

Under Armour, Inc.
Form 10-Q
August 08, 2007
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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 June 30, 2007

or

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

For the transition period from _____ to _____

Commission File No. 000-51626

UNDER ARMOUR, INC.

(Exact name of registrant as specified in its charter)

Maryland
(State or other jurisdiction of
incorporation or organization)

1020 Hull Street
Baltimore, Maryland 21230

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

(410) 454-6428

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(Address of principal executive offices) (Zip Code)

(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 is a large accelerated filer, an accelerated filer, or a non-accelerated filer. See definition of accelerated filer and large accelerated filer in Rule 12b-2 of the Exchange Act.

Large accelerated filer

Accelerated filer

Non-accelerated filer

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

Class A Common Stock, \$.0003 1/3 par value, 35,187,340 shares outstanding as of July 31, 2007 and Class B Convertible Common Stock, \$.0003 1/3 par value, 13,250,000 shares outstanding as of July 31, 2007.

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UNDER ARMOUR, INC.

JUNE 30, 2007

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

	June 30, 2007 (unaudited)	December 31, 2006
Assets		
Current assets		
Cash and cash equivalents	\$ 25,676	\$ 70,655
Accounts receivable, net of allowance for doubtful accounts of \$911 and \$884 as of June 30, 2007 and December 31, 2006, respectively	83,088	71,867
Inventories	128,760	81,031
Income taxes receivable	2,783	4,310
Prepaid expenses and other current assets	9,893	8,944
Deferred income taxes	11,343	8,145
Total current assets	261,543	244,952
Property and equipment, net	40,948	29,923
Intangible assets, net	7,242	7,875
Deferred income taxes	6,692	5,180
Other non-current assets	1,437	1,438
Total assets	\$ 317,862	\$ 289,368
Liabilities and Stockholders' Equity		
Current liabilities		
Accounts payable	\$ 54,273	\$ 42,718
Accrued expenses	20,279	25,403
Current maturities of long term debt	2,522	2,648
Current maturities of capital lease obligations	526	794
Total current liabilities	77,600	71,563
Long term debt, net of current maturities	1,772	1,893
Capital lease obligations, net of current maturities	686	922
Other long term liabilities	2,533	602
Total liabilities	82,591	74,980
Commitments and contingencies (see Note 5)		
Stockholders' equity		
Class A Common Stock, \$.0003 1/3 par value; 100,000,000 shares authorized as of June 30, 2007 and December 31, 2006; 35,158,880 shares issued and outstanding as of June 30, 2007, 34,555,907 shares issued and outstanding as of December 31, 2006	12	12
Class B Convertible Common Stock, \$.0003 1/3 par value; 16,200,000 shares authorized as of June 30, 2007 and December 31, 2006; 13,250,000 shares issued and outstanding as of June 30, 2007 and December 31, 2006	4	4
Additional paid-in capital	154,615	148,562

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Retained earnings	80,877	66,376
Unearned compensation	(285)	(463)
Accumulated other comprehensive income (loss)	48	(103)
Total stockholders' equity	235,271	214,388
Total liabilities and stockholders' equity	\$ 317,862	\$ 289,368

See accompanying notes.

Table of Contents**Under Armour, Inc. and Subsidiaries****Consolidated Statements of Income**

(in thousands, except per share amounts)

	Three Months Ended June 30,		Six Months Ended June 30,	
	2007 <i>(unaudited)</i>	2006 <i>(unaudited)</i>	2007 <i>(unaudited)</i>	2006 <i>(unaudited)</i>
Net revenues	\$ 120,531	\$ 79,965	\$ 244,860	\$ 167,661
Cost of goods sold	61,432	41,758	125,180	85,142
Gross profit	59,099	38,207	119,680	82,519
Operating expenses				
Selling, general and administrative expenses	50,934	35,197	95,478	65,329
Income from operations	8,165	3,010	24,202	17,190
Other income, net	1,500	742	2,194	1,240
Income before income taxes	9,665	3,752	26,396	18,430
Provision for income taxes	3,953	1,328	10,743	7,272
Net income	\$ 5,712	\$ 2,424	\$ 15,653	\$ 11,158
Net income available per common share				
Basic	\$ 0.12	\$ 0.05	\$ 0.33	\$ 0.24
Diluted	\$ 0.11	\$ 0.05	\$ 0.31	\$ 0.23
Weighted average common shares outstanding				
Basic	47,975	46,894	47,797	46,690
Diluted	49,885	49,436	49,851	49,468

See accompanying notes.

