 2.	<u>Unregistered Sales of Equity Securities and Use of Proceeds</u>	20
Item 6.	<u>Exhibits</u>	20

	<u>SIGNATURES</u>	21
--	-------------------	----

**Table of Contents****PART I. FINANCIAL INFORMATION****ITEM 1. FINANCIAL STATEMENTS****Under Armour, Inc. and Subsidiaries****Unaudited Consolidated Balance Sheets****(In thousands, except share data)**

	March 31, 2011	December 31, 2010	March 31, 2010
<b>Assets</b>			
Current assets			
Cash and cash equivalents	\$ 110,844	\$ 203,870	\$ 165,962
Accounts receivable, net	163,385	102,034	110,332
Inventories	248,614	215,355	147,865
Prepaid expenses and other current assets	19,298	19,326	11,697
Deferred income taxes	15,963	15,265	11,376
<b>Total current assets</b>	<b>558,104</b>	<b>555,850</b>	<b>447,232</b>
Property and equipment, net	80,298	76,127	74,539
Intangible assets, net	3,982	3,914	5,168
Deferred income taxes	21,041	21,275	16,950
Other long term assets	28,285	18,212	5,362
<b>Total assets</b>	<b>\$ 691,710</b>	<b>\$ 675,378</b>	<b>\$ 549,251</b>
<b>Liabilities and Stockholders Equity</b>			
Current liabilities			
Accounts payable	\$ 88,678	\$ 84,679	\$ 68,586
Accrued expenses	38,473	55,138	30,817
Current maturities of long term debt	5,984	6,865	8,944
Current maturities of capital lease obligations			50
Other current liabilities	2,921	2,465	3,221
<b>Total current liabilities</b>	<b>136,056</b>	<b>149,147</b>	<b>111,618</b>
Long term debt, net of current maturities	7,660	9,077	8,921
Other long term liabilities	22,819	20,188	15,865
<b>Total liabilities</b>	<b>166,535</b>	<b>178,412</b>	<b>136,404</b>
Commitments and contingencies (see Note 5)			
Stockholders equity			
Class A Common Stock, \$0.0003 1/3 par value; 100,000,000 shares authorized as of March 31, 2011, December 31, 2010 and March 31, 2010; 39,498,297 shares issued and outstanding as of March 31, 2011, 38,660,355 shares issued and outstanding as of December 31, 2010, 38,145,423 shares issued and outstanding as of March 31, 2010	13	13	13
Class B Convertible Common Stock, \$0.0003 1/3 par value; 12,187,500 shares authorized, issued and outstanding as of March 31, 2011, 12,500,000 shares authorized, issued and outstanding as of December 31, 2010 and March 31, 2010	4	4	4
Additional paid-in capital	240,626	224,887	201,963

Edgar Filing: Under Armour, Inc. - Form 10-Q

Retained earnings	281,825	270,021	209,278
Unearned compensation			(8)
Accumulated other comprehensive income	2,707	2,041	1,597
Total stockholders' equity	525,175	496,966	412,847
Total liabilities and stockholders' equity	\$ 691,710	\$ 675,378	\$ 549,251

See accompanying notes.

**Table of Contents****Under Armour, Inc. and Subsidiaries****Unaudited Consolidated Statements of Income****(In thousands, except per share amounts)**

	<b>Three Months Ended March 31,</b>	
	<b>2011</b>	<b>2010</b>
Net revenues	\$ 312,699	\$ 229,407
Cost of goods sold	167,648	121,776
<b>Gross profit</b>	<b>145,051</b>	<b>107,631</b>
Selling, general and administrative expenses	123,909	94,047
<b>Income from operations</b>	<b>21,142</b>	<b>13,584</b>
Interest expense, net	(579)	(546)
Other expense, net	(510)	(685)
<b>Income before income taxes</b>	<b>20,053</b>	<b>12,353</b>
Provision for income taxes	7,914	5,183
<b>Net income</b>	<b>\$ 12,139</b>	<b>\$ 7,170</b>
<b>Net income available per common share</b>		
Basic	\$ 0.24	\$ 0.14
Diluted	\$ 0.23	\$ 0.14
<b>Weighted average common shares outstanding</b>		
Basic	51,444	50,419
Diluted	52,386	50,913

See accompanying notes.

**Table of Contents****Under Armour, Inc. and Subsidiaries****Unaudited Consolidated Statements of Cash Flows**

(In thousands)

	<b>Three Months Ended March 31,</b>	
	<b>2011</b>	<b>2010</b>
<b>Cash flows from operating activities</b>		
Net income	\$ 12,139	\$ 7,170
Adjustments to reconcile net income to net cash provided by (used in) operating activities		
Depreciation and amortization	8,613	7,597
Unrealized foreign currency exchange rate (gains) losses	(1,922)	3,490
Stock-based compensation	3,315	3,336
Loss on disposal of property and equipment	2	20
Deferred income taxes	63	(1,703)
Changes in reserves and allowances	(2,766)	(3,532)
Changes in operating assets and liabilities:		
Accounts receivable	(56,566)	(34,566)
Inventories	(33,379)	1,700
Prepaid expenses and other assets	(1,860)	4,049
Accounts payable	3,563	(86)
Accrued expenses and other liabilities	(15,681)	(4,948)
Income taxes payable and receivable	(1,018)	5,697
Net cash used in operating activities	(85,497)	(11,776)
<b>Cash flows from investing activities</b>		
Purchase of property and equipment	(10,846)	(7,154)
Purchase of trust-owned life insurance policies	(552)	(325)
Long term investment	(3,852)	
Purchase of intangible asset	(601)	
Net cash used in investing activities	(15,851)	(7,479)
<b>Cash flows from financing activities</b>		
Payments on long term debt	(2,298)	(2,261)
Payments on capital lease obligations		(47)
Excess tax benefits from stock-based compensation arrangements	5,337	716
Payments of deferred financing costs	(1,562)	
Proceeds from exercise of stock options and other stock issuances	6,826	889
Net cash provided by (used in) financing activities	8,303	(703)
Effect of exchange rate changes on cash and cash equivalents	19	(1,377)
Net decrease in cash and cash equivalents	(93,026)	(21,335)
<b>Cash and cash equivalents</b>		
Beginning of period	203,870	187,297
End of period	\$ 110,844	\$ 165,962

Edgar Filing: Under Armour, Inc. - Form 10-Q

**Non-cash investing and financing activities**

Purchase of property and equipment through certain obligations	\$ 1,093	\$ 1,537
--	----------	----------

See accompanying notes.



**Table of Contents****Under Armour, Inc. and Subsidiaries****Notes to the Unaudited Consolidated Financial Statements****1. Description of the Business**

Under Armour, Inc. is a developer, marketer and distributor of branded performance apparel, footwear and accessories. These products are sold worldwide and worn by athletes at all levels, from youth to professional on playing fields around the globe, as well as by consumers with active lifestyles.

**2. Summary of Significant Accounting Policies***Basis of Presentation*

The accompanying consolidated financial statements include the accounts of Under Armour, Inc. and its wholly owned subsidiaries (the Company). Certain information in footnote disclosures normally included in annual financial statements was condensed or omitted for the interim periods presented in accordance with the rules and regulations of the Securities and Exchange Commission (the SEC) and accounting principles generally accepted in the United States of America for interim consolidated financial statements. In the opinion of management, all adjustments consisting of normal, recurring adjustments considered necessary for a fair statement of the financial position and results of operations were included. All intercompany balances and transactions were eliminated. The consolidated balance sheet as of December 31, 2010 is derived from the audited financial statements included in the Company's Annual Report on Form 10-K filed with the SEC for the year ended December 31, 2010 (the 2010 Form 10-K), which should be read in conjunction with these consolidated financial statements. The results for the three months ended March 31, 2011 are not necessarily indicative of the results to be expected for the year ending December 31, 2011 or any other portions thereof.

