

Under Armour, Inc.
Form 10-Q
November 04, 2009

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 September 30, 2009

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)

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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
Non-accelerated filer

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

Class A Common Stock, \$.0003 1/3 par value, 37,667,954 shares outstanding as of October 31, 2009 and Class B Convertible Common Stock, \$.0003 1/3 par value, 12,500,000 shares outstanding as of October 31, 2009.

UNDER ARMOUR, INC.

September 30, 2009

INDEX TO FORM 10-Q

PART I. FINANCIAL INFORMATION

| | | |
|---------|---|----|
| Item 1. | <u>Financial Statements:</u> | |
| | <u>Consolidated Balance Sheets as of September 30, 2009 (unaudited) and December 31, 2008</u> | 1 |
| | <u>Unaudited Consolidated Statements of Income for the Three and Nine Months Ended September 30, 2009 and 2008</u> | 2 |
| | <u>Unaudited Consolidated Statements of Shareholders' Equity and Comprehensive Income for the Nine Months Ended September 30, 2009 and 2008</u> | 3 |
| | <u>Unaudited Consolidated Statements of Cash Flows for the Nine Months Ended September 30, 2009 and 2008</u> | 4 |
| | <u>Notes to the Unaudited Consolidated Financial Statements</u> | 5 |
| Item 2. | <u>Management's Discussion and Analysis of Financial Condition and Results of Operations</u> | 14 |
| Item 3. | <u>Quantitative and Qualitative Disclosures About Market Risk</u> | 25 |
| Item 4. | <u>Controls and Procedures</u> | 26 |

PART II. OTHER INFORMATION

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

| | |
|-------------------|----|
| <u>SIGNATURES</u> | 28 |
|-------------------|----|

PART I. FINANCIAL INFORMATION

ITEM 1. FINANCIAL STATEMENTS

Under Armour, Inc. and Subsidiaries

Consolidated Balance Sheets

(In thousands, except share data)

| | September 30, 2009 <i>(unaudited)</i> | December 31, 2008 |
|--|---|----------------------|
| Assets | | |
| Current assets | | |
| Cash and cash equivalents | \$ 93,376 | \$ 102,042 |
| Accounts receivable, net | 145,043 | 81,302 |
| Inventories | 152,753 | 182,232 |
| Prepaid expenses and other current assets | 16,041 | 18,023 |
| Deferred income taxes | 12,178 | 12,824 |
| Total current assets | 419,391 | 396,423 |
| Property and equipment, net | 73,557 | 73,548 |
| Intangible assets, net | 6,203 | 5,470 |
| Deferred income taxes | 12,078 | 8,687 |
| Other long term assets | 4,839 | 3,427 |
| Total assets | \$ 516,068 | \$ 487,555 |
| Liabilities and Stockholders Equity | | |
| Current liabilities | | |
| Revolving credit facility | \$ | \$ 25,000 |
| Accounts payable | 59,257 | 72,435 |
| Accrued expenses | 41,949 | 25,905 |
| Current maturities of long term debt | 8,135 | 7,072 |
| Current maturities of capital lease obligations | 157 | 361 |
| Other current liabilities | 5,852 | 2,337 |
| Total current liabilities | 115,350 | 133,110 |
| Long term debt, net of current maturities | 9,985 | 13,061 |
| Capital lease obligations, net of current maturities | | 97 |
| Other long term liabilities | 13,219 | 10,190 |
| Total liabilities | 138,554 | 156,458 |
| Commitments and contingencies (see Note 5) | | |
| Stockholders equity | | |
| Class A Common Stock, \$.0003 1/3 par value; 100,000,000 shares authorized as of September 30, 2009 and December 31, 2008; 37,645,473 shares issued and outstanding as of September 30, 2009, 36,808,750 shares issued and outstanding as of December 31, 2008 | 13 | 12 |
| Class B Convertible Common Stock, \$.0003 1/3 par value; 12,500,000 shares authorized, issued and outstanding as of September 30, 2009 and December 31, 2008 | 4 | 4 |
| Additional paid-in capital | 190,576 | 174,725 |
| Retained earnings | 186,986 | 156,011 |

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| | | |
|--|------------|------------|
| Unearned compensation | (20) | (60) |
| Accumulated other comprehensive income | (45) | 405 |
| Total stockholders' equity | 377,514 | 331,097 |
| Total liabilities and stockholders' equity | \$ 516,068 | \$ 487,555 |

See accompanying notes.

Under Armour, Inc. and Subsidiaries

Consolidated Statements of Income

(In thousands, except per share amounts)

| | Three Months Ended September 30, | | Nine Months Ended September 30, | |
|---|-------------------------------------|----------------------------|------------------------------------|----------------------------|
| | 2009 <i>(unaudited)</i> | 2008 <i>(unaudited)</i> | 2009 <i>(unaudited)</i> | 2008 <i>(unaudited)</i> |
| Net revenues | \$ 269,546 | \$ 231,946 | \$ 634,194 | \$ 545,965 |
| Cost of goods sold | 135,491 | 113,679 | 335,310 | 281,959 |
| Gross profit | 134,055 | 118,267 | 298,884 | 264,006 |
| Operating expenses | | | | |
| Selling, general and administrative expenses | 86,992 | 71,788 | 240,544 | 209,954 |
| Income from operations | 47,063 | 46,479 | 58,340 | 54,052 |
| Interest expense, net | (466) | (111) | (1,909) | (498) |
| Other income (expense), net | 96 | (1,625) | (253) | (1,514) |
| Income before income taxes | 46,693 | 44,743 | 56,178 | 52,040 |
| Provision for income taxes | 20,511 | 19,080 | 24,595 | 22,132 |
| Net income | \$ 26,182 | \$ 25,663 | \$ 31,583 | \$ 29,908 |
| Net income available per common share | | | | |
| Basic | \$ 0.52 | \$ 0.52 | \$ 0.64 | \$ 0.61 |
| Diluted | \$ 0.52 | \$ 0.51 | \$ 0.62 | \$ 0.59 |
| Weighted average common shares outstanding | | | | |
| Basic | 50,046 | 49,217 | 49,731 | 49,016 |
| Diluted | 50,749 | 50,435 | 50,585 | 50,321 |

See accompanying notes.