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

(in thousands)

	Six Months Ended June 30,	
	2007 <i>(unaudited)</i>	2006 <i>(unaudited)</i>
Cash flows from operating activities		
Net income	\$ 15,653	\$ 11,158
Adjustments to reconcile net income to net cash used in operating activities		
Depreciation and amortization	6,116	4,083
Unrealized foreign exchange rate gain	(992)	(307)
Stock-based compensation	1,737	684
Deferred income taxes	(4,330)	(2,692)
Changes in reserves for doubtful accounts, returns, discounts and inventories	(217)	868
Changes in operating assets and liabilities:		
Accounts receivable	(11,168)	(7,984)
Inventories	(46,278)	(26,618)
Prepaid expenses and other assets	(992)	(1,387)
Accounts payable	11,353	7,131
Accrued expenses and other liabilities	(4,872)	(1,025)
Income taxes payable and receivable	1,497	(2,306)
Net cash used in operating activities	(32,493)	(18,395)
Cash flows from investing activities		
Purchases of property and equipment	(16,224)	(8,398)
Purchases of intangible assets	(125)	-
Purchases of short-term investments	(62,860)	(42,650)
Proceeds from sales of short-term investments	62,860	42,650
Net cash used in investing activities	(16,349)	(8,398)
Cash flows from financing activities		
Proceeds from long-term debt	1,117	2,119
Payments on long-term debt	(1,363)	(1,139)
Payments on capital lease obligations	(504)	(1,119)
Excess tax benefits from stock-based compensation arrangements	2,802	4,267
Proceeds from exercise of stock options and other stock issuances	1,706	1,444
Payments received on notes from stockholders	-	114
Net cash provided by financing activities	3,758	5,686
Effect of exchange rate changes on cash and cash equivalents	105	48
Net decrease in cash and cash equivalents	(44,979)	(21,059)
Cash and cash equivalents		
Beginning of period	70,655	62,977
End of period	\$ 25,676	\$ 41,918

Non-cash financing and investing activities

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Fair market value of shares withheld in consideration of employee tax obligations relative to stock-based compensation	\$	-	\$	734
Reversal of unearned compensation and additional paid in capital due to the adoption of SFAS 123R		-		715
Increase to long term liabilities due to the adoption of FIN 48		1,597		-

See accompanying notes.

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

(amounts in thousands, except share and per share amounts)

1. Description of the Business

Under Armour, Inc. is a developer, marketer and distributor of branded performance apparel, footwear and accessories. Sales are targeted to athletes and teams at the collegiate and professional level as well as consumers with active lifestyles throughout the world.

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). All inter-company balances and transactions have been eliminated. The accompanying consolidated financial statements were prepared in accordance with accounting principles generally accepted in the United States of America.

Interim Financial Data

The results for the three and six months ended June 30, 2007 are not necessarily indicative of the results to be expected for the year ending December 31, 2007 or any other portions thereof. Certain information in footnote disclosures normally included in annual financial statements has been condensed or omitted for the interim periods presented, in accordance with the rules and regulation of the Securities and Exchange Commission (the SEC) for interim consolidated financial statements.

These financial statements do not contain all of the information and footnotes required by generally accepted accounting principles for complete financial statements. However, in the opinion of management, all adjustments, consisting of normal, recurring adjustments considered necessary for a fair presentation of the financial position and results of operations have been included.

The consolidated balance sheet as of December 31, 2006 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, 2006 (the 2006 Form 10-K), which should be read in conjunction with these consolidated financial statements.

Concentration of Credit Risk

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

	Customer A	Customer B	Customer C
Net revenues			
Six months ended June 30, 2007	19.6%	14.8%	4.9%
Six months ended June 30, 2006	21.6%	16.3%	4.0%
Accounts receivable			
As of June 30, 2007	24.3%	17.7%	6.1%
As of June 30, 2006	26.2%	17.9%	5.6%

Table of Contents**Short-Term Investments**

The Company purchases and sells short-term investments consisting of auction rate municipal bonds. All of these short-term investments are classified as available-for-sale securities. These auction rate securities are recorded at cost, which approximates fair market value due to their variable interest rates, which typically reset at the regular auctions every 7 to 35 days. Despite the long-term nature of their stated contractual maturities, the Company has the ability to liquidate these securities primarily through the auction process. As a result, the Company had no unrealized gains or losses from its investments in these securities. All income generated from these short-term investments is tax exempt and recorded as interest income. These securities were sold prior to June 30, 2007 with all proceeds being invested in highly liquid investments with an original maturity of three months or less. Other income, net on the consolidated statements of income included interest income of \$495 and \$568 for the three months ended June 30, 2007 and 2006, respectively, and \$1,248 and \$1,272 for the six months ended June 30, 2007 and 2006, respectively, primarily related to short-term investments and cash and cash equivalents.