*Concentration of Credit Risk*

Financial instruments that subject the Company to a significant concentration of credit risk consist primarily of accounts receivable. The majority of the Company's accounts receivable are due from large sporting goods retailers. Credit is extended based on an evaluation of the customer's financial condition, and generally collateral is not required. The most significant customers that accounted for a large portion of net revenues and accounts receivable were as follows:

	<b>Customer A</b>	<b>Customer B</b>	<b>Customer C</b>
Net revenues			
Three months ended March 31, 2011	20.2%	8.9%	6.8%
Three months ended March 31, 2010	20.4%	9.4%	5.9%
Accounts receivable			
As of March 31, 2011	28.5%	12.4%	7.3%
As of December 31, 2010	23.3%	11.0%	5.4%
As of March 31, 2010	22.1%	11.9%	6.4%

*Allowance for Doubtful Accounts*

As of March 31, 2011, December 31, 2010 and March 31, 2010, the allowance for doubtful accounts was \$3.8 million, \$4.9 million and \$5.0 million, respectively.

*Sales Returns, Allowances, Markdowns and Discounts*

The Company records reductions to revenue for estimated customer returns, allowances, markdowns and discounts. The Company bases its estimates on historical rates of customer returns and allowances as well as the specific identification of outstanding returns, markdowns and allowances that have not yet been received by the Company. The actual amount of customer returns and allowances, which is inherently uncertain, may differ from the Company's estimates. If the Company determines that actual or expected returns or allowances are significantly higher or lower than the reserves it established, it would record a reduction or increase, as appropriate, to net sales in the period in which it makes such a determination. Provisions for customer specific discounts are based on contractual obligations with certain major customers.

## Edgar Filing: Under Armour, Inc. - Form 10-Q

Reserves for returns, allowances, markdowns and discounts are recorded as an offset to accounts receivable as settlements are made through offsets to outstanding customer invoices. As of March 31, 2011, December 31, 2010 and

**Table of Contents**

March 31, 2010, there were \$5.5 million, \$8.3 million and \$6.9 million in customer markdowns and discounts recorded as offsets to accounts receivable, respectively.

*Income Taxes*

Income taxes are accounted for under the asset and liability method. Deferred income tax assets and liabilities are established for temporary differences between the financial reporting basis and the tax basis of the Company's assets and liabilities at tax rates expected to be in effect when such assets or liabilities are realized or settled. Deferred income tax assets are reduced by valuation allowances when necessary.

Assessing whether deferred tax assets are realizable requires significant judgment. The Company considers all available positive and negative evidence, including historical operating performance and expectations of future operating performance. The ultimate realization of deferred tax assets is often dependent upon future taxable income and therefore can be uncertain. To the extent the Company believes it is more likely than not that all or some portion of the asset will not be realized, valuation allowances are established against the Company's deferred tax assets, which increase income tax expense in the period when such a determination is made.

*Shipping and Handling Costs*

The Company charges certain customers shipping and handling fees. These fees are recorded in net revenues. The Company includes outbound freight costs associated with shipping goods to customers as a component of cost of goods sold. The Company includes the majority of outbound handling costs as a component of selling, general and administrative expenses. Outbound handling costs include costs associated with preparing goods to ship to customers and certain costs to operate the Company's distribution facilities. These costs, included within selling, general and administrative expenses, were \$4.8 million and \$3.6 million for the three months ended March 31, 2011 and 2010, respectively.

*Minority Investment*

The Company holds a minority equity investment in Dome Corporation (Dome), its Japanese licensee. As of March 31, 2011, the carrying value of the Company's investment was \$15.6 million, and was included in other long term assets on the consolidated balance sheet. The investment is accounted for under the cost method.

*Management Estimates*

The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates, including estimates relating to assumptions that affect the reported amounts of assets and liabilities, and disclosure of contingent assets and liabilities at the date of the consolidated financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from these estimates.

**3. Inventories**

Inventories consisted of the following:

<i>(In thousands)</i>	March 31, 2011	December 31, 2010	March 31, 2010
Finished goods	\$ 247,919	\$ 214,524	\$ 147,190
Raw materials	683	831	620
Work-in-process	12		55
Total inventories	\$ 248,614	\$ 215,355	\$ 147,865

**4. Credit Facility and Long Term Debt***Credit Facility*

## Edgar Filing: Under Armour, Inc. - Form 10-Q

In March 2011, the Company entered into a new \$325.0 million credit facility with certain lending institutions, and terminated its prior \$200.0 million revolving credit facility in order to increase the Company's available financing and to expand its lending syndicate. The Company anticipates using a term loan portion of the new credit facility of up to \$25.0 million to finance a portion of the purchase price for the acquisition of part of the Company's corporate office complex. The term loan commitment expires May 29, 2011. Subject to certain conditions, the acquisition is expected to close by that date.

---

## **Table of Contents**

The credit facility has a term of four years and provides for a committed revolving credit line of up to \$300.0 million in addition to the \$25.0 million term loan facility previously mentioned. The commitment amount under the credit facility may be increased by an additional \$50.0 million, subject to certain conditions and approvals as set forth in the credit agreement. The Company incurred and capitalized \$1.6 million in deferred financing costs in connection with the credit facility.

The credit facility may be used for working capital and general corporate purposes and is collateralized by substantially all of the assets of the Company and certain of its domestic subsidiaries (other than their trademarks and the corporate office complex that the Company expects to purchase) and by a pledge of 65% of the equity interests of certain of the Company's foreign subsidiaries. Up to \$5.0 million of the facility may be used to support letters of credit, of which none were outstanding as of March 31, 2011. The Company is required to maintain a certain leverage ratio and interest coverage ratio as set forth in the credit agreement. The credit agreement also provides the lenders with the ability to reduce the borrowing base, even if the Company is in compliance with all conditions of the credit agreement, upon a material adverse change to the business, properties, assets, financial condition or results of operations of the Company. The credit agreement contains a number of restrictions that limit the Company's ability, among other things, and subject to certain limited exceptions, to incur additional indebtedness, pledge its assets as security, guaranty obligations of third parties, make investments, undergo a merger or consolidation, dispose of assets, or materially change its line of business. In addition, the credit agreement includes a cross default provision whereby an event of default under other debt obligations, as defined in the credit agreement, will be considered an event of default under the credit agreement.

Borrowings under the credit facility bear interest based on the daily balance outstanding at LIBOR (with no rate floor) plus an applicable margin (varying from 1.25% to 1.75%) or, in certain cases a base rate (based on a certain lending institution's Prime Rate or as otherwise specified in the credit agreement, with no rate floor) plus an applicable margin (varying from 0.25% to 0.75%). The credit facility also carries a commitment fee equal to the available but unused borrowings multiplied by an applicable margin (varying from 0.25% to 0.35%). The applicable margins are calculated quarterly and vary based on the Company's leverage ratio as set forth in the credit agreement.

Upon entering into the credit facility in March 2011, the Company terminated its prior \$200.0 million revolving credit facility. The prior revolving credit facility was collateralized by substantially all of the Company's assets, other than its trademarks, and included covenants, conditions and other terms similar to the Company's new credit facility.

No balances were outstanding under the current credit facility or prior revolving credit facility during the three months ended March 31, 2011 and 2010.