Under Armour, Inc. and Subsidiaries

Consolidated Statements of Stockholders Equity and Comprehensive Income

(In thousands; unaudited)

| | Class A | | Class B | | Additional | Retained | Unearned | Accumulated | Compre- | Total |
|--|---------|--------|---------|--------|------------|------------|--------------|-------------|-----------|--------------|
| | Common | Common | Common | Common | Paid-In | Earnings | Compensation | Other | hensive | Stockholders |
| | Shares | Amount | Shares | Amount | Capital | | | Income | Income | Equity |
| | | | | | | | | (Loss) | | |
| Balance as of December 31, 2008 | 36,809 | \$ 12 | 12,500 | \$ 4 | \$ 174,725 | \$ 156,011 | \$ (60) | \$ 405 | | \$ 331,097 |
| Exercise of stock options | 782 | 1 | | | 3,480 | | | | | 3,481 |
| Shares withheld in consideration of employee tax obligations relative to stock-based compensation arrangements | (26) | | | | | (608) | | | | (608) |
| Issuance of Class A Common Stock, net of forfeitures | 80 | | | | 1,231 | | | | | 1,231 |
| Stock-based compensation expense | | | | | 7,720 | | 40 | | | 7,760 |
| Net excess tax benefits from stock-based compensation arrangements | | | | | 3,420 | | | | | 3,420 |
| Comprehensive income: | | | | | | | | | | |
| Net income | | | | | | 31,583 | | | \$ 31,583 | |
| Foreign currency translation adjustment, net of tax of \$122 | | | | | | | | (450) | (450) | |
| Comprehensive income | | | | | | | | | \$ 31,133 | 31,133 |
| Balance as of September 30, 2009 | 37,645 | \$ 13 | 12,500 | \$ 4 | \$ 190,576 | \$ 186,986 | \$ (20) | \$ (45) | | \$ 377,514 |
| Balance as of December 31, 2007 | 36,190 | \$ 12 | 12,500 | \$ 4 | \$ 162,362 | \$ 117,782 | \$ (182) | \$ 507 | | \$ 280,485 |
| Exercise of stock options | 210 | | | | 648 | | | | | 648 |
| Issuance of Class A Common Stock, net of forfeitures | 385 | | | | 909 | | | | | 909 |
| Stock-based compensation expense | | | | | 5,778 | | 100 | | | 5,878 |
| Net excess tax benefits from stock-based compensation arrangements | | | | | 1,882 | | | | | 1,882 |
| Comprehensive income: | | | | | | | | | | |
| Net income | | | | | | 29,908 | | | \$ 29,908 | |
| Foreign currency translation adjustment, net of tax of \$5 | | | | | | | | 65 | 65 | |
| Comprehensive income | | | | | | | | | \$ 29,973 | 29,973 |
| Balance as of September 30, 2008 | 36,785 | \$ 12 | 12,500 | \$ 4 | \$ 171,579 | \$ 147,690 | \$ (82) | \$ 572 | | \$ 319,775 |

See accompanying notes.

Under Armour, Inc. and Subsidiaries

Consolidated Statements of Cash Flows

(In thousands)

| | Nine Months Ended September 30, | |
|--|------------------------------------|--------------------|
| | 2009 | 2008 |
| | <i>(unaudited)</i> | <i>(unaudited)</i> |
| Cash flows from operating activities | | |
| Net income | \$ 31,583 | \$ 29,908 |
| Adjustments to reconcile net income to net cash provided by (used in) operating activities | | |
| Depreciation and amortization | 20,795 | 15,483 |
| Unrealized foreign currency exchange rate (gains) losses | (6,135) | 1,517 |
| Stock-based compensation | 7,760 | 5,878 |
| Loss on disposal of property and equipment | 37 | 29 |
| Deferred income taxes | (2,441) | (1,166) |
| Changes in reserves for doubtful accounts, returns, discounts and inventories | (1,213) | 2,704 |
| Changes in operating assets and liabilities: | | |
| Accounts receivable | (57,728) | (60,777) |
| Inventories | 28,433 | 1,430 |
| Prepaid expenses and other assets | 371 | (8,705) |
| Accounts payable | (13,885) | 8,623 |
| Accrued expenses and other liabilities | 15,093 | 772 |
| Income taxes payable and receivable | 2,987 | 10,857 |
| Net cash provided by operating activities | 25,657 | 6,553 |
| Cash flows from investing activities | | |
| Purchase of property and equipment | (16,049) | (30,848) |
| Purchase of trust owned life insurance policies | (35) | (2,868) |
| Proceeds from sales of property and equipment | | 7 |
| Net cash used in investing activities | (16,084) | (33,709) |
| Cash flows from financing activities | | |
| Proceeds from revolving credit facility | | 30,000 |
| Payments on revolving credit facility | (25,000) | (15,000) |
| Proceeds from long term debt | 3,567 | 13,214 |
| Payments on long term debt | (5,580) | (4,626) |
| Payments on capital lease obligations | (301) | (355) |
| Excess tax benefits from stock-based compensation arrangements | 4,266 | 1,891 |
| Payments of deferred financing costs | (1,354) | |
| Proceeds from exercise of stock options and other stock issuances | 4,331 | 1,557 |
| Net cash provided by (used in) financing activities | (20,071) | 26,681 |
| Effect of exchange rate changes on cash and cash equivalents | 1,832 | 39 |
| Net decrease in cash and cash equivalents | (8,666) | (436) |
| Cash and cash equivalents | | |
| Beginning of period | 102,042 | 40,588 |
| End of period | \$ 93,376 | \$ 40,152 |

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Non-cash investing and financing activities

| | | | |
|--|----|-------|-------|
| Fair market value of shares withheld in consideration of employee tax obligations relative to stock-based compensation | \$ | 608 | \$ |
| Purchase of property and equipment through certain obligations | | 2,358 | 1,769 |
| Purchase of intangible asset through certain obligations | | 2,105 | |

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. 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). 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 nine months ended September 30, 2009 are not necessarily indicative of the results to be expected for the year ending December 31, 2009 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, 2008 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, 2008 (the 2008 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 | | | |
| Nine months ended September 30, 2009 | 20.5% | 10.3% | 4.9% |
| Nine months ended September 30, 2008 | 20.0% | 13.8% | 4.3% |
| Accounts receivable | | | |
| As of September 30, 2009 | 21.7% | 10.7% | 4.7% |
| As of September 30, 2008 | 26.5% | 14.1% | 4.1% |

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 allowance for doubtful accounts is the Company's best estimate of the amount of probable credit losses in accounts receivable. As of September 30, 2009 and December 31, 2008, the allowance for doubtful accounts was \$5.5 million and \$4.2 million, respectively. In determining the amount of the allowance for doubtful accounts, the Company considers its historical level of credit losses and significant economic developments that could impact the ability of its customers to pay outstanding balances and makes judgments

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about the creditworthiness of significant customers based on ongoing credit evaluations. Receivable balances are written off against the allowance when management believes it is probable the receivable will not be recovered.

Reserves for returns, allowances, certain markdowns and certain discounts are recorded as an offset to accounts receivable as settlements are made through offsets to outstanding customer invoices. 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. In addition, certain markdowns expected to be paid to customers through cash disbursements are recorded as liabilities within accrued expenses. The Company does not have any off-balance-sheet credit exposure related to its customers.