Accounts Receivable

Accounts receivable are recorded at the invoice price net of an allowance for doubtful accounts and reserves for returns and certain sales allowances, and do not bear interest. The majority of discounts earned by customers in the period are recorded as liabilities within accrued expenses as they stipulate settlements to be made through Company cash disbursements. The allowance for doubtful accounts is the Company's best estimate of the amount of probable credit losses in accounts receivable. The Company reviews the allowance for doubtful accounts monthly. Receivable balances are written off against the allowance when management believes it is probable the receivable will not be recovered. The Company does not have any off-balance-sheet credit exposure related to its customers.

Inventories

Inventories consist of finished goods, raw materials and work-in-process, and are valued at standard cost which approximates the Company's landed cost, using the first-in, first-out (FIFO) method of cost determination. Costs of finished goods inventories include all costs incurred to bring inventory to its current condition, including freight-in, duties and other costs. The Company does not include certain costs incurred to operate its distribution center in cost of goods sold. Historically, such costs would not have had a material impact on inventories, cost of goods sold, or gross profit.

The Company periodically reviews its inventories and makes provisions as necessary for estimated obsolescence or damaged goods to ensure values approximate lower of cost or market. The amount of such markdowns is equal to the difference between the cost of inventory and the estimated market value based upon assumptions about future demands, selling prices, and market conditions.

Inventories consist of the following:

	June 30, 2007	December 31, 2006
Finished goods	\$ 130,700	\$ 83,618
Raw materials	1,273	1,321
Work-in-process	197	133
Subtotal inventories	132,170	85,072
Inventories reserve	(3,410)	(4,041)
Total inventories	\$ 128,760	\$ 81,031

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Intangible Assets

Intangible assets that are determined to have a definite life are amortized over the asset's estimated useful life. The Company continually evaluates whether events or circumstances have occurred that indicate the remaining estimated useful life of intangible assets may warrant revision or that the remaining balance may not be recoverable. When factors indicate that an intangible asset should be evaluated for possible impairment, the Company reviews the intangible asset to assess recoverability from future operations using undiscounted cash flows. Impairments are recognized in earnings to the extent that the carrying value exceeds fair value. No impairments relating to intangible assets were recognized for the six months ended June 30, 2007 and 2006.

Income Taxes

The Company recorded \$3,953 and \$1,328 of income tax expense for the three months ended June 30, 2007 and 2006, respectively, and \$10,743 and \$7,272 of income tax expense for the six months ended June 30, 2007 and 2006, respectively. The effective rate for income taxes was 40.7% and 39.5% for the six months ended June 30, 2007 and 2006, respectively. The Company's annual 2007 effective tax rate is expected to be higher than the 2006 annual effective tax rate of 34.0% primarily due to the impact of 2006 state tax credits.

Currency Translation

The functional currency for the Company's wholly owned foreign subsidiaries is the applicable local currency. The translation of the foreign currency into U.S. dollars is performed for assets and liabilities using current exchange rates in effect at the balance sheet date and for revenue and expense accounts using an average exchange rate during the period. Capital accounts are translated at historical exchange rates. Unrealized translation gains and losses are included in stockholders' equity as a component of accumulated other comprehensive income or loss. Adjustments that arise from exchange rate changes on transactions denominated in a currency other than the local currency are included in other income, net on the consolidated statements of income. The Company recorded foreign currency transaction gains of \$1,166 and \$359 for the three months ended June 30, 2007 and 2006, respectively, and \$1,271 and \$359 for the six months ended June 30, 2007 and 2006, respectively.

Revenue Recognition

The Company recognizes revenue pursuant to applicable accounting standards, including the SEC Staff Accounting Bulletin No. 104, *Revenue Recognition*, which summarizes certain of the SEC staff's views in applying generally accepted accounting principles to revenue recognition in financial statements and provides guidance on revenue recognition issues in the absence of authoritative literature addressing a specific arrangement or a specific industry.