### *Long Term Debt*

The Company has long term debt agreements with various lenders to finance the acquisition or lease of qualifying capital investments. Loans under these agreements are collateralized by a first lien on the related assets acquired. As these agreements are not committed facilities, each advance is subject to approval by the lenders. Additionally, these agreements include a cross default provision whereby an event of default under other debt obligations, including the Company's credit facility, will be considered an event of default under these agreements. These agreements require a prepayment fee if the Company pays outstanding amounts ahead of the scheduled terms. The terms of the credit facility limit the total amount of additional financing under these agreements to \$40.0 million, of which \$27.1 million was remaining as of March 31, 2011. At March 31, 2011, December 31, 2010 and March 31, 2010, the outstanding principal balance under these agreements was \$13.6 million, \$15.9 million and \$17.9 million, respectively. Currently, advances under these agreements bear interest rates which are fixed at the time of each advance. The weighted average interest rate on outstanding borrowings was 4.0% and 5.9% for the three months ended March 31, 2011 and 2010, respectively.

The Company monitors the financial health and stability of its lenders under the credit and long term debt facilities, however instability in the credit markets could negatively impact lenders and their ability to perform under their facilities.

Interest expense was \$0.6 million for each of the three months ended March 31, 2011 and 2010. Interest expense, net includes the amortization of deferred financing costs and interest expense under the credit and long term debt facilities.

## **5. Commitments and Contingencies**

There were no significant changes to the contractual obligations reported in the 2010 Form 10-K other than those which occur in the normal course of business.

## **6. Fair Value Measurements**

## Edgar Filing: Under Armour, Inc. - Form 10-Q

Fair value is defined as the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date (an exit price). The fair value accounting guidance outlines

**Table of Contents**

a valuation framework, creates a fair value hierarchy in order to increase the consistency and comparability of fair value measurements and the related disclosures, and prioritizes the inputs used in measuring fair value as follows:

Level 1: Observable inputs such as quoted prices in active markets;

Level 2: Inputs, other than quoted prices in active markets, that are observable either directly or indirectly; and

Level 3: Unobservable inputs for which there is little or no market data, which require the reporting entity to develop its own assumptions.

Financial assets and (liabilities) measured at fair value as of March 31, 2011 are set forth in the table below:

<i>(In thousands)</i>	Level 1	Level 2	Level 3
Derivative foreign currency forward contracts (see Note 8)	\$	\$ (542)	\$
Trust owned life insurance policies ( TOLI ) held by the Rabbi Trust		4,304	
Deferred Compensation Plan obligations		(4,250)	

Fair values of the financial assets and liabilities listed above are determined using 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. The foreign currency forward contracts represent gains and losses on derivative contracts, which are the net difference between the U.S. dollars to be received or paid at each contract's settlement date and the U.S. dollar value of the foreign currency to be sold or purchased at the current forward exchange rate. The fair value of the TOLI held by the Rabbi Trust is based on the cash-surrender value of the life insurance policies, which are invested primarily in mutual funds and a separately managed fixed income fund. These investments are in the same funds and purchased in substantially the same amounts as the selected investments of participants in the Deferred Compensation Plan, which represent the underlying liabilities to participants in this plan. Obligations under the Deferred Compensation Plan are recorded at amounts due to participants, based on the fair value of participants' selected investments.

**7. Stock-Based Compensation**

In February 2011, 0.2 million shares of restricted stock were awarded to an executive under the Under Armour, Inc. Amended and Restated 2005 Omnibus Long-Term Incentive Plan ( the 2005 Plan ). The shares of restricted stock were scheduled to have a vesting term of ten years and had a fair value of \$60.18, which was the closing price of the Company's Class A Common Stock on the date of grant. On May 1, 2011, the shares were forfeited when the executive terminated his employment with the Company.

In addition, in February 2011, 0.3 million performance-based restricted stock units were awarded to certain executives and key employees under the 2005 Plan. The performance-based restricted stock units have vesting that is tied to the achievement of a certain combined annual operating income target for 2012 and 2013. Upon the achievement of the combined operating income target, 50% of the restricted stock units will vest on February 15, 2014 and the remaining 50% will vest on February 15, 2015. If certain lower levels of combined operating income for 2012 and 2013 are achieved, fewer or no restricted stock units will vest at that time and one year later, and the remaining restricted stock units will be forfeited. As of March 31, 2011, the Company had not recorded stock-based compensation expense for these performance-based restricted stock units as the Company determined the achievement of the combined operating income targets was not probable. The Company will assess the probability of the achievement of the operating income targets at the end of each reporting period. If it becomes probable that the performance targets related to these performance-based restricted stock units will be achieved, a cumulative adjustment will be recorded as if ratable stock-based compensation expense had been recorded since the grant date. Additional stock based compensation of up to \$0.9 million would have been recorded through March 31, 2011 for these performance-based restricted stock units had the achievement of these operating income targets been deemed probable.

As of March 31, 2011, the Company had not recorded stock-based compensation expense for a portion of the performance-based stock options granted during 2010 as the Company determined the achievement of the combined operating income targets for 2011 and 2012 was not probable. Additional stock-based compensation of up to \$1.7 would have been recorded at March 31, 2011 had the achievement of these operating income targets been deemed probable.

**8. Foreign Currency Risk Management and Derivatives**

The Company is exposed to gains and losses resulting from fluctuations in foreign currency exchange rates relating to transactions generated by its international subsidiaries in currencies other than their local currencies. These gains and losses are primarily driven by intercompany

transactions. When deemed necessary, the Company enters into foreign currency



**Table of Contents**

forward contracts to reduce the risk associated with foreign currency exchange rate fluctuations on intercompany transactions and projected inventory purchases for its European and Canadian subsidiaries.

As of March 31, 2011, the notional value of the Company's outstanding foreign currency forward contract used to mitigate the foreign currency exchange rate fluctuations on its Canadian subsidiary's intercompany transactions was \$20.8 million with a contract maturity of 1 month. As of March 31, 2011, the notional value of the Company's outstanding foreign currency forward contracts used to mitigate the foreign currency exchange rate fluctuations on its European subsidiary's intercompany transactions was \$42.4 million with contract maturities of 1 month. The foreign currency forward contracts are not designated as cash flow hedges, and accordingly, changes in their fair value are recorded in other expense, net. As of March 31, 2011, December 31, 2010 and March 31, 2010, the fair values of the Company's foreign currency forward contracts were liabilities of \$0.5 million, \$0.6 million and \$0.4 million, respectively, and were included in accrued expenses on the consolidated balance sheets. Refer to Note 6 for a discussion of the fair value measurements. Included in other expense, net were the following amounts related to changes in foreign currency exchange rates and derivative foreign currency forward contracts:

<i>(In thousands)</i>	<b>Three Months Ended</b>	
	<b>March 31,</b>	
	<b>2011</b>	<b>2010</b>
Unrealized foreign currency exchange rate gains (losses)	\$ 1,922	\$ (3,490)
Realized foreign currency exchange rate gains	455	93
Unrealized derivative gains (losses)	15	(637)
Realized derivative gains (losses)	(2,902)	3,349

The Company enters into foreign currency forward contracts with major financial institutions with investment grade credit ratings and is exposed to credit losses in the event of non-performance by these financial institutions. This credit risk is generally limited to the unrealized gains in the foreign currency forward contracts. However, the Company monitors the credit quality of these financial institutions and considers the risk of counterparty default to be minimal.

**9. Provision for Income Taxes**

The Company recorded \$7.9 million and \$5.2 million of income tax expense for the three months ended March 31, 2011 and 2010, respectively. The effective rates for income taxes were 39.5% and 42.0% for the three months ended March 31, 2011 and 2010, respectively. The effective tax rate for the three months ended March 31, 2011 was lower than the effective tax rate for the three months ended March 31, 2010 primarily due to decreased losses in foreign subsidiaries, federal tax credits forecasted in 2011 and a reduction in the portion of income subject to state taxes. The Company's annual 2011 effective tax rate is expected to be approximately 40.0%.