Income Taxes

The Company recorded \$20.5 million and \$19.1 million of income tax expense for the three months ended September 30, 2009 and 2008, respectively, and \$24.6 million and \$22.1 million of income tax expense for the nine months ended September 30, 2009 and 2008, respectively. The effective rates for income taxes were 43.8% and 42.5% for the nine months ended September 30, 2009 and 2008, respectively. The effective tax rate for the nine months ended September 30, 2009 was higher than the comparable period in 2008 primarily due to an increase in projected non-deductible expenses in the current year. The Company's annual 2009 effective tax rate is expected to be approximately 44.3%, which is lower than the 2008 annual effective tax rate of 45.3% due to certain sourcing and tax strategies implemented by the Company in 2009.

Accrued Expenses

At September 30, 2009, accrued expenses primarily included \$14.8 million, \$7.3 million and \$6.4 million, of accrued compensation and benefits, marketing expenses, and certain customer markdowns and discounts, respectively. At December 31, 2008, accrued expenses primarily included \$6.8 million, \$6.0 million and \$5.1 million of accrued marketing expense, compensation and benefits, and customer discounts, respectively.

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 \$5.5 million and \$5.0 million for the three months ended September 30, 2009 and 2008, respectively, and \$15.0 million and \$12.5 million for the nine months ended September 30, 2009 and 2008, respectively.

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 June 2009, the Financial Accounting Standards Board (FASB) issued an amendment to the accounting and disclosure requirements for the consolidation of variable interest entities (VIEs). This amendment requires an enterprise to perform a qualitative analysis when determining whether or not it must consolidate a VIE. The amendment also requires an enterprise to continuously reassess whether it must consolidate a VIE. Finally, an enterprise will be required to disclose significant judgments and assumptions used to determine whether or not to consolidate a VIE. This amendment is effective for financial statements issued for annual periods beginning after November 15, 2009, and for interim periods within the first annual period. The Company is currently evaluating the impact of this amendment on its consolidated financial statements.

Recently Adopted Accounting Standards

In June 2009, the FASB issued the FASB Accounting Standards Codification (Codification). The Codification has become the single source of authoritative generally accepted accounting principles (GAAP) recognized by the FASB to be applied by nongovernmental entities. Rules and interpretive releases of the SEC under authority of federal securities laws are also sources of authoritative U.S. GAAP for SEC registrants. The Codification was effective for financial statements issued for interim and annual periods ending after September 15, 2009. The Codification superseded all existing non-SEC accounting and reporting standards. All other non-grandfathered non-SEC accounting literature not included in the Codification is non-authoritative. The adoption of the Codification did not have any impact on the Company's consolidated financial statements.

In May 2009, the FASB issued accounting guidance that establishes accounting and reporting standards for events that occur after the balance sheet date but before financial statements are issued or are available to be issued. In addition, entities must disclose the date through which subsequent events have been evaluated and the basis for selecting that date, that is, whether that date represents the date the financial statements were issued or were available to be issued. This guidance was effective for fiscal years and interim periods ending after June 15, 2009. The adoption of this guidance did not have any impact on the Company's consolidated financial statements. The Company has performed an evaluation of subsequent events through November 4, 2009, which is the day the financial statements were issued.

In June 2008, the FASB issued accounting guidance requiring that unvested stock-based compensation awards that contain non-forfeitable rights to dividends or dividend equivalents (whether paid or unpaid) should be classified as participating securities and should be included in the computation of earnings per share pursuant to the two-class method. The provisions of this guidance were required for fiscal years beginning after December 15, 2008. The Company has adopted this guidance for current period computations of earnings per share, and has updated prior period computations of earnings per share. The adoption of this guidance in the first quarter of 2009 did not have a material impact on the Company's computation of earnings per share. Refer to Note 9 for further discussion.

In June 2008, the FASB issued accounting guidance addressing the determination of whether provisions that introduce adjustment features (including contingent adjustment features) would prevent treating a derivative contract or an embedded derivative on a company's own stock as indexed solely to the company's stock. This guidance was effective for fiscal years beginning after December 15, 2008. The adoption of this guidance in the first quarter of 2009 did not have any impact on the Company's consolidated financial statements.

In March 2008, the FASB issued accounting guidance 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. This guidance was effective for the fiscal years and interim periods beginning after November 15, 2008. The adoption of this guidance in the first quarter of 2009 did not have any impact on the Company's consolidated financial statements.

In December 2007, the FASB issued replacement guidance that requires the acquirer of a business to recognize and measure the identifiable assets acquired, the liabilities assumed, and any non-controlling interest in the acquired entity at fair value. This replacement guidance also requires transaction costs related to the business combination to be expensed as incurred. It was effective for business combinations for which the acquisition date is on or after the start of the fiscal year beginning after December 15, 2008. The adoption of this guidance in the first quarter of 2009 did not have any impact on the Company's consolidated financial statements.

In December 2007, the FASB issued accounting guidance that establishes accounting and reporting standards for the noncontrolling interest in a subsidiary and for the deconsolidation of a subsidiary. This guidance was effective for fiscal years beginning after December 15, 2008. The adoption of this guidance in the first quarter of 2009 did not have any impact on the Company's consolidated financial statements.

In September 2006, the FASB issued accounting guidance 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. This guidance was effective for fiscal years beginning after November 15, 2007, however the FASB delayed the effective date 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 this guidance for nonfinancial assets and liabilities in the first quarter of 2009 did not have any impact on the Company's consolidated financial statements.

3. Inventories

Inventories consisted of the following:

| <i>(In thousands)</i> | September 30, 2009 | December 31, 2008 |
|-----------------------|-----------------------|----------------------|
| Finished goods | \$ 160,488 | \$ 187,072 |
| Raw materials | 796 | 731 |
| Work-in-process | 40 | 6 |
| Subtotal inventories | 161,324 | 187,809 |
| Inventories reserve | (8,571) | (5,577) |
| Total inventories | \$ 152,753 | \$ 182,232 |

4. Revolving Credit Facility and Long Term Debt

Revolving Credit Facility

In January 2009, the Company entered into a new revolving credit facility with certain lending institutions, and terminated its prior revolving credit facility in order to increase the Company's available financing and to expand its lending syndicate. In conjunction with the termination of the prior revolving credit facility, the Company repaid the then outstanding balance of \$25.0 million and did not borrow under the new revolving credit facility through October 31, 2009.

The revolving credit facility has a term of three years and provides for a committed revolving credit line of up to \$200.0 million based on the Company's qualified domestic inventory and accounts receivable balances. The commitment amount under the revolving credit facility may be increased by an additional \$50.0 million, subject to certain conditions and approvals per the credit agreement. The Company incurred and capitalized \$1.4 million in deferred financing costs in connection with the revolving credit facility. The borrowing capacity, defined as the product of the remaining term and the maximum available credit of a financing agreement, of the new revolving credit facility is greater than the prior facility. In addition, certain lenders included in the prior revolving credit facility are also included in the new revolving credit facility. Thus, unamortized deferred financing costs of \$0.4 million relating to the Company's prior revolving credit facility were expensed during the nine months ended September 30, 2009 and \$0.1 million of deferred financing costs was added to the deferred financing costs of the new revolving credit facility and will be amortized over the life of the new revolving credit facility.