Net revenues consist of both net sales and license revenues. Net sales are recognized upon transfer of ownership, including passage of title to the customer and transfer of risk of loss related to those goods. Transfer of title and risk of loss is based upon shipment under free on board (FOB) shipping-point for most goods. In some instances, transfer of title and risk of loss takes place at the point of sale (e.g. at the Company's retail outlet stores). Net sales are recorded net of reserves for returns and certain sales allowances. Provisions for customer specific discounts based on contractual obligations with certain major customers are recorded as reductions to net sales. Returns are estimated at the time of sale based primarily on historical experience and recent trends. License revenues are recognized based upon shipment of licensed products sold by our licensees. Sales taxes imposed on our revenues from product sales are presented on a net basis on the consolidated statements of income and therefore do not impact net revenues or cost of goods sold.

Earnings per Share

Basic earnings per common share is computed by dividing net income available to common stockholders for the period by the weighted average number of common shares outstanding during the period. Diluted earnings

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per common share is computed by dividing net income available to common stockholders for the period by the diluted weighted average common shares outstanding during the period. Diluted earnings per share reflects the potential dilution from common shares issuable through stock options, restricted stock, warrants and other equity awards. The following represents a reconciliation from basic earnings per share to diluted earnings per share:

	Three Months Ended June 30,		Six Months Ended June 30,	
	2007	2006	2007	2006
Numerator				
Net income, as reported	\$ 5,712	\$ 2,424	\$ 15,653	\$ 11,158
Denominator (share amounts in thousands)				
Weighted average common shares outstanding	47,975	46,894	47,797	46,690
Effect of dilutive securities	1,910	2,542	2,054	2,778
Weighted average common shares and dilutive securities outstanding	49,885	49,436	49,851	49,468
Earnings per share - basic	\$ 0.12	\$ 0.05	\$ 0.33	\$ 0.24
Earnings per share - diluted	\$ 0.11	\$ 0.05	\$ 0.31	\$ 0.23

Effects of potentially dilutive securities are presented only in periods in which they are dilutive. Options to purchase 174,225 and 181,025 shares of common stock were outstanding for the three months ended June 30, 2007 and 2006, respectively, and options to purchase 151,975 and 130,925 shares of common stock were outstanding for the six months ended June 30, 2007 and 2006, respectively, but were excluded from the computation of diluted earnings per share because their effect would be anti-dilutive.

Stock-Based Compensation

Prior to January 1, 2006, the Company accounted for grants of stock-based compensation awards to employees and directors using the intrinsic value method prescribed in Accounting Principles Board (APB) Opinion No. 25, *Accounting for Stock Issued to Employees* (ABP 25), and related interpretations. Under the intrinsic value method, unearned compensation was recorded equal to the fair market value of the stock underlying the award on the date of grant less any exercise price. Compensation expense was amortized over the vesting period in accordance with Financial Interpretation Number (FIN) 28, *Accounting for Stock Appreciation Rights and Other Variable Stock Option or Award Plans* (FIN 28).

Effective January 1, 2006, the Company adopted the provisions of the Financial Accounting Standards Board (FASB) Statement of Financial Accounting Standards (SFAS) No. 123R, *Share-Based Payment (revised 2004)* (SFAS 123R). SFAS 123R supersedes APB 25 and requires that all stock-based compensation awards granted to employees and directors be measured at the fair value of the award and recognized as an expense in the financial statements.

Compensation expense includes the expense of stock-based compensation awards granted subsequent to January 1, 2006 and the expense for the remaining vesting term of stock-based compensation awards granted subsequent to the Company's initial filing of the S-1 Registration Statement with the SEC on August 26, 2005. Stock-based compensation awards granted to employees and directors prior to the Company's initial filing of the S-1 Registration Statement are specifically excluded from SFAS 123R and will continue to be accounted for in accordance with APB 25 and FIN 28 until unearned compensation of \$285 as of June 30, 2007 is fully amortized through 2010.

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

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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.

Recently Issued Accounting Standards

In February 2007, the FASB issued SFAS No. 159, *The Fair Value Option for Financial Assets and Financial Liabilities – Including an amendment of FASB Statement No. 115*, (SFAS 159). SFAS 159 permits entities to choose to measure many financial instruments and certain other assets and liabilities at fair value on an instrument-by-instrument basis. SFAS 159 is effective for fiscal years beginning after November 15, 2007. The Company is currently evaluating the impact of adopting SFAS 159 on its consolidated financial statements.