**10. Comprehensive Income**

Comprehensive income by period is stated below:

<i>(In thousands)</i>	<b>Three Months Ended</b>	
	<b>March 31,</b>	
	<b>2011</b>	<b>2010</b>
Net income	\$ 12,139	\$ 7,170
Other comprehensive income		
Changes in cumulative translation adjustment	666	1,133
Total comprehensive income	\$ 12,805	\$ 8,303

**Table of Contents****11. Earnings per Share**

The following represents a reconciliation from basic earnings per share to diluted earnings per share:

<i>(In thousands, except per share amounts)</i>	<b>Three Months Ended March 31,</b>	
	<b>2011</b>	<b>2010</b>
<b>Numerator</b>		
Net income	\$ 12,139	\$ 7,170
Net income attributable to participating securities	(109)	(65)
Net income available to common shareholders (1)	\$ 12,030	\$ 7,105
<b>Denominator</b>		
Weighted average common shares outstanding	50,962	49,986
Effect of dilutive securities	943	494
Weighted average common shares and dilutive securities outstanding	51,905	50,480
Earnings per share - basic	\$ 0.24	\$ 0.14
Earnings per share - diluted	\$ 0.23	\$ 0.14
(1) Basic weighted average common shares outstanding	50,962	49,986
Basic weighted average common shares outstanding and participating securities	51,444	50,419
Percentage allocated to common stockholders	99.1%	99.1%

Effects of potentially dilutive securities are presented only in periods in which they are dilutive. Stock options and restricted stock units representing 0.1 million shares of common stock outstanding for the three months ended March 31, 2011 were excluded from the computation of diluted earnings per share because their effect would have been anti-dilutive. Stock options, restricted stock units and warrants representing 1.3 million shares of common stock outstanding for the three months ended March 31, 2010 were excluded from the computation of diluted earnings per share because their effect would have been anti-dilutive.

**12. Segment Data and Related Information**

The Company's operating segments are based on how the Chief Operating Decision Maker ( CODM ) makes decisions about allocating resources and assessing performance. As such, the CODM receives discrete financial information by geographic region based on the Company's strategy to become a global brand. These geographic regions include North America; Latin America; Europe, the Middle East and Africa ( EMEA ); and Asia. The Company's operating segments are based on these geographic regions. Each geographic segment operates exclusively in one industry: the development, marketing and distribution of branded performance apparel, footwear and accessories. As the Latin America, EMEA and Asia operating segments did not meet the quantitative thresholds for individual disclosure as reportable segments, they were combined into other foreign countries.

The geographic distribution of the Company's net revenues, operating income and total assets are summarized in the following tables based on the location of its customers and operations. Net revenues represent sales to external customers for each segment. In addition to net revenues, operating income is a primary financial measure used by the Company to evaluate performance of each segment. Intercompany balances were eliminated for separate disclosure and corporate expenses from North America have not been allocated to other foreign countries. Prior period data included below was reclassified to conform to the current period presentation.

**Three Months Ended  
March 31,**

Edgar Filing: Under Armour, Inc. - Form 10-Q

<i>(In thousands)</i>	2011	2010
<b>Net revenues</b>		
North America	\$ 296,077	\$ 215,758
Other foreign countries	16,622	13,649
Total net revenues	\$ 312,699	\$ 229,407

**Table of Contents**

<i>(In thousands)</i>	Three Months Ended	
	March 31,	
	2011	2010
<b>Operating income</b>		
North America	\$ 18,555	\$ 12,763
Other foreign countries	2,587	821
Total operating income	21,142	13,584
Interest expense, net	(579)	(546)
Other expense, net	(510)	(685)
Income before income taxes	\$ 20,053	\$ 12,353

<i>(In thousands)</i>	March 31, 2011	December 31, 2010	March 31, 2010
<b>Total assets</b>			
North America	\$ 629,513	\$ 613,515	\$ 499,396
Other foreign countries	62,197	61,863	49,855
Total assets	\$ 691,710	\$ 675,378	\$ 549,251

Net revenues by product category are as follows:

<i>(In thousands)</i>	Three Months Ended	
	March 31,	
	2011	2010
Apparel	\$ 230,484	\$ 172,636
Footwear	51,436	42,958
Accessories	23,537	7,518
Total net sales	305,457	223,112
License revenues	7,242	6,295
Total net revenues	\$ 312,699	\$ 229,407

During the three months ended March 31, 2011 and 2010, substantially all of the Company's long-lived assets were located in the United States.

**Table of Contents**

**ITEM 2. MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS**

**Forward-Looking Statements**

Some of the statements contained in this Form 10-Q and the documents incorporated herein by reference (if any) constitute forward-looking statements. Forward-looking statements relate to expectations, beliefs, projections, future plans and strategies, anticipated events or trends and similar expressions concerning matters that are not historical facts, such as statements regarding our future financial condition or results of operations, our prospects and strategies for future growth, the development and introduction of new products, and the implementation of our marketing and branding strategies. In many cases, you can identify forward-looking statements by terms such as may, will, should, expects, plans, anticipates, believes, estimates, predicts, outlook, potential, the negative of these terms or other comparable terminology.

The forward-looking statements contained in this Form 10-Q and the documents incorporated herein by reference (if any) reflect our current views about future events and are subject to risks, uncertainties, assumptions and changes in circumstances that may cause events or our actual activities or results to differ significantly from those expressed in any forward-looking statement. Although we believe that the expectations reflected in the forward-looking statements are reasonable, we cannot guarantee future events, results, actions, levels of activity, performance or achievements. Readers are cautioned not to place undue reliance on these forward-looking statements. A number of important factors could cause actual results to differ materially from those indicated by these forward-looking statements, including, but not limited to, those factors described in our Annual Report on Form 10-K for the year ended December 31, 2010 filed with the Securities and Exchange Commission ( SEC ) (our 2010 Form 10-K ) or in this Form 10-Q under Risk Factors , if included herein, and Management's Discussion and Analysis of Financial Condition and Results of Operations ( MD&A ). These factors include without limitation:

changes in general economic or market conditions that could affect consumer spending and the financial health of our retail customers;

our ability to effectively manage our growth and a more complex business;

our ability to effectively develop and launch new, innovative and updated products;

our ability to accurately forecast consumer demand for our products and manage our inventory in response to changing demands;

increased competition causing us to reduce the prices of our products or to increase significantly our marketing efforts in order to avoid losing market share;

fluctuations in the costs of our products;

loss of key suppliers or manufacturers or failure of our suppliers or manufacturers to produce or deliver our products in a timely or cost-effective manner;

changes in consumer preferences or the reduction in demand for performance apparel, footwear and other products;

our ability to accurately anticipate and respond to seasonal or quarterly fluctuations in our operating results;

## Edgar Filing: Under Armour, Inc. - Form 10-Q

our ability to effectively market and maintain a positive brand image;

the availability, integration and effective operation of management information systems and other technology; and

our ability to attract and maintain the services of our senior management and key employees.

The forward-looking statements contained in this Form 10-Q reflect our views and assumptions only as of the date of this Form 10-Q. We undertake no obligation to update any forward-looking statement to reflect events or circumstances after the date on which the statement is made or to reflect the occurrence of unanticipated events.