The revolving credit facility may be used for working capital and general corporate purposes. It is collateralized by substantially all of the assets of the Company and its domestic subsidiaries (other than the Company's trademarks), and by a pledge of 65% of the equity interests of substantially all of the Company's foreign subsidiaries. Up to \$5.0 million of the revolving credit facility may be used to support letters of credit, of which \$3.5 million was outstanding as of September 30, 2009. The Company must maintain a certain leverage ratio and fixed charge coverage ratio as defined in the credit agreement. As of September 30, 2009, the Company was in compliance with these financial covenants. The revolving credit facility also provides the lenders with the ability to reduce the borrowing base, even if the Company is in compliance with all conditions of the revolving credit facility, upon a material adverse change to the business, properties, assets, financial condition or results of operations of the Company. The revolving credit facility 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 revolving credit facility 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 this credit agreement.

Borrowings under the revolving credit facility bear interest based on the daily balance outstanding at LIBOR (with LIBOR subject to a rate floor of 1.25%) plus an applicable margin (varying from 2.0% to 2.5%) or, in certain cases at the Company's option, a base rate (based on the prime rate or as otherwise specified in the credit agreement, with the base rate subject to a rate floor of 2.25%) plus an applicable margin (varying from 1.0% to 1.5%). The revolving credit facility also carries a commitment fee varying from 0.38% to 0.5% of the committed line amount less outstanding borrowings and letters of credit. The applicable margins are calculated quarterly and vary based on the Company's leverage ratio as defined in the credit agreement.

Prior to entering into the revolving credit facility in January 2009, the Company terminated its prior \$100.0 million revolving credit facility. The prior revolving credit facility was also 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 revolving credit facility.

As of September 30, 2009, the Company's net availability was \$158.7 million based on its eligible domestic inventory and accounts receivable balances. The weighted average interest rate on the balances outstanding under the prior revolving credit facility was 3.5% for the three months ended September 30, 2008, and 1.4% and 3.5% during the nine months ended September 30, 2009 and 2008, respectively.

Long Term Debt

In March 2005, the Company entered into an agreement to finance the acquisition or lease of up to \$17.0 million in qualifying capital investments. Loans under this agreement are collateralized by a first lien on the assets acquired. The agreement is not a committed facility, with each advance under the agreement subject to the lender's approval. In March 2008, the lender agreed to increase the maximum financing under the agreement to \$37.0 million.

In May 2008, the Company entered into an additional agreement to finance the acquisition or lease of up to \$40.0 million in qualifying capital investments. Loans under this additional agreement are collateralized by a first lien on the assets acquired. This additional agreement is not a committed facility, with each advance under the agreement subject to the lender's approval.

These agreements include a cross default provision whereby an event of default under other debt obligations, including the revolving credit facility agreement, is considered an event of default under these agreements. In addition, these agreements require a prepayment fee if the Company pays outstanding amounts ahead of the scheduled term. Through September 30, 2009, the Company has financed \$36.6 million of property and equipment under these agreements. The terms of the Company's revolving credit facility limit the total amount of additional financing available under these agreements to \$35.0 million, of which \$31.4 million was available as of September 30, 2009.

As of September 30, 2009 and December 31, 2008, the outstanding principal balances were \$18.1 million and \$20.1 million, respectively, under these agreements. Advances under these agreements bear interest rates which are fixed at the time of each advance. The weighted average interest rates on outstanding borrowings was 6.0% and 5.9% for the three months ended September 30, 2009 and 2008, respectively, and 6.0% and 6.1% for the nine months ended September 30, 2009 and 2008, respectively.

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

Interest expense was \$0.5 million and \$0.2 million for the three months ended September 30, 2009 and 2008, respectively, and \$2.0 million and \$0.9 million for the nine months ended September 30, 2009 and 2008, respectively. Interest expense includes the amortization of deferred financing costs and interest expense under the revolving credit facility and long term debt.

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 and claims will not have a material adverse effect on the Company's consolidated financial position, results of operations or cash flows.

In connection with various contracts and agreements, the Company has agreed to indemnify counterparties against certain third party claims relating to the infringement of intellectual property rights and other items. Based on the Company's historical experience and the estimated probability of future loss, the Company has determined that the fair value of such indemnifications is not material to its consolidated financial position or results of operations.

Certain key executives are party to agreements with the Company that include severance benefits upon involuntary termination of employment without cause or for good reason, including following a change in control of the Company.

6. Fair Value Measurements

On January 1, 2008, the Company adopted fair value accounting guidance for its financial assets and liabilities. On January 1, 2009, the Company adopted fair value accounting guidance for nonfinancial assets and nonfinancial liabilities that are recognized or disclosed at fair value in the financial statements on a nonrecurring basis. The adoption in 2009 had no impact on the Company's consolidated financial statements. 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). This guidance outlines a valuation framework and 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 September 30, 2009 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) | \$ | \$ (479) | \$ |
| Rabbi Trust owned life insurance policies (TOLI) | | 2,690 | |
| Deferred Compensation Plan (the Plan) | | (2,592) | |

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 is based on the cash-surrender value of the 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 participants selected investments, which represent the underlying liabilities to participants in the Plan. Liabilities under the Plan are recorded at amounts due to participants, based on the fair value of participants' selected investments.

7. Stock-Based Compensation

The Under Armour, Inc. 2005 Omnibus Long-Term Incentive Plan (the 2005 Plan) provides for the issuance of stock options, restricted stock, restricted stock units and other equity awards to officers, directors, key employees and other persons. In March 2009, the Company's Board of Directors approved, subject to stockholder approval, an amended and restated 2005 Plan that includes an increase in the maximum number of shares available under the 2005 Plan from 2.7 million to 10.0 million. The amended and restated 2005 Plan was approved by stockholders in May 2009. As of September 30, 2009, 6.9 million shares were available for future grants of awards under the 2005 Plan.

In March 2009, 1.2 million performance-based stock options were awarded to certain officers and key employees under the Company's 2005 Plan. These stock options have a term of ten years from the grant date with vesting tied to the achievement of a combined annual operating income target for 2009 and 2010. Upon the achievement of the combined annual operating income target, 50% of the stock options (or 45% in certain cases) will vest and the remaining 50% of the stock options (or 45% in certain cases) will vest one year later. The exercise price of the performance-based stock options is \$13.71, which was the closing price of the Company's Class A Common Stock on the date of grant. The weighted average fair value of each of the performance-based stock options was \$7.33 and was estimated using the Black-Scholes option-pricing model consistent with the weighted average assumptions included in the 2008 Form 10-K.