In September 2006, the FASB issued SFAS No. 157, *Fair Value Measurements*, (SFAS 157) which defines fair value, establishes a framework for measuring fair value in accordance with generally accepted accounting principles, and expands disclosures about fair value measurements. SFAS 157 is effective for fiscal years beginning after November 15, 2007. The Company is currently evaluating the impact of adopting SFAS 157 on its consolidated financial statements.

In June 2006, the FASB issued FIN No. 48, *Accounting for Uncertainty in Income Taxes – an interpretation of FASB Statement No. 109* (FIN 48), which provides additional guidance and clarifies the accounting for uncertainty in income tax positions. FIN 48 defines the threshold for recognizing tax return positions in the financial statements as more likely than not that the position is sustainable, based on its technical merits. FIN 48 also provides guidance on the measurement, classification and disclosure of tax return positions in the financial statements. FIN 48 was effective for the first reporting period beginning after December 15, 2006, with the cumulative effect of the change in accounting principle recorded as an adjustment to the beginning balance of retained earnings in the period of adoption. Upon adoption of FIN 48 as of January 1, 2007, the Company recorded a \$1,152 decrease to the beginning balance of retained earnings (see Note 6).

Reclassifications

Certain balances in 2006 have been reclassified to conform to the current period presentation. These changes had no impact on previously reported results of operations or stockholders' equity.

3. Intangible Assets, Net

In August 2006, the Company and NFL Properties LLC (NFL Properties) entered into a Promotional Rights Agreement (the NFL Agreement) in which the Company became an authorized supplier of footwear to the National Football League. As partial consideration for the NFL Agreement, which expires in March 2012, the Company issued to NFL Properties fully vested and non-forfeitable warrants to purchase 480,000 shares of the Company's Class A Common Stock. The resulting \$8,500 intangible asset was determined based on the fair value of the warrants as established by an independent third party valuation.

The following table summarizes the Company's intangible asset balances as of the periods indicated:

	June 30, 2007			December 31, 2006		
	Gross Carrying Amount	Accumulated Amortization	Net Carrying Amount	Gross Carrying Amount	Accumulated Amortization	Net Carrying Amount
Intangible assets subject to amortization:						
Footwear promotional rights	\$ 8,500	\$ (1,375)	\$ 7,125	\$ 8,500	\$ (625)	\$ 7,875
Other	125	(8)	117	-	-	-
Total	\$ 8,625	\$ (1,383)	\$ 7,242	\$ 8,500	\$ (625)	\$ 7,875

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Intangible assets are amortized using estimated useful lives of 33 months to 68 months with no residual value. Amortization expense, which is included in selling, general and administrative expenses, was \$383 and \$758 for the three and six months ended June 30, 2007, respectively. The estimated amortization expense of the Company's intangible assets is \$1,530, \$1,545, \$1,545, \$1,505 and \$1,500 for the years ended December 31, 2007 through 2011, respectively.

4. Revolving Credit Facility and Long Term Debt

In December 2006, the Company entered into an amended and restated financing agreement with a lending institution. This financing agreement has a term of five years and provides for a revolving credit line of up to \$100,000 based on the Company's domestic inventory and accounts receivable balances and may be used for working capital and general corporate purposes. This financing agreement is collateralized by substantially all of the Company's domestic assets, other than its trademarks. Up to \$10,000 of the facility may be used to support letters of credit. The Company incurred \$260 in deferred financing costs in connection with the financing agreement. In accordance with EITF Issue No. 98-14, *Debtor's Accounting for Changes in Line-of-Credit or Revolving-Debt Arrangements*, unamortized deferred financing costs of \$618 relating to the Company's old revolving credit facility were added to the deferred financing costs of the new revolving credit facility and are being amortized over the remaining life of the new facility.

If net availability under the financing agreement falls below a certain threshold as defined in the agreement, the Company would be required to maintain a certain leverage ratio and fixed charge coverage ratio as defined in the agreement. This financing agreement also provides the lenders with the ability to reduce the available revolving credit line amount under certain conditions even if the Company is in compliance with all conditions of the agreement. The Company's net availability as of June 30, 2007 was above the threshold for compliance with the financial covenants and the Company was in compliance with all applicable covenants as of June 30, 2007.

Prior to amending and restating the revolving credit facility in December 2006, the Company was a party to a \$75,000 revolving credit facility that was to terminate in 2010. Under this financing agreement, the Company was required to maintain prescribed levels of tangible net worth as defined in the agreement and was collateralized by substantially all of the assets of the Company.