### **Overview**

We are a leading developer, marketer and distributor of branded performance apparel, footwear and accessories. The brand's moisture-wicking fabrications are engineered in many different designs and styles for wear in nearly every climate to provide a performance alternative to traditional products. Our products are sold worldwide and worn by athletes at all levels, from youth to professional, on playing fields around the globe, as well as by consumers with active lifestyles.

---

## **Table of Contents**

We are a growth company as evidenced by the increase in net revenues to \$1,063.9 million in 2010 from \$430.7 million in 2006. We reported net revenues of \$312.7 million for the first three months of 2011, which represented a 36.3% increase from the first three months of 2010. We believe that our growth in net revenues has been driven by a growing interest in performance products and the strength of the Under Armour brand in the marketplace. We plan to continue to increase our net revenues over the long term by increased sales of our apparel, footwear and accessories, expansion of our wholesale distribution sales channel, growth in our direct to consumer sales channel and expansion in international markets. Our direct to consumer sales channel includes our factory house and specialty stores, website and catalog. New offerings for 2011 include headwear and bags, as well as performance-based cotton products.

Our products are currently offered in over twenty three thousand retail stores worldwide. A large majority of our products are sold in North America; however we believe our products appeal to athletes and consumers with active lifestyles around the globe. Outside of North America, our products are offered primarily in Austria, France, Germany, Ireland and the United Kingdom, as well as in Japan through a third-party licensee, and through distributors located in other foreign countries.

### **General**

Net revenues comprise both net sales and license revenues. Net sales comprise sales from our primary product categories, which are apparel, footwear and accessories. Our license revenues consist of fees paid to us by our licensees in exchange for the use of our trademarks on core products of socks, headwear, bags, eyewear, custom-molded mouth guards, other accessories and team uniforms, as well as the distribution of our products in Japan. We have developed our own headwear and bags, and beginning in 2011, these products are being sold by us rather than by one of our licensees. We expect our net revenues to increase by approximately \$60 million from 2010 to 2011 as a result of this change, which includes an increase in accessories revenues and a decrease in our license revenues in 2011. In addition, we expect the related cost of goods sold to increase.

Cost of goods sold consists primarily of product costs, inbound freight and duty costs, outbound freight costs, handling costs to make products floor-ready to customer specifications, royalty payments to endorsers based on a predetermined percentage of sales of selected products and write downs for inventory obsolescence. The fabrics in many of our products are made of petroleum-based synthetic materials. Therefore our product costs, as well as our inbound and outbound freight costs, could be affected by long term pricing trends of oil. In general, as a percentage of net revenues, we expect cost of goods sold associated with our apparel and accessories to be lower than that of our footwear. No cost of goods sold is associated with license revenues.

We include outbound freight costs associated with shipping goods to customers as cost of goods sold; however, we include the majority of outbound handling costs as a component of selling, general and administrative expenses. As a result, our gross profit may not be comparable to that of other companies that include outbound handling costs in their cost of goods sold. Outbound handling costs include costs associated with preparing goods to ship to customers and certain costs to operate our distribution facilities. These costs were \$4.8 million and \$3.6 million for the three months ended March 31, 2011 and 2010, respectively.

Our selling, general and administrative expenses consist of costs related to marketing, selling, product innovation and supply chain and corporate services. Personnel costs are included in these categories based on the employees' function. Personnel costs include salaries, benefits and incentive and stock-based compensation expense related to the employee. Our marketing costs are an important driver of our growth. Marketing costs consist primarily of commercials, print ads, league, team, player and event sponsorships, amortization of footwear promotional rights and depreciation expense specific to our in-store fixture program. In addition, marketing costs include costs associated with our Special Make-Up Shop (SMU Shop) located at one of our distribution facilities where we manufacture a limited number of products primarily for our league, team, player and event sponsorships. Selling costs consist primarily of costs relating to sales through our wholesale channel, the majority of our direct to consumer sales channel costs, including the cost of retail store leases, along with commissions paid to third parties. Product innovation and supply chain costs include our apparel, footwear and accessories product innovation, sourcing and development costs, distribution facility operating costs, and costs relating to our Hong Kong and Guangzhou, China offices which help support manufacturing, quality assurance and sourcing efforts. Corporate services primarily consist of corporate facility operating costs and company-wide administrative expenses.

Other expense, net consists of unrealized and realized gains and losses on our derivative financial instruments and unrealized and realized gains and losses on adjustments that arise from fluctuations in foreign currency exchange rates relating to transactions generated by our international subsidiaries.

**Table of Contents****Results of Operations**

The following table sets forth key components of our results of operations for the periods indicated, both in dollars and as a percentage of net revenues:

<i>(In thousands)</i>	Three Months Ended March 31,	
	2011	2010
Net revenues	\$ 312,699	\$ 229,407
Cost of goods sold	167,648	121,776
Gross profit	145,051	107,631
Selling, general and administrative expenses	123,909	94,047
Income from operations	21,142	13,584
Interest expense, net	(579)	(546)
Other expense, net	(510)	(685)
Income before income taxes	20,053	12,353
Provision for income taxes	7,914	5,183
Net income	\$ 12,139	\$ 7,170

<i>(As a percentage of net revenues)</i>	Three Months Ended March 31,	
	2011	2010
Net revenues	100.0%	100.0%
Cost of goods sold	53.6	53.1
Gross profit	46.4	46.9
Selling, general and administrative expenses	39.6	41.0
Income from operations	6.8	5.9
Interest expense, net	(0.2)	(0.2)
Other expense, net	(0.2)	(0.3)
Income before income taxes	6.4	5.4
Provision for income taxes	2.5	2.3
Net income	3.9%	3.1%

**Three Months Ended March 31, 2011 Compared to Three Months Ended March 31, 2010**

*Net revenues* increased \$83.3 million, or 36.3%, to \$312.7 million for the three months ended March 31, 2011 from \$229.4 million for the same period in 2010.

*Net revenues by geographic region* are summarized below:

<i>(In thousands)</i>	2011	Three Months Ended March 31, 2010	% Change
-----------------------	------	--------------------------------------	----------



Edgar Filing: Under Armour, Inc. - Form 10-Q

			\$ Change	
North America	\$ 296,077	\$ 215,758	\$ 80,319	37.2%
Other foreign countries	16,622	13,649	2,973	21.8
<b>Total net revenues</b>	<b>\$ 312,699</b>	<b>\$ 229,407</b>	<b>\$ 83,292</b>	<b>36.3%</b>

Net revenues in North America increased \$80.3 million to \$296.1 million for the three months ended March 31, 2011 from \$215.8 million for the same period in 2010 primarily due to increased net sales in apparel and accessories as discussed below. Net revenues in other foreign countries increased by \$3.0 million to \$16.6 million for the three months ended March 31, 2011 from \$13.6 million for the same period in 2010 primarily due to increased apparel sales by our third party distributors in our Asia and Latin America operating segments and increased product distribution by our licensee in Japan.

**Table of Contents**

Net revenues by product category are summarized below:

(In thousands)	Three Months Ended March 31,			
	2011	2010	\$ Change	% Change
Apparel	\$ 230,484	\$ 172,636	\$ 57,848	33.5%
Footwear	51,436	42,958	8,478	19.7
Accessories	23,537	7,518	16,019	213.1
Total net sales	305,457	223,112	82,345	36.9
License revenues	7,242	6,295	947	15.0
Total net revenues	\$ 312,699	\$ 229,407	\$ 83,292	36.3%

Net sales increased \$82.4 million, or 36.9%, to \$305.5 million for the three months ended March 31, 2011 from \$223.1 million during the same period in 2010. The increase in net sales primarily reflects:

\$22.1 million, or 52.9%, increase in direct to consumer net sales, which includes 9 additional stores in 2011;

unit growth driven by increased distribution and new offerings in multiple product categories, most significantly in our training category, which included our new Charged Cotton products, as well as in our base layer, running and golf categories; and

\$16.0 million, or 213.1%, increase in accessories sales due primarily to headwear and bags being sold by us rather than by one of our licensees beginning in January 2011.

