Under Armour, Inc.
Form 10-Q
May 07, 2008

UNITED STATES

SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 20549

Form 10-Q

(Mark One)

þ **QUARTERLY REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934**
For the quarterly period ended March 31, 2008

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.

(Exact name of registrant as specified in its charter)

Maryland	**52-1990078**
(State or other jurisdiction of	**(I.R.S. Employer**
incorporation or organization)	**Identification No.)**
1020 Hull Street	
Baltimore, Maryland 21230	**(410) 454-6428**
(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 þ 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 þ	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 þ

Class A Common Stock, $.0003 $^{1}/3$ par value, 36,452,676 shares outstanding as of April 30, 2008 and Class B Convertible Common Stock, $.0003 $^{1}/3$ par value, 12,500,000 shares outstanding as of April 30, 2008.

UNDER ARMOUR, INC.

MARCH 31, 2008

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PART I. FINANCIAL INFORMATION

ITEM 1. FINANCIAL STATEMENTS

Under Armour, Inc. and Subsidiaries

Consolidated Balance Sheets

(In thousands, except share data)

	March 31, 2008 *(unaudited)*	December 31, 2007
Assets		
Current assets		
Cash and cash equivalents	$ 17,591	$ 40,588
Accounts receivable, net of allowance for doubtful accounts of $1,622 and $1,112 as of March 31, 2008 and December 31, 2007, respectively	101,991	93,515
Inventories	167,949	166,082
Income taxes receivable	-	614
Prepaid expenses and other current assets	11,314	11,028
Deferred income taxes	12,462	10,418
Total current assets	311,307	322,245
Property and equipment, net	57,403	52,332
Intangible assets, net	6,083	6,470
Deferred income taxes	9,547	8,173
Other non-current assets	4,189	1,393
Total assets	$ 388,529	$ 390,613
Liabilities and Stockholders' Equity		
Current liabilities		
Accounts payable	$ 48,236	$ 55,012
Accrued expenses	24,192	36,111
Income taxes payable	1,948	-
Current maturities of long term debt	5,553	4,111
Current maturities of capital lease obligations	455	465
Deferred income taxes	1,038	-
Total current liabilities	81,422	95,699
Long term debt, net of current maturities	12,458	9,298
Capital lease obligations, net of current maturities	349	458
Other long term liabilities	8,495	4,673
Total liabilities	102,724	110,128
Commitments and contingencies (see Note 6)		
Stockholders' equity		
Class A Common Stock, $.0003 1/3 par value; 100,000,000 shares authorized as of March 31, 2008 and December 31, 2007; 36,448,360 issued and outstanding as of March 31, 2008, 36,189,564 shares issued and outstanding as of December 31, 2007	12	12
Class B Convertible Common Stock, $.0003 1/3 par value; 12,500,000 shares authorized, issued and outstanding as of March 31, 2008 and December 31, 2007	4	4

Additional paid-in capital	164,615	162,362
Retained earnings	120,652	117,782
Unearned compensation	(140)	(182)
Accumulated other comprehensive income	662	507
Total stockholders' equity	285,805	280,485
Total liabilities and stockholders' equity	$ 388,529	$ 390,613

See accompanying notes.

Under Armour, Inc. and Subsidiaries

Consolidated Statements of Income

(In thousands, except per share amounts)

	Three Months Ended March 31, 2008 *(unaudited)*	Three Months Ended March 31, 2007 *(unaudited)*
Net revenues	$ 157,342	$ 124,329
Cost of goods sold	82,507	63,748
Gross profit	74,835	60,581
Operating expenses		
Selling, general and administrative expenses	70,536	44,544
Income from operations	4,299	16,037
Other income, net	510	694
Income before income taxes	4,809	16,731
Provision for income taxes	1,939	6,790
Net income	$ 2,870	$ 9,941
Net income available per common share		
Basic	$ 0.06	$ 0.21
Diluted	$ 0.06	$ 0.20
Weighted average common shares outstanding		
Basic	48,412	47,619
Diluted	49,949	49,818

See accompanying notes.