As of June 30, 2007 the Company's availability under the revolving credit facility was \$100,000 based on the Company's domestic inventory and accounts receivable balances. During the six months ended June 30, 2007 and 2006, no balance was outstanding under the Company's revolving credit facility.

In March 2005, the Company entered into a loan and security agreement to finance the acquisition of up to \$17,000 of qualifying capital investments. This agreement is collateralized by a first lien on these assets and is otherwise subordinate to the revolving credit facility. Through June 30, 2007, the Company has financed \$9,032 of furniture and fixtures under this agreement. The weighted average interest rate on outstanding borrowings was 6.6% for the six months ended June 30, 2007. At June 30, 2007, the outstanding principal balance was \$4,294.

5. Commitments and Contingencies

The Company is, from time to time, involved in routine legal matters incidental to its business. Management believes that the ultimate resolution of any such current proceedings will not have a material adverse effect on the Company's consolidated financial position, results of operations or cash flows.

Certain key executives are party to agreements with the Company that include severance benefits upon involuntary termination, including following a change in control of the Company.

In addition, within the normal course of business, the Company enters into contractual commitments, such as professional and collegiate sponsorship agreements and official supplier agreements, in order to promote the

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Company's brand and products. These agreements include scheduled sponsorship fee payments or rights fee payments, along with other purchase or product supply obligations over the terms of the agreements.

6. Provision for Income Taxes

The Company adopted the provisions of FIN 48 on January 1, 2007. As a result of the implementation of FIN 48, the Company recorded an additional \$1,597 liability for unrecognized tax benefits, of which \$1,152 was accounted for as a reduction to the January 1, 2007 balance of retained earnings with the remainder recorded within deferred tax assets. After recognizing these impacts upon adoption of FIN 48, the total unrecognized tax benefits were approximately \$2,054. Of this amount, approximately \$1,609 would impact our effective tax rate if recognized. The Company does not expect that the total amounts of unrecognized tax benefits will significantly increase or decrease within the next twelve months.

The Company recognizes accrued interest and penalties related to unrecognized tax benefits in the provision for income taxes on the consolidated statements of income. The unrecognized tax benefits liability recorded on January 1, 2007 included \$512 for the accrual of interest and penalties.

The Company files income tax returns in the U.S. federal jurisdiction and various state and foreign jurisdictions. The majority of the Company's returns are no longer subject to U.S. federal, state and local or foreign income tax examinations by tax authorities for years before 2003.

7. Stock-Based Compensation

In May 2007, 122,650 shares of restricted stock and 57,000 stock options were granted to certain officers and key employees under the Company's 2005 Omnibus Long-Term Incentive Plan (the "2005 Stock Plan"). The exercise price of the stock options and the fair value of each share of restricted stock was \$45.12, which was the closing price of the Company's Class A Common Stock on the date of grant. The stock options and restricted stock vest ratably over a five year period with the stock options having a term of ten years from the date of grant.

In May 2007, 9,972 stock options and 3,324 restricted stock units were granted to non-employee directors under the 2005 Stock Plan. The exercise price of the stock options and the fair value of each restricted stock unit was \$45.12, which was the closing price of the Company's Class A Common Stock on the date of grant. The stock options and restricted stock units vest fully on the date of the 2008 annual stockholders meeting with the stock options having a term of ten years from the date of grant. Upon vesting, the restricted stock units will automatically convert to deferred stock units on a one-for-one basis.

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Operating segments are defined as components of an enterprise about which separate financial information is available that is evaluated regularly by the chief operating decision maker in deciding how to allocate resources and in assessing performance. The Company operates exclusively in the consumer products industry in which the Company develops, markets, and distributes apparel, footwear and accessories. Based on the nature of the financial information that is received by the chief operating decision maker, the Company operates within two operating segments, North America and International, but has only one reportable segment. The International operating segment does not meet the criteria of a reportable segment in accordance with SFAS No. 131, *Disclosures about Segments of an Enterprise and Related Information*. Although the Company operates within one reportable segment, it has several different product categories for which the net revenues attributable to each product category are as follows:

	Three Months Ended June 30,		Six Months Ended June 30,	
	2007	2006	2007	2006
Men's	\$ 61,014	\$ 40,728	\$ 129,479	\$ 94,387
Women's	18,504	12,088	43,194	33,073
Youth	7,727	4,076	18,218	11,115
Apparel	87,245	56,892	190,891	138,575
Footwear	20,089	15,584	31,928	15,584
Accessories	7,098	4,040	12,372	7,687
Total net sales	114,432	76,516	235,191	161,846
License revenues	6,099	3,449	9,669	5,815
Total net revenues	\$ 120,531	\$ 79,965	\$ 244,860	\$ 167,661

The table below summarizes product net revenues by geographic regions based on customer location:

	Three Months Ended June 30,		Six Months Ended June 30,	
	2007	2006	2007	2006
United States	\$ 114,008	\$ 76,588	\$ 228,433	\$ 159,092
Canada	4,641	2,481	9,418	6,153
Subtotal	118,649	79,069	237,851	165,245
Other foreign countries	1,882	896	7,009	2,416
Total net revenues	\$ 120,531	\$ 79,965	\$ 244,860	\$ 167,661

During the six months ended June 30, 2007 and 2006, substantially all of the Company's long-lived assets were located in the United States.

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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 any documents incorporated herein by reference 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, intends, estimates, predicts, potential or the negative of these terms or other comparable terminology.

The forward-looking statements contained in this Form 10-Q and any documents incorporated herein by reference 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 the forward-looking statements, including, but not limited to, those factors described in our 2006 Form 10-K, under Risk Factors, Qualitative and Quantitative Disclosures About Market Risk and Management's Discussion and Analysis of Financial Condition and Results of Operations. These factors include without limitation:

our ability to manage our growth effectively;

our ability to maintain effective internal controls;

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

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;

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

our ability to accurately forecast consumer demand for our products;

reduced demand for sporting goods and apparel generally;

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

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

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

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

changes in general economic or market conditions, including as a result of political or military unrest or terrorist attacks.

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.

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Overview

We are a leading developer, marketer and distributor of branded performance apparel, footwear and accessories for men, women and youth. Since our founding in 1995, we have grown and reinforced our brand name and image through sales to athletes and teams at the collegiate and professional level, as well as sales to consumers with active lifestyles. We believe that Under Armour is a widely recognized athletic brand known for its performance and authenticity and is uniquely positioned as a performance alternative to traditional natural fiber products and non-performance apparel and footwear.

We reported net revenues of \$244.9 million for the first six months of 2007, which represented a 46.0% increase from the first six months of 2006. 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 relative to our competitors, as evidenced by the increases in sales of our men's, women's and youth apparel products, accessories and footwear.

We plan to continue to increase our net revenues by building upon our relationships with existing customers, expanding our product offerings in new and existing retail stores and offering new products. In June 2006, we launched our footwear products with the introduction of football cleats and slides. New product offerings in 2007 include baseball and softball cleats, which we began shipping in the fourth quarter of 2006. In addition, in 2007 we are expanding our product offerings to include additional men's and women's performance products as well as additional products for off-field outdoor sports, including hunting, fishing, running, mountain sports, skiing and golf. New product offerings in 2008 are expected to include non-cleated footwear, with the introduction of performance training footwear. As we have expanded into new product lines, sales of our existing product lines have continued to grow.

To date, a large majority of our products have been sold in North America; however we believe that our products appeal to athletes and consumers with active lifestyles around the globe. As early as 1999, the Under Armour brand has been sold in the Japanese market place through a third-party. By June 30, 2007, our products were offered primarily in the United States, Canada and Japan, as well as in the United Kingdom, France and Germany, in over 13,000 retail stores, up from approximately 500 retail stores in 2000. In addition, we have signed strategic distribution agreements to sell our products in 15 countries. We plan to increase net revenues internationally by adding product offerings through our Japanese licensee and by expanding our European distribution. In order to support this initiative, during the first quarter of 2006 we opened a European Headquarters in Amsterdam, Netherlands that houses our European sales, marketing and logistics functions.

During the first six months of 2007, we reported license revenues of \$9.7 million which represented a 66.3% increase from the first six months of 2006. We have entered into licensing agreements with established, high-quality manufacturers to produce and distribute Under Armour branded products to further reinforce our brand identity and increase our net revenues and gross profit. In exchange for the use of our trademarks, our licensees pay us license revenues based on their net sales of core products of socks, hats, bags, eyewear and other accessories. We seek to continue to grow our license revenues by working with our existing licensees to offer additional products and increase their distribution, and by selectively entering into new licensing agreements.

General

Net revenues comprise both net sales and license revenues. Net sales comprise our five primary product categories, which are men's, women's and youth apparel, accessories and footwear.