License revenues increased \$0.9 million, or 15.0%, to \$7.2 million for the three months ended March 31, 2011 from \$6.3 million during the same period in 2010. This increase in license revenues was a result of increased sales by our licensees due to increased distribution and continued unit volume growth, partially offset by a reduction in license revenues related to headwear and bags.

Gross profit increased \$37.5 million to \$145.1 million for the three months ended March 31, 2011 from \$107.6 million for the same period in 2010. Gross profit as a percentage of net revenues, or gross margin, decreased 50 basis points to 46.4% for the three months ended March 31, 2011 as compared to 46.9% during the same period in 2010. The decrease in gross margin percentage was primarily driven by the following:

increased footwear sourcing costs, accounting for an approximate 100 basis point decrease; and

less favorable apparel product mix relative to margins, accounting for an approximate 50 basis point decrease; partially offset by

increased direct to consumer higher margin sales, accounting for an approximate 60 basis point increase; and

decreased footwear sales returns and markdown reserves, accounting for an approximate 40 basis point increase.

Selling, general and administrative expenses increased \$29.9 million to \$123.9 million for the three months ended March 31, 2011 from \$94.0 million for the same period in 2010. As a percentage of net revenues, selling, general and administrative expenses decreased to 39.6% for the three months ended March 31, 2011 from 41.0% for the same period in 2010. These changes were primarily attributable to the following:

## Edgar Filing: Under Armour, Inc. - Form 10-Q

Marketing costs increased \$10.3 million to \$41.5 million for the three months ended March 31, 2011 from \$31.2 million for the same period in 2010 primarily due to increased sponsorships of events and collegiate and professional teams and athletes, additional personnel costs and greater investments in digital marketing. As a percentage of net revenues, marketing costs decreased to 13.3% for the three months ended March 31, 2011 from 13.6% for the same period in 2010 primarily due to decreased investments in television and film campaign costs as a percentage of net revenues.

Selling costs increased \$8.1 million to \$27.8 million for the three months ended March 31, 2011 from \$19.7 million for the same period in 2010. This increase was primarily due to higher personnel and other costs incurred for the continued expansion of our direct to consumer distribution channel and higher selling personnel costs. As a percentage of net revenues, selling costs increased to 8.9% for the three months ended March 31, 2011 from 8.6% for the same period in 2010 primarily due to higher personnel and other costs incurred for the continued expansion of our factory house stores.

Product innovation and supply chain costs increased \$7.3 million to \$29.2 million for the three months ended March 31, 2011 from \$21.9 million for the same period in 2010 primarily due to higher distribution facilities

---

## **Table of Contents**

operating and personnel costs to support our growth in net revenues and higher personnel costs for the design and sourcing of our expanding apparel, footwear and accessory lines. As a percentage of net revenues, product innovation and supply chain costs decreased to 9.3% for the three months ended March 31, 2011 from 9.6% for the same period in 2010 due to decreased personnel costs for the design and sourcing of our apparel, footwear and accessory lines as a percentage of net revenues.

Corporate services costs increased \$4.2 million to \$25.4 million for the three months ended March 31, 2011 from \$21.2 million for the same period in 2010. This increase was attributable primarily to higher corporate personnel and facility costs and information technology initiatives necessary to support our growth. As a percentage of net revenues, corporate services costs decreased to 8.1% for the three months ended March 31, 2011 from 9.2% for the same period in 2010 primarily due to decreased personnel and facility costs as a percentage of net revenues.

*Income from operations* increased \$7.5 million, or 55.6%, to \$21.1 million for the three months ended March 31, 2011 from \$13.6 million for the same period in 2010. Income from operations as a percentage of net revenues increased to 6.8% for the three months ended March 31, 2011 from 5.9% for the same period in 2010. This increase was a result of the items discussed above.

*Interest expense, net* increased \$0.1 million to \$0.6 million for the three months ended March 31, 2011 from \$0.5 million for the same period in 2010. This increase was primarily due to the write-off of deferred financing costs associated with our prior revolving credit facility.

*Other expense, net* decreased \$0.2 million to \$0.5 million for the three months ended March 31, 2011 from \$0.7 million for the same period in 2010. The decrease was due to lower net losses on the combined foreign currency exchange rate changes on transactions denominated in foreign currencies and our derivative financial instruments as compared to the same period in 2010.

*Provision for income taxes* increased \$2.7 million to \$7.9 million during the three months ended March 31, 2011 from \$5.2 million during the same period in 2010. For the three months ended March 31, 2011, our effective tax rate was 39.5% compared to 42.0% for the same period in 2010. The effective tax rate for the three months ended March 31, 2011 was lower than the effective tax rate for the three months ended March 31, 2010 primarily due to decreased losses in foreign subsidiaries, federal tax credits forecasted in 2011 and a reduction in the portion of income subject to state taxes. Our annual 2011 effective tax rate is expected to be approximately 40.0%.

## **Seasonality**

Historically, we have recognized a significant portion of our income from operations in the last two quarters of the year, driven primarily by increased sales volume of our products during the fall selling season, reflecting our historical strength in fall sports, and the seasonality of our higher priced COLDGEAR® line. Historically, a larger portion of our income from operations has been in the last two quarters of the year partially due to the shift in the timing of marketing investments to the first two quarters of the year. The majority of our net revenues were generated during the last two quarters in each of 2010 and 2009. The level of our working capital generally reflects the seasonality and growth in our business.

## **Financial Position, Capital Resources and Liquidity**

Our cash requirements have principally been for working capital and capital expenditures. Working capital is primarily funded from cash flows provided by operating activities and cash and cash equivalents on hand. Our working capital requirements generally reflect the seasonality and growth in our business as we recognize the majority of our net revenues in the back half of the year. We fund our working capital, primarily inventory, and capital investments from cash flows provided by operating activities, cash and cash equivalents on hand and borrowings primarily available under our long term debt facilities. Our capital investments have included expanding our in-store fixture and branded concept shop program, improvements and expansion of our distribution and corporate facilities to support our growth, leasehold improvements to our new factory house and specialty stores, and investment and improvements in information technology systems. Our capital expenditures are expected to include the purchase in the second quarter of 2011, subject to certain closing conditions, of part of our corporate office complex at a purchase price of \$60.5 million. We intend to fund this purchase through additional debt.

Our focus remains on inventory management including improving our planning capabilities, managing our inventory purchases, reducing our production lead times and selling excess inventory through our factory house stores and other liquidation channels. However, we do expect several factors to contribute to inventory growth in excess of sales growth in the first half of 2011. We are increasing our safety stock in core product offerings and seasonal products to better meet anticipated consumer demand. Core product offerings are products that we generally plan to have available for sale for at



**Table of Contents**

least the next twelve months at full price. In addition, in 2011, headwear and bags are now being sold by us rather than by one of our licensees, which will also contribute to our expected year over year inventory growth.

We believe our cash and cash equivalents on hand, cash from operations and borrowings available to us under our credit and long term debt facilities will be adequate to meet our liquidity needs and capital expenditure requirements for at least the next twelve months. We may require additional capital to meet our longer term liquidity and future growth needs. Although we believe we have adequate sources of liquidity over the long term, a prolonged economic recession or a slow recovery could adversely affect our business and liquidity. In addition, instability in or tightening of the capital markets could adversely affect our ability to obtain additional capital to grow our business and will affect the cost and terms of such capital.