Under Armour, Inc. and Subsidiaries

Consolidated Statements of Cash Flows

(In thousands)

	Three Months Ended March 31, 2008 (unaudited)	Three Months Ended March 31, 2007 (unaudited)
Cash flows from operating activities		
Net income	$ 2,870	$ 9,941
Adjustments to reconcile net income to net cash used in operating activities		
Depreciation and amortization	4,490	2,972
Unrealized foreign currency exchange rate gains	(123)	(105)
Stock-based compensation	1,528	742
Deferred income taxes	(2,137)	(1,474)
Changes in reserves for doubtful accounts, returns, discounts and inventories	1,338	578
Changes in operating assets and liabilities:		
Accounts receivable	(9,108)	(13,101)
Inventories	(2,480)	981
Prepaid expenses and other assets	(672)	996
Accounts payable	(6,805)	(6,770)
Accrued expenses and other liabilities	(8,263)	(9,283)
Income taxes payable and receivable	2,530	6,276
Net cash used in operating activities	(16,832)	(8,247)
Cash flows from investing activities		
Purchase of property and equipment	(8,720)	(8,042)
Purchase of trust owned life insurance policies	(2,699)	-
Purchases of short-term investments	-	(22,425)
Proceeds from sales of short-term investments	-	22,425
Net cash used in investing activities	(11,419)	(8,042)
Cash flows from financing activities		
Proceeds from long-term debt	5,894	1,117
Payments on long-term debt	(1,292)	(653)
Payments on capital lease obligations	(118)	(291)
Excess tax benefits from stock-based compensation arrangements	264	1,792
Proceeds from exercise of stock options and other stock issuances	547	853
Net cash provided by financing activities	5,295	2,818
Effect of exchange rate changes on cash and cash equivalents	(41)	18
Net decrease in cash and cash equivalents	(22,997)	(13,453)
Cash and cash equivalents		
Beginning of period	40,588	70,655
End of period	$ 17,591	$ 57,202
Non-cash financing and investing activities		
Increase to long term liabilities due to the adoption of FIN 48	$ -	$ 1,597

See accompanying notes.

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 for men, women and youth. Sales are targeted to athletes and teams at all levels, from youth to professional, as well as to consumers with active lifestyles around the globe.

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 months ended March 31, 2008 are not necessarily indicative of the results to be expected for the year ending December 31, 2008 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 regulations 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, 2007 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, 2007 (the 2007 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			
Three months ended March 31, 2008	21.1%	11.9%	5.2%
Three months ended March 31, 2007	20.4%	14.6%	5.0%
Accounts receivable			
As of March 31, 2008	25.9%	16.1%	4.8%
As of March 31, 2007	23.3%	17.2%	5.3%

Income Taxes

The Company recorded $1.9 million and $6.8 million of income tax expense for the three months ended March 31, 2008 and 2007, respectively. The effective rate for income taxes was 40.3% and 40.6% for the three months ended March 31, 2008 and 2007, respectively. The Company s annual 2008 effective tax rate is expected to be 42.3% compared to the 2007 annual effective tax rate of 41.0%.

Shipping and Handling Costs

The Company charges certain customers shipping and handling fees. These fees are recorded in net revenues. The Company includes the majority of outbound shipping and handling costs as a component of selling, general and administrative expenses. Outbound shipping and handling costs include costs associated with shipping goods to customers and certain costs to operate the Company s distribution facilities. These costs included within selling, general and administrative expenses were $3.4 million and $2.4 million for the three months ended March 31, 2008 and 2007, respectively.

Other Employee Benefits

Effective June 1, 2007, the Company s Board of Directors approved the Under Armour, Inc. Deferred Compensation Plan (the Plan). The Plan allows a select group of management or highly compensated employees, as approved by the Compensation Committee, to make an annual base salary and/or bonus deferral for each year. Compensation deferrals began for participating employees on January 1, 2008. As of March 31, 2008, the Plan obligation was $2.8 million and was included in other long term liabilities on the consolidated balance sheet.