In July 2008, the Company granted 185.8 thousand performance-based stock options under the 2005 Plan to the Company's President upon his hiring. The vesting of the award was subject to the achievement of four separate annual operating income targets. In March 2009, the operating income targets were reduced to more closely align the targets with the operating income targets for the performance-based stock options discussed above. These performance-based stock options will vest in four equal installments subject to the achievement of combined annual operating income targets beginning with 2010 and 2011. Upon the achievement of each of the combined annual operating income targets, 50% of the tranche (or 45% in certain cases) will vest and the remaining 50% of the tranche (or 45% in certain cases) will vest one year later. The term of these performance-based stock options is ten years from the July 2008 grant date and the exercise price is \$28.93, which was the closing price of the Company's Class A Stock on the grant date. The weighted average fair value of each performance-based stock option was modified to \$5.15 using modification date valuation inputs similar to the assumptions included in the 2008 Form 10-K.

Through September 30, 2009, the Company did not record stock-based compensation expense for any of the performance-based stock options as the Company was unable to predict with certainty whether the operating income targets will be reached. The Company will assess the probability of the achievement of the operating income targets at the end of each reporting period. When it becomes probable that a performance target will be achieved, a cumulative adjustment will be recorded as if ratable stock-based compensation expense had been recorded since the grant date. A cumulative adjustment of \$2.1 million would have been recorded at September 30, 2009 had the achievement of the operating income targets been probable.

8. Foreign Currency Risk Management and Derivatives

The Company is exposed to gains and losses resulting from fluctuations in foreign currency exchange rates mainly relating to transactions generated by its international subsidiaries in currencies other than their local currencies. These gains and losses are primarily driven by inter-company transactions. In August 2007, the Company entered into foreign currency forward contracts to reduce the risk associated with foreign currency exchange rate fluctuations on inter-company transactions and projected inventory purchases for its Canadian subsidiary. Beginning in December 2008, the Company began using foreign currency forward contracts in order to reduce the risk associated with foreign currency exchange rate fluctuations on inter-company transactions for its European subsidiary.

As of September 30, 2009, the notional value of the Company's outstanding foreign currency forward contracts used to mitigate the foreign currency exchange rate fluctuations on its Canadian subsidiary's inter-company transactions and projected inventory purchases was \$20.7 million with contract maturities of 1 to 2 months. As of September 30, 2009, 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 inter-company transactions was \$45.0 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 earnings. The fair value of the Company's foreign currency forward contracts was \$0.5 million as of September 30, 2009, and was included in accrued expenses on the consolidated balance sheet. The fair value of the Company's foreign currency forward contracts was \$1.2 million as of December 31, 2008, and was included in prepaid expenses and other current assets on the consolidated balance sheet. Refer to Note 6 for a discussion of the fair value measurements. Included in other income (expense), net were the following amounts related to changes in foreign currency exchange rates and derivative foreign currency forward contracts:

| <i>(In thousands)</i> | Three Months Ended | | Nine Months Ended | |
|--|--------------------|------------|-------------------|------------|
| | September 30, | | September 30, | |
| | 2009 | 2008 | 2009 | 2008 |
| Unrealized foreign currency exchange rate gains (losses) | \$ 3,171 | \$ (1,697) | \$ 6,135 | \$ (1,517) |
| Realized foreign currency exchange rate gains (losses) | 460 | (490) | (340) | (882) |
| Unrealized derivative gains (losses) | (661) | 403 | (1,748) | 750 |
| Realized derivative gains (losses) | (2,874) | 140 | (4,300) | 116 |

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. The Company monitors the credit quality of these financial institutions and considers the risk of counterparty default to be minimal.

9. Earnings per Share

The Company adopted accounting guidance during the three months ended March 31, 2009 requiring any stock-based compensation awards that entitle their holders to receive dividends prior to vesting to be considered participating securities and to be included in the calculation of basic earnings per share using the two class method. Historically, these stock-based compensation awards were included in the calculation of diluted earnings per share using the treasury stock method. The Company determined that all outstanding restricted stock awards meet the definition of participating securities and should be included in basic earnings per share using the two class method. The Company included outstanding restricted stock awards in the calculation of basic earnings per share for the three and nine months ended September 30, 2009 and adjusted prior period earnings per share calculations. The application of this accounting guidance for the three months ended September 30, 2008 had no impact on the Company's diluted earnings per share, but decreased diluted earnings per share presented for the nine months ended September 30, 2008 by \$0.01. In addition, the application of this accounting guidance decreased basic earnings per share presented for each of the three and nine months ended September 30, 2008 by \$0.01. The calculation of earnings per share for common stock shown below excludes the income attributable to outstanding restricted stock awards from the numerator and excludes the impact of these awards from the denominator.

| <i>(In thousands, except per share amounts)</i> | Three Months Ended September 30, | | Nine Months Ended September 30, | |
|---|-------------------------------------|-----------|------------------------------------|-----------|
| | 2009 | 2008 | 2009 | 2008 |
| Numerator | | | | |
| Net income | \$ 26,182 | \$ 25,663 | \$ 31,583 | \$ 29,908 |
| Net income attributable to participating securities | (262) | (308) | (347) | (299) |
| Net income available to common shareholders (1) | \$ 25,920 | \$ 25,355 | \$ 31,236 | \$ 29,609 |
| Denominator | | | | |
| Weighted average common shares outstanding | 49,568 | 48,647 | 49,206 | 48,529 |
| Effect of dilutive securities | 703 | 1,218 | 854 | 1,305 |
| Weighted average common shares and dilutive securities outstanding | 50,271 | 49,865 | 50,060 | 49,834 |
| Earnings per share - basic | \$ 0.52 | \$ 0.52 | \$ 0.63 | \$ 0.61 |
| Earnings per share - diluted | \$ 0.52 | \$ 0.51 | \$ 0.62 | \$ 0.59 |
| (1) Basic weighted average common shares outstanding | 49,568 | 48,647 | 49,206 | 48,529 |
| Basic weighted average common shares outstanding and participating securities | 50,046 | 49,217 | 49,731 | 49,016 |
| Percentage allocated to common stockholders | 99.0% | 98.8% | 98.9% | 99.0% |

Effects of potentially dilutive securities are presented only in periods in which they are dilutive. Stock options, restricted stock units, and warrants representing 1.1 million shares of common stock outstanding for each of the three months ended September 30, 2009 and 2008, respectively, and 1.2 million and 0.9 million shares of common stock outstanding for the nine months ended September 30, 2009 and 2008, respectively, were excluded from the computation of diluted earnings per share because their effect would have been anti-dilutive.