**Cash Flows**

The following table presents the major components of net cash flows provided by and used in operating, investing and financing activities for the periods presented:

<i>(In thousands)</i>	<b>Three Months Ended</b>	
	<b>March 31,</b>	
	<b>2011</b>	<b>2010</b>
Net cash provided by (used in):		
Operating activities	\$ (85,497)	\$ (11,776)
Investing activities	(15,851)	(7,479)
Financing activities	8,303	(703)
Effect of exchange rate changes on cash and cash equivalents	19	(1,377)
Net decrease in cash and cash equivalents	\$ (93,026)	\$ (21,335)

*Operating Activities*

Operating activities consist primarily of net income adjusted for certain non-cash items. Adjustments to net income for non-cash items include depreciation and amortization, unrealized foreign currency exchange rate gains and losses, losses on disposals of property and equipment, stock-based compensation, deferred income taxes and changes in reserves and allowances. In addition, operating cash flows include the effect of changes in operating assets and liabilities, principally inventories, accounts receivable, income taxes payable and receivable, prepaid expenses and other assets, accounts payable and accrued expenses.

Cash used in operating activities increased \$73.7 million to \$85.5 million for the three months ended March 31, 2011 from \$11.8 million during the same period in 2010. The increase in cash used in operating activities was due to increased net cash outflows from operating assets and liabilities of \$76.8 million and adjustments to net income for non-cash items which decreased \$1.9 million period over period, partially offset by additional net income of \$5.0 million. The increase in cash outflows related to changes in operating assets and liabilities period over period was primarily driven by the following:

an increase in net inventory investments of \$35.1 million. In line with our expectations, inventory grew in the first quarter of 2011 at a rate higher than net sales growth due to increased safety stock in core product offerings and seasonal products to better meet anticipated consumer demand and investments in new products including headwear and bags;

a larger increase in accounts receivable of \$22.0 million in the first three months of 2011 as compared to the same period in 2010 primarily due to the timing of our wholesale apparel shipments, which were concentrated toward the end of the first three months of 2011; and

## Edgar Filing: Under Armour, Inc. - Form 10-Q

a larger decrease in accrued expenses and other liabilities of \$10.7 million in the first three months of 2011 as compared to the same period in 2010 primarily due to higher performance incentive plan payouts during the current period.

Adjustments to net income for non-cash items decreased in the three months ended March 31, 2011 as compared to the same period of the prior year primarily due to unrealized foreign currency exchange rate gains in the 2011 period as compared to unrealized foreign currency exchange rate losses in the prior period.

### *Investing Activities*

Cash used in investing activities, which includes capital expenditures and the purchase of trust owned life insurance policies, increased \$8.6 million to \$15.9 million for the three months ended March 31, 2011 from \$7.5 million for the same

---

## **Table of Contents**

period in 2010. This increase in cash used in investing activities is primarily due to the long term investment in Dome Corporation, our Japanese licensee and increased investments in new factory house stores.

Capital expenditures for the full year 2011 are anticipated to be in the range of \$45.0 million to \$50.0 million, in addition to \$62.0 million relating to the purchase and certain related improvements of part of our corporate office complex. We intend to fund this purchase through additional debt.

### *Financing Activities*

Cash provided by financing activities increased \$9.0 million to \$8.3 million for the three months ended March 31, 2011 from cash used in financing activities of \$0.7 million for the same period in 2010. This increase from the prior year period was primarily due to higher proceeds from the exercise of stock options and additional excess tax benefits from stock-based compensation arrangements.

### *Credit Facility*

In March 2011, we entered into a new \$325.0 million credit facility with certain lending institutions, and terminated our prior \$200.0 million revolving credit facility in order to increase our available financing and to expand our lending syndicate. We anticipate using a term loan portion of the new credit facility of up to \$25.0 million to finance a portion of the purchase price for the acquisition of part of our corporate office complex. The term loan commitment expires May 29, 2011. Subject to certain conditions, the acquisition is expected to close by that date.

The credit facility has a term of four years and provides for a committed revolving credit line of up to \$300.0 million in addition to the \$25.0 million term loan facility previously mentioned. The commitment amount under the credit facility may be increased by an additional \$50.0 million, subject to certain conditions and approvals as set forth in the credit agreement. We incurred and capitalized \$1.6 million in deferred financing costs in connection with the credit facility.

The credit facility may be used for working capital and general corporate purposes and is collateralized by substantially all of our assets and certain of our domestic subsidiaries (other than our trademarks and the corporate office complex that we expect to purchase) and by a pledge of 65% of the equity interests of certain of our foreign subsidiaries. Up to \$5.0 million of the facility may be used to support letters of credit, of which none were outstanding as of March 31, 2011. We are required to maintain a certain leverage ratio and interest coverage ratio as set forth in the credit agreement. The credit agreement also provides the lenders with the ability to reduce the borrowing base, even if we are in compliance with all conditions of the credit agreement, upon a material adverse change to our business, properties, assets, financial condition or results of operations. The credit agreement contains a number of restrictions that limit our ability, among other things, and subject to certain limited exceptions, to incur additional indebtedness, pledge our assets as security, guaranty obligations of third parties, make investments, undergo a merger or consolidation, dispose of assets, or materially change our line of business. In addition, the credit agreement includes a cross default provision whereby an event of default under other debt obligations, as defined in the credit agreement, will be considered an event of default under the credit agreement.

Borrowings under the credit facility bear interest based on the daily balance outstanding at LIBOR (with no rate floor) plus an applicable margin (varying from 1.25% to 1.75%) or, in certain cases a base rate (based on a certain lending institution's Prime Rate or as otherwise specified in the credit agreement, with no rate floor) plus an applicable margin (varying from 0.25% to 0.75%). The credit facility also carries a commitment fee equal to the available but unused borrowings multiplied by an applicable margin (varying from 0.25% to 0.35%). The applicable margins are calculated quarterly and vary based on our leverage ratio as set forth in the credit agreement.

Upon entering into the credit facility in March 2011, we terminated our prior \$200.0 million revolving credit facility. The prior revolving credit facility was collateralized by substantially all of our assets, other than our trademarks, and included covenants, conditions and other terms similar to our new credit facility.

No balances were outstanding under the current credit facility or prior revolving credit facility during the three months ended March 31, 2011 and 2010.

### *Long Term Debt*

We have long term debt agreements with various lenders to finance the acquisition of or lease of qualifying capital investments. Loans under these agreements are collateralized by a first lien on the related assets acquired. As these agreements are not committed facilities, each advance is subject to approval by the lenders. Additionally, these agreements include a cross default provision whereby an event of default under other debt obligations, including our credit facility, will be considered an event of default under these agreements. In addition, these agreements



## Edgar Filing: Under Armour, Inc. - Form 10-Q

require a prepayment fee if we pay outstanding amounts ahead of the scheduled terms. The terms of our credit facility limit the total amount of additional financing under these agreements to \$40.0 million, of which \$27.1 million was remaining as of March 31, 2011. At March

---

## **Table of Contents**

31, 2011, December 31, 2010 and March 31, 2010, the outstanding principal balances under these agreements were \$13.6 million, \$15.9 million and \$17.9 million, respectively. Currently, advances under these agreements bear interest rates which are fixed at the time of each advance. The weighted average interest rate on outstanding borrowings was 4.0% and 5.9% for the three months ended March 31, 2011 and 2010, respectively.

We monitor the financial health and stability of our lenders under our credit and long term debt facilities, however instability in the credit markets could negatively impact lenders and their ability to perform under these facilities.