The Company established a rabbi trust (the Rabbi Trust) during the three months ended March 31, 2008, to fund obligations to participants in the Plan. As of March 31, 2008, the assets held in the Rabbi Trust were trust owned life insurance policies (TOLI) with a cash-surrender value of $2.8 million. These assets are consolidated in accordance with Emerging Issues Task Force 97-14, *Accounting for Deferred Compensation Agreements Where Amounts Earned Are Held in a Rabbi Trust and Invested*, and are included in other non-current assets on the consolidated balance sheet. Refer to Note 7 for a discussion of the fair value measurements of the assets held in the Rabbi Trust and the Plan obligations.

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.

Recently Issued Accounting Standards

In March 2008, the Financial Accounting Standards Board (FASB) issued Statement of Financial Accounting Standard (SFAS) No. 161, *Disclosures about Derivative Instruments and Hedging Activities* (SFAS 161). SFAS 161 is intended to improve financial reporting about derivative instruments and hedging activities by requiring enhanced disclosures to enable investors to better understand their effects on an entity's financial position, financial performance, and cash flows. The provisions of SFAS 161 are effective for the fiscal years and interim periods beginning after November 15, 2008. The Company is currently evaluating the impact of adopting SFAS 161 on its consolidated financial statement disclosures.

In December 2007, the FASB issued SFAS No. 141R, *Business Combinations (revised 2007)* (SFAS 141R). SFAS 141R replaces SFAS 141 and requires the acquirer of a business to recognize and measure the identifiable assets acquired, the liabilities assumed, and any non-controlling interest in the acquiree at fair value. SFAS 141R also requires transaction costs related to the business combination to be expensed as incurred. SFAS 141R is effective for business combinations for which the acquisition date is on or after fiscal years beginning after December 15, 2008. The Company is currently evaluating the impact of adopting SFAS 141R on its consolidated financial statements.

In December 2007, the FASB issued SFAS No. 160, *Noncontrolling Interests in Consolidated Financial Statements-an amendment of ARB No. 51* (SFAS 160). SFAS 160 establishes accounting and reporting standards for the noncontrolling interest in a subsidiary and for the deconsolidation of a subsidiary. SFAS 160 is effective for fiscal years beginning after December 15, 2008. The Company is currently evaluating the impact of adopting SFAS 160 on its consolidated financial statements.

In December 2007, the SEC issued Staff Accounting Bulletin (SAB) No. 110, *Share-Based Payment* (SAB 110). SAB 110 amends SAB No. 107 *Share-Based Payment*, and allows for the continued use, under certain circumstances, of the simplified method in developing an estimate of the expected term on stock options accounted for under SFAS No. 123R, *Share-Based Payment (revised 2004)*. SAB 110 is effective for stock options granted after December 31, 2007. The Company continued to use the simplified method in developing an estimate of the expected term on stock options granted in the first quarter of 2008. The Company does not have sufficient historical exercise data to provide a reasonable basis upon which to estimate expected term due to the limited period of time its shares of Class A Common Stock have been publicly traded.

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 adopted SFAS 159 in the first quarter of 2008 and did not choose to apply fair value accounting to any such assets or liabilities.

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, however the FASB has delayed the effective date of SFAS 157 to fiscal years beginning after November 15, 2008 for nonfinancial assets and nonfinancial liabilities, except those items recognized or disclosed at fair value on an annual or more frequent basis. The adoption of SFAS 157 for financial assets and liabilities in the first quarter of 2008 did not have a material impact on the Company s consolidated financial statements. The Company does not believe that the adoption of SFAS 157 for nonfinancial assets and nonfinancial liabilities will have a material impact on its consolidated financial statements.

3. Inventories

Inventories consisted of the following:

(In thousands)	March 31, 2008	December 31, 2007
Finished goods	$ 172,666	$ 169,560
Raw materials	892	1,180
Work-in-process	32	208
Subtotal inventories	173,590	170,948
Inventories reserve	(5,641)	(4,866)
Total inventories	$ 167,949	$ 166,082

4. Intangible Assets, Net

The following table summarizes the Company s intangible assets as of the periods indicated:

	March 31, 2008			December 31, 2007		
(In thousands)	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	$ (2,500)	$ 6,000	$ 8,500		