10. Segment Data and Related Information

Operating segments are defined as components of an enterprise in which separate financial information is available and is evaluated regularly by the chief operating decision maker in assessing performance and in deciding how to allocate resources. The Company operates exclusively in the consumer products industry in which the Company develops, markets, and distributes branded performance 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 one operating and reportable segment. Although the Company operates within one reportable segment, it has several product categories for which the net revenues attributable to each product category are as follows:

| <i>(In thousands)</i> | Three Months Ended September 30, | | Nine Months Ended September 30, | |
|-----------------------|-------------------------------------|------------|------------------------------------|------------|
| | 2009 | 2008 | 2009 | 2008 |
| Apparel | \$ 215,427 | \$ 201,085 | \$ 459,706 | \$ 426,480 |
| Footwear | 33,048 | 13,065 | 127,475 | 75,629 |
| Accessories | 10,760 | 8,896 | 23,548 | 22,264 |
| Total net sales | 259,235 | 223,046 | 610,729 | 524,373 |
| License revenues | 10,311 | 8,900 | 23,465 | 21,592 |
| Total net revenues | \$ 269,546 | \$ 231,946 | \$ 634,194 | \$ 545,965 |

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

| <i>(In thousands)</i> | Three Months Ended September 30, | | Nine Months Ended September 30, | |
|---------------------------|---|-------------------|--|-------------------|
| | 2009 | 2008 | 2009 | 2008 |
| United States | \$ 242,184 | \$ 210,546 | \$ 576,120 | \$ 500,817 |
| Canada | 14,043 | 12,677 | 30,605 | 26,836 |
| Subtotal | 256,227 | 223,223 | 606,725 | 527,653 |
| Other foreign countries | 13,319 | 8,723 | 27,469 | 18,312 |
| Total net revenues | \$ 269,546 | \$ 231,946 | \$ 634,194 | \$ 545,965 |

As of September 30, 2009 and December 31, 2008, substantially all of the Company's long-lived assets were located in the United States.

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, 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 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 the forward-looking statements, including, but not limited to, those factors described in our Annual Report on Form 10-K filed with the Securities and Exchange Commission (SEC) (our 2008 Form 10-K) or in this Form 10-Q, if included herein, under Risk Factors 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 forecast and manage our growth effectively;

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

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

our ability to obtain the financing required to grow our business, particularly when credit and capital markets are unstable;

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;

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 and other products;

reduced demand for sporting goods and apparel generally;

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

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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 retain 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 synthetic fabrications are engineered in many different designs and styles for wear in nearly every

climate to provide a performance alternative to traditional natural fiber 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.

Our net revenues grew to \$725.2 million in 2008 from \$205.2 million in 2004. We reported net revenues of \$634.2 million for the first nine months of 2009, which represented a 16.2% increase from the first nine months of 2008. 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 our sales of apparel and footwear. We plan to continue to increase our net revenues by building upon our relationships with existing customers, expanding our product offerings, offering new and innovative products, expanding our direct to consumer sales channel and other distribution and building our brand internationally. Our direct to consumer channel includes sales through our factory house outlet and specialty stores, website, and catalog. New product offerings include the introduction of performance running footwear, which we began shipping in the first quarter of 2009 and soccer cleats which had a limited introduction at soccer specialty stores in the United States and Europe during the second quarter of 2009. In addition, we have strategic agreements with third party licensees and distributors to further reinforce our brand identity and increase our net revenues.

Our products are currently offered in over 20,000 retail stores worldwide. A large majority of our products are sold in North America; however we believe that our products appeal to athletes and consumers with active lifestyles around the globe. Internationally, our products are offered primarily in the United Kingdom, France and Germany, 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 include sales of 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 products such as socks, hats, bags, eyewear, mouth guards, other accessories and team uniforms, as well as the distribution of our products in Japan.

Cost of goods sold consists primarily of product costs, inbound freight and duty costs, handling costs to make products floor-ready to customer specifications, royalty payments to endorers based on a predetermined percentage of sales of selected products and write downs for inventory obsolescence. The fabrics in our products are made of petroleum-based synthetic materials. Therefore our product costs, as well as our inbound 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 footwear to be higher than the cost of goods sold associated with our apparel. In addition, cost of goods sold includes overhead costs associated with our Special Make-Up Shop located at one of our distribution facilities where we manufacture a limited number of products, and costs relating to our Hong Kong, Guangzhou, China, and Jakarta, Indonesia offices which help support manufacturing, quality assurance and sourcing efforts. No cost of goods sold is associated with license revenues.

We include a majority of our outbound shipping and 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 shipping and handling costs in the calculation of their cost of goods sold. Outbound shipping and handling costs include costs associated with shipping goods to customers and certain costs to operate our distribution facilities. These costs were \$5.5 million and \$5.0 million for the three months ended September 30, 2009 and 2008, respectively, and \$15.0 million and \$12.5 million for the nine months ended September 30, 2009 and 2008, respectively.

Our selling, general and administrative expenses consist of costs related to marketing, selling, product innovation and supply chain and corporate services. Our marketing costs are an important driver of our growth. For the full year 2009, we expect to invest in marketing in the range of 12% to 13% of net revenues. Marketing costs consist primarily of commercials, print ads, league, team, player and event sponsorships, amortization of footwear promotional rights, depreciation expense specific to our in-store fixture program and marketing related payroll. Selling costs consist primarily of payroll and other costs relating to sales through our wholesale sales channel and the majority of our direct to consumer sales channel costs, along with commissions paid to third parties. Product innovation and supply chain costs include our apparel and footwear product creation and development costs, distribution facility operating costs, and related payroll. Corporate services primarily consist of corporate facility operating costs, related payroll and company-wide administrative and stock-based compensation expenses.

Other income (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.

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 September 30, | | Nine Months Ended September 30, | |
|--|-------------------------------------|------------|------------------------------------|------------|
| | 2009 | 2008 | 2009 | 2008 |
| Net revenues | \$ 269,546 | \$ 231,946 | \$ 634,194 | \$ 545,965 |
| Cost of goods sold | 135,491 | 113,679 | 335,310 | 281,959 |
| Gross profit | 134,055 | 118,267 | 298,884 | 264,006 |
| Selling, general and administrative expenses | 86,992 | 71,788 | 240,544 | 209,954 |
| Income from operations | 47,063 | 46,479 | 58,340 | 54,052 |
| Interest expense, net | (466) | (111) | (1,909) | (498) |
| Other income (expense), net | 96 | (1,625) | (253) | (1,514) |
| Income before income taxes | 46,693 | 44,743 | 56,178 | 52,040 |
| Provision for income taxes | 20,511 | 19,080 | 24,595 | 22,132 |
| Net income | \$ 26,182 | \$ 25,663 | \$ 31,583 | \$ 29,908 |

| <i>(As a percentage of net revenues)</i> | Three Months Ended September 30, | | Nine Months Ended September 30, | |
|--|-------------------------------------|--------|------------------------------------|--------|
| | 2009 | 2008 | 2009 | 2008 |
| Net revenues | 100.0% | 100.0% | 100.0% | 100.0% |
| Cost of goods sold | 50.3 | 49.0 | 52.9 | 51.6 |
| Gross profit | 49.7 | 51.0 | 47.1 | 48.4 |
| Selling, general and administrative expenses | 32.2 | 31.0 | 37.9 | 38.5 |
| Income from operations | 17.5 | 20.0 | 9.2 | 9.9 |
| Interest expense, net | (0.2) | (0.0) | (0.3) | (0.1) |
| Other income (expense), net | 0.0 | (0.7) | (0.0) | (0.3) |
| Income before income taxes | 17.3 | 19.3 | 8.9 | 9.5 |
| Provision for income taxes | 7.6 | 8.2 | 3.9 | 4.0 |
| Net income | 9.7% | 11.1% | 5.0% | 5.5% |