### **Contractual Commitments and Contingencies**

There were no significant changes to the contractual obligations reported in our 2010 Form 10-K other than those which occur in the normal course of business.

### **Critical Accounting Policies and Estimates**

Our consolidated financial statements have been prepared in accordance with accounting principles generally accepted in the United States of America. To prepare these financial statements, we must make estimates and assumptions that affect the reported amounts of assets, liabilities, revenues and expenses. Actual results could be significantly different from these estimates. We believe the following discussion addresses the critical accounting policies that are necessary to understand and evaluate our reported financial results.

Our significant accounting policies are described in Note 2 of the audited consolidated financial statements included in our 2010 Form 10-K. The SEC suggests companies provide additional disclosure on those accounting policies considered most critical. The SEC considers an accounting policy to be critical if it is important to our financial condition and results of operations and requires significant judgments and estimates on the part of management in its application. Our estimates are often based on complex judgments, probabilities and assumptions that management believes to be reasonable, but that are inherently uncertain and unpredictable. It is also possible that other professionals, applying reasonable judgment to the same facts and circumstances, could develop and support a range of alternative estimated amounts. For a complete discussion of our critical accounting policies, see the *Critical Accounting Policies* section of the MD&A in our 2010 Form 10-K. There were no significant changes to our critical accounting policies during the three months ended March 31, 2011.

## **ITEM 3. QUANTITATIVE AND QUALITATIVE DISCLOSURE ABOUT MARKET RISK**

### *Foreign Currency Exchange and Foreign Currency Risk Management and Derivatives*

We currently generate a small amount of our consolidated net revenues in Canada and Europe. The reporting currency for our consolidated financial statements is the U.S. dollar. To date, net revenues generated outside of the United States have not been significant. However, as our net revenues generated outside of the United States increase, our results of operations could be adversely impacted by changes in foreign currency exchange rates. For example, if we recognize foreign revenues in local foreign currencies (as we currently do in Canada and Europe) and if the U.S. dollar strengthens, it could have a negative impact on our foreign revenues upon translation of those results into the U.S. dollar upon consolidation of our financial statements. In addition, we are exposed to gains and losses resulting from fluctuations in foreign currency exchange rates on transactions generated by our foreign subsidiaries in currencies other than their local currencies. These gains and losses are primarily driven by inter-company transactions. These exposures are included in other expense, net on the consolidated statements of income.

When deemed necessary, we have used foreign currency forward contracts to reduce the risk from exchange rate fluctuations on inter-company transactions and projected inventory purchases for our European and Canadian subsidiaries. We do not enter into derivative financial instruments for speculative or trading purposes.

Based on the foreign currency forward contracts outstanding as of March 31, 2011, we receive US Dollars in exchange for Canadian Dollars at a weighted average contractual forward foreign currency exchange rate of 0.98 CAD per \$1.00 and US Dollars in exchange for Euros at a weighted average contractual foreign currency exchange rate of 0.71 EUR per \$1.00. As of March 31, 2011, the notional value of our outstanding foreign currency forward contracts for our Canadian subsidiary was \$20.8 million with contract maturities of 1 month, and the notional value of our outstanding foreign currency forward contracts for our European subsidiary was \$42.4 million with contract maturities of 1 month. The foreign currency forward contracts are not designated as cash flow hedges, and accordingly, changes in their fair value are recorded in other expense, net on the consolidated statements of income. As of March 31, 2011, December 31, 2010 and March 31, 2010, the fair values of our foreign currency forward contracts were liabilities of \$0.5 million, \$0.6 million and \$0.4 million, respectively, and were included in accrued expenses on the consolidated balance sheets. Refer to Note 6 for a discussion of the fair value measurements. Included in other expense, net were the following amounts related to changes in foreign currency exchange rates and derivative foreign currency forward contracts:



**Table of Contents**

<i>(In thousands)</i>	<b>Three Months Ended</b>	
	<b>March 31,</b>	
	<b>2011</b>	<b>2010</b>
Unrealized foreign currency exchange rate gains (losses)	\$ 1,922	\$ (3,490)
Realized foreign currency exchange rate gains	455	93
Unrealized derivative gains (losses)	15	(637)
Realized derivative gains (losses)	(2,902)	3,349

Although we have entered into foreign currency forward contracts to minimize some of the impact of foreign currency exchange rate fluctuations on future cash flows, we cannot be assured that foreign currency exchange rate fluctuations will not have a material adverse impact on our financial condition and results of operations.

**ITEM 4. CONTROLS AND PROCEDURES**

Our management has evaluated, under the supervision and with the participation of our Chief Executive Officer and Chief Financial Officer, the effectiveness of our disclosure controls and procedures as of the end of the period covered by this report pursuant to Rule 13a-15(b) under the Securities Exchange Act of 1934 (the Exchange Act). Based on that evaluation, our Chief Executive Officer and Chief Financial Officer have concluded that our disclosure controls and procedures are effective in ensuring that information required to be disclosed in our Exchange Act reports is (1) recorded, processed, summarized and reported in a timely manner and (2) accumulated and communicated to our management, including our Chief Executive Officer and Chief Financial Officer, as appropriate to allow timely decisions regarding required disclosure.

There has been no change in our internal control over financial reporting during the most recent fiscal quarter that has materially affected, or that is reasonably likely to materially affect our internal control over financial reporting.

---

**Table of Contents**

**PART II. OTHER INFORMATION**

**ITEM 1A. RISK FACTORS**

The Risk Factors included in our Annual Report on Form 10-K filed with the Securities and Exchange Commission for the year ended December 31, 2010 have not materially changed.

**ITEM 2. UNREGISTERED SALES OF EQUITY SECURITIES AND USE OF PROCEEDS**

On February 2, 2011, we issued 2.0 thousand shares of Class A Common Stock upon the exercise of previously granted stock options to employees at a weighted average exercise price of \$2.11 per share, for an aggregate amount of consideration of approximately \$4.2 thousand.

The issuance of securities described above were made in reliance upon Section 4(2) under the Securities Act in that any issuance did not involve a public offering or under Rule 701 promulgated under the Securities Act, in that they were offered and sold either pursuant to written compensatory plans or pursuant to written contract relating to compensation, as provided by Rule 701.

**ITEM 6. EXHIBITS**

**Exhibit No.**

10.01	Credit Agreement among PNC Bank, National Association, as Administrative Agent, SunTrust Bank, as Syndication Agent, Bank of America, N.A., as Documentation Agent, and the Lenders and the Guarantors that are party thereto and the Company dated March 29, 2011.
10.02	First Amendment to the Industrial Lease between the Company and Marley Neck 3R, LLC dated August 12, 2010.
10.03	Employee Confidentiality, Non-Competition and Non-Solicitation Agreement by and between Henry Stafford and the Company dated April 12, 2010.
31.01	Section 302 Chief Executive Officer Certification.
31.02	Section 302 Chief Financial Officer Certification.
32.01	Section 906 Chief Executive Officer Certification.
32.02	Section 906 Chief Financial Officer Certification.
101.INS	XBRL Instance Document
101.SCH	XBRL Taxonomy Extension Schema Document
101.CAL	XBRL Taxonomy Extension Calculation Linkbase Document
101.DEF	XBRL Taxonomy Extension Definition Linkbase Document
101.LAB	XBRL Taxonomy Extension Label Linkbase Document
101.PRE	XBRL Taxonomy Extension Presentation Linkbase Document

**Table of Contents**

**SIGNATURES**

Pursuant to the requirements of Section 13 or 15(d) 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.

UNDER ARMOUR, INC.

Date: May 4, 2011

By: /s/ BRAD DICKERSON  
Brad Dickerson

*Chief Financial Officer*

21