Cost of goods sold consists primarily of product costs, inbound freight and duty costs, handling costs to make products floor-ready to customer specifications, and write downs for inventory obsolescence. In addition, cost of goods sold includes overhead costs associated with our Special Make-Up Shop located at our distribution facility where we manufacture a limited number of products, and costs relating to our Hong Kong and

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Guangzhou, China offices which help support manufacturing, quality assurance and sourcing efforts. No cost of goods sold is associated with license revenues. We do not include our distribution facility costs in the calculation of the cost of goods sold, but rather include these costs as a component of our selling, general and administrative expenses. As a result, our gross profit may not be comparable to that of other companies that include distribution facility costs in the calculation of their cost of goods sold. We believe, however, that our distribution facility costs have not been of a sufficient magnitude to materially affect our gross margin for purposes of comparison.

Our selling, general and administrative expenses consist of marketing costs, selling costs, payroll and related costs (excluding those specifically related to marketing and selling) and other corporate costs. Our marketing costs are an important driver of our growth and we strive to manage our marketing costs to be within 10% to 12% of net revenues on an annual basis. Marketing costs include payroll costs specific to marketing, commercials, print ads, league, team and player sponsorships, amortization of footwear promotional rights and depreciation expense specific to our in-store fixture program. Selling costs consist primarily of payroll costs specific to selling, commissions paid to third parties and beginning in 2007, the selling costs relating to our Direct to Consumer business (website and catalog sales, and our retail outlet stores). Prior period amounts have been reclassified to conform to the current period presentation. Payroll costs consist of payroll and related costs, excluding those specifically related to marketing and selling, and stock-based compensation expense. Other corporate costs consist primarily of distribution and corporate facility costs, product creation costs and other company-wide administrative expenses. In recent years, our selling, general and administrative expenses have increased to support our growth and new sales initiatives.

Other income, net consists primarily of interest income, interest expense and gains and losses on adjustments that arise from exchange rate changes on transactions.

During 2006, we earned and recognized a new state income tax credit which reduced our 2006 annual effective tax rate to 34.0%. We expect our 2007 annual effective tax rate to approximate 41.3%.

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		Six Months Ended	
	June 30,		June 30,	
	2007	2006	2007	2006
Net revenues	\$ 120,531	\$ 79,965	\$ 244,860	\$ 167,661
Cost of goods sold	61,432	41,758	125,180	85,142
Gross profit	59,099	38,207	119,680	82,519
Selling, general and administrative expenses	50,934	35,197	95,478	65,329
Income from operations	8,165	3,010	24,202	17,190
Other income, net	1,500	742	2,194	1,240
Income before income taxes	9,665	3,752	26,396	18,430
Provision for income taxes	3,953	1,328	10,743	7,272
Net income	\$ 5,712	\$ 2,424	\$ 15,653	\$ 11,158

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<i>(As a percentage of net revenues)</i>	Three Months Ended June 30,		Six Months Ended June 30,	
	2007	2006	2007	2006
Net revenues	100.0%	100.0%	100.0%	100.0%
Cost of goods sold	51.0%	52.2%	51.1%	50.8%
Gross profit	49.0%	47.8%	48.9%	49.2%
Selling, general and administrative expenses	42.2%	44.0%	39.0%	38.9%
Income from operations	6.8%	3.8%	9.9%	10.3%
Other income, net	1.2%	0.9%	0.9%	0.7%
Income before income taxes	8.0%	4.7%	10.8%	11.0%
Provision for income taxes	3.3%	1.7%	4.4%	4.3%
Net income	4.7%	3.0%	6.4%	6.7%

Three Months Ended June 30, 2007 Compared to Three Months Ended June 30, 2006

Net revenues increased \$40.5 million, or 50.7%, to \$120.5 million for the three months ended June 30, 2007 from \$80.0 million for the same period in 2006. This increase was the result of increases in both our net sales and license revenues as noted in the product category table below.

<i>(In thousands)</i>	Three Months Ended June 30,			
	2007	2006	\$ Change	% Change
Men s	\$ 61,014	\$ 40,728	\$ 20,286	49.8%
Women s	18,504	12,088	6,416	53.1%
Youth	7,727	4,076	3,651	89.6%
Apparel	87,245	56,892	30,353	53.4%
Footwear	20,089	15,584	4,505	28.9%
Accessories	7,098	4,040	3,058	75.7%