Three Months Ended September 30, 2009 Compared to Three Months Ended September 30, 2008

Net revenues increased \$37.6 million, or 16.2%, to \$269.5 million for the three months ended September 30, 2009 from \$231.9 million for the same period in 2008. This increase was primarily the result of an increase in our footwear and apparel net sales as noted in the product category table below:

| <i>(In thousands)</i> | Three Months Ended September 30, | | | |
|-----------------------|----------------------------------|------------|-----------|----------|
| | 2009 | 2008 | \$ Change | % Change |
| Apparel | \$ 215,427 | \$ 201,085 | \$ 14,342 | 7.1 % |
| Footwear | 33,048 | 13,065 | 19,983 | 153.0 |
| Accessories | 10,760 | 8,896 | 1,864 | 21.0 |

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| | | | | |
|--------------------|------------|------------|-----------|-------|
| Total net sales | 259,235 | 223,046 | 36,189 | 16.2 |
| License revenues | 10,311 | 8,900 | 1,411 | 15.9 |
| Total net revenues | \$ 269,546 | \$ 231,946 | \$ 37,600 | 16.2% |

Net sales increased \$36.2 million, or 16.2%, to \$259.2 million for the three months ended September 30, 2009 from \$223.0 million during the same period in 2008 as noted in the table above. The increase in net sales primarily reflects:

unit growth driven by increased distribution and new offerings in multiple product categories, most significantly in our women's fitness, women's underwear and overall running categories; along with

\$20.0 million increase in footwear sales due primarily to running footwear.

License revenues increased \$1.4 million, or 15.9%, to \$10.3 million for the three months ended September 30, 2009 from \$8.9 million during the same period in 2008. This increase was the result of additional sales by certain licensees due to increased distribution, new product offerings and unit volume growth, as well as new licensing agreements for team uniforms and custom-molded mouth guards.

Gross profit increased \$15.8 million to \$134.1 million for the three months ended September 30, 2009 from \$118.3 million for the same period in 2008. Gross profit as a percentage of net revenues, or gross margin, decreased 130 basis points to 49.7% for the three months ended September 30, 2009 compared to 51.0% during the same period in 2008. The decrease in gross margin percentage was primarily driven by the following:

increased footwear and apparel liquidations to third parties, accounting for an approximate 100 basis point decrease;

increased accessory and footwear inventory reserves, accounting for an approximate 100 basis point decrease; and

less favorable apparel product mix relative to margins, partially offset by improved apparel costing, accounting for an approximate 30 basis point decrease; partially offset by

decreased reserves for sales allowances and certain customer incentives, partially offset by increased sales returns reserves, accounting for an approximate 60 basis point increase; and

increased direct to consumer higher margin sales, accounting for an approximate 40 basis point increase.

Selling, general and administrative expenses increased \$15.2 million to \$87.0 million for the three months ended September 30, 2009 from \$71.8 million for the same period in 2008. As a percentage of net revenues, selling, general and administrative expenses increased to 32.2% for the three months ended September 30, 2009 from 31.0% for the same period in 2008. These changes were primarily attributable to the following:

Marketing costs increased \$2.9 million to \$27.7 million for the three months ended September 30, 2009 from \$24.8 million for the same period in 2008 primarily due to higher media costs and increased sponsorships of collegiate and professional teams and new events, including the National Football League Scouting Combine. As a percentage of net revenues, marketing costs decreased to 10.3% for the three months ended September 30, 2009 from 10.7% for the same period in 2008 primarily due to a timing shift in marketing costs for specific customers, partially offset by the items noted above.

Selling costs increased \$3.9 million to \$17.7 million for the three months ended September 30, 2009 from \$13.8 million for the same period in 2008. This increase was primarily due to higher personnel and other costs incurred for the continued expansion of our factory house outlet stores and higher personnel costs mainly related to increased funding for our performance incentive plan as compared to the prior year period. As a percentage of net revenues, selling costs increased to 6.5% for the three months ended September 30, 2009 from 5.9% for the same period in 2008 due to the items noted above.

Product innovation and supply chain costs increased \$4.1 million to \$20.2 million for the three months ended September 30, 2009 from \$16.1 million for the same period in 2008 primarily due to increased personnel costs for the build out of our footwear and apparel product design and product creation teams, as well as increased funding for our performance incentive plan as compared to the prior year period. In addition this increase was related to higher distribution facilities operating costs to support our growth in net revenues. As a percentage of net revenues, product innovation and supply chain costs increased to 7.5% for the three months ended September 30, 2009 from 6.9% for the same period in 2008 due to higher personnel costs for the build out of our footwear and apparel design and product creation teams.

Corporate services costs increased \$4.3 million to \$21.4 million for the three months ended September 30, 2009 from \$17.1 million for the same period in 2008 primarily due to higher personnel costs for the increased funding for our performance incentive plan as compared to the prior year period and additional corporate personnel necessary to support our growth. In addition this increase was due to higher costs for consumer insight research. As a percentage of net revenues, corporate services costs increased to 7.9% for the three months ended September 30, 2009 from 7.4% for the same period in 2008 primarily due to the items noted above.

Income from operations increased \$0.6 million, or 1.3%, to \$47.1 million for the three months ended September 30, 2009 from \$46.5 million for the same period in 2008. Income from operations as a percentage of net revenues decreased to 17.5% for the three months ended September 30, 2009 from 20.0% for the same period in 2008. This decrease was a result of an increase in selling, general and administrative expenses, and a decrease in gross profit as a percentage of net revenues as discussed above.

Interest expense, net increased \$0.4 million to \$0.5 million for the three months ended September 30, 2009 from \$0.1 million for the same period in 2008. This increase was primarily due to increased fees related to our new revolving credit facility during the three months ended September 30, 2009.

Other income (expense), net increased \$1.7 million to \$0.1 million for the three months ended September 30, 2009 from (\$1.6) million for the same period in 2008. This increase was primarily due to gains on foreign currency exchange rate changes on transactions denominated in the Euro and Canadian Dollar, largely offset by losses on our derivative financial instruments for the three months ended September 30, 2009 as compared to foreign currency exchange rate losses, partially offset by derivative financial instrument gains for the same period in 2008.

Provision for income taxes increased \$1.4 million to \$20.5 million during the three months ended September 30, 2009 from \$19.1 million during the same period in 2008. Our effective tax rate was 43.9% for the three months ended September 30, 2009 compared to 42.6% during the same period in 2008. The effective tax rate for the three months ended September 30, 2009 was higher than the effective tax rate for the three months ended September 30, 2008 primarily due to an increase in the projected non-deductible expenses in the current year. Our annual 2009 effective rate is expected to be approximately 44.3%, which is lower than the 2008 annual effective tax rate of 45.3% due to certain sourcing and tax strategies implemented in 2009.

Nine Months Ended September 30, 2009 Compared to Nine Months Ended September 30, 2008

Net revenues increased \$88.2 million, or 16.2%, to \$634.2 million for the nine months ended September 30, 2009 from \$546.0 million for the same period in 2008. This increase was primarily the result of an increase in our footwear and apparel net sales as noted in the product category table below:

| <i>(In thousands)</i> | Nine Months Ended September 30, | | | |
|-----------------------|---------------------------------|------------|-----------|----------|
| | 2009 | 2008 | \$ Change | % Change |
| Apparel | \$ 459,706 | \$ 426,480 | \$ 33,226 | 7.8% |
| Footwear | 127,475 | 75,629 | 51,846 | 68.6 |
| Accessories | 23,548 | 22,264 | 1,284 | 5.8 |
| Total net sales | 610,729 | 524,373 | 86,356 | 16.5 |
| License revenues | 23,465 | 21,592 | 1,873 | 8.7 |
| Total net revenues | \$ 634,194 | \$ 545,965 | \$ 88,229 | 16.2% |

Net sales increased \$86.3 million, or 16.5%, to \$610.7 million for the nine months ended September 30, 2009 from \$524.4 million during the same period in 2008 as noted in the table above. The increase in net sales primarily reflects:

\$51.8 million increase in footwear sales driven primarily by our running footwear launch during the first quarter of 2009; and

unit growth driven by increased distribution and new offerings in multiple product categories, most significantly in our fitness, running, training and underwear categories.

License revenues increased \$1.9 million, or 8.7%, to \$23.5 million for the nine months ended September 30, 2009 from \$21.6 million during the same period in 2008. This increase was the result of additional sales by certain licensees due to increased distribution, new product offerings and

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continued unit volume growth, as well as new licensing agreements for team uniforms and custom-molded mouth guards.

Gross profit increased \$34.9 million to \$298.9 million for the nine months ended September 30, 2009 from \$264.0 million for the same period in 2008. *Gross profit* as a percentage of net revenues, or *gross margin*, decreased 130 basis points to 47.1% for the nine months ended September 30, 2009 compared to 48.4% during the same period in 2008. The decrease in *gross margin* percentage was primarily driven by the following:

increased footwear and apparel liquidations to third parties, accounting for an approximate 60 basis point decrease;

increased inventory reserves, accounting for an approximate 50 basis point decrease; and

less favorable apparel product mix relative to margins, partially offset by improved apparel costing, accounting for an approximate 40 basis point decrease; partially offset by

increased direct to consumer higher margin sales, accounting for an approximate 20 basis point increase.

Selling, general and administrative expenses increased \$30.5 million to \$240.5 million for the nine months ended September 30, 2009 from \$210.0 million for the same period in 2008. As a percentage of net revenues, *selling, general and administrative expenses* decreased to 37.9% for the nine months ended September 30, 2009 from 38.5% for the same period in 2008 partially driven by the significant revenue growth from our running footwear launch. In addition, these changes were also attributable to the following:

Marketing costs increased \$6.7 million to \$82.0 million for the nine months ended September 30, 2009 from \$75.3 million for the same period in 2008 primarily due to increased sponsorships of collegiate and professional teams and new events, including the National Football League Scouting Combine, and increased marketing costs for specific customers, including our in-store brand campaign supporting the introduction of our performance running footwear. These increases were partially offset by lower media and print expenditures in 2009. As a percentage of net revenues, *marketing costs* decreased to 12.9% for the nine months ended September 30, 2009 from 13.8% for the same period in 2008 primarily due to lower media and print expenditures costs in 2009, partially offset by the other items noted above.

Selling costs increased \$8.5 million to \$47.5 million for the nine months ended September 30, 2009 from \$39.0 million for the same period in 2008. This increase was primarily due to costs incurred for the continued expansion of our direct to consumer channel. As a percentage of net revenues, *selling costs* increased to 7.5% for the nine months ended September 30, 2009 from 7.1% for the same period in 2008 primarily due to the item noted above, partially offset by decreased apparel selling personnel costs as a percentage of net revenues.

Product innovation and supply chain costs increased \$7.3 million to \$53.6 million for the nine months ended September 30, 2009 from \$46.3 million for the same period in 2008 primarily due to higher personnel costs for the build out of our footwear and apparel design and product creation teams and higher distribution facilities operating and personnel costs to support our growth in net revenues. As a percentage of net revenues, *product innovation and supply chain costs* remained unchanged at 8.5% for the nine months ended September 30, 2009 and 2008.

Corporate services costs increased \$8.0 million to \$57.4 million for the nine months ended September 30, 2009 from \$49.4 million for the same period in 2008 primarily due to higher personnel costs for the increased funding for our performance incentive plan as compared to the prior year period and additional corporate personnel necessary to support our growth. In addition, this increase was due to higher company-wide stock-based compensation and higher allowances for bad debts related to the current economic conditions. As a percentage of net revenues, *corporate services costs* remained unchanged at 9.0% for the nine months ended September 30, 2009 and 2008.

Income from operations increased \$4.2 million, or 7.9%, to \$58.3 million for the nine months ended September 30, 2009 from \$54.1 million for the same period in 2008. *Income from operations* as a percentage of net revenues decreased to 9.2% for the nine months ended September 30, 2009 from 9.9% for the same period in 2008. This decrease was a result of a decrease in *gross profit* as a percentage of net revenues, partially

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offset by a decrease in selling, general and administrative expenses as a percentage of net revenues as discussed above.

Interest expense, net increased \$1.4 million to \$1.9 million for the nine months ended September 30, 2009 from \$0.5 million for the same period in 2008. This increase was primarily due to the write off of deferred financing costs related to our prior revolving credit facility and increased costs for our new revolving credit facility during the nine months ended September 30, 2009.

Other expense, net decreased \$1.2 million to \$0.3 million for the nine months ended September 30, 2009 from \$1.5 million for the same period in 2008. This decrease was primarily due to gains on foreign currency exchange rate changes on transactions denominated in the Euro and Canadian Dollar, largely offset by losses on our derivative financial instruments for the nine months ended September 30, 2009 as compared to foreign currency exchange rate losses, partially offset by derivative financial instrument gains for the same period in 2008.

Provision for income taxes increased \$2.5 million to \$24.6 million during the nine months ended September 30, 2009 from \$22.1 million during the same period in 2008. Our effective tax rate was 43.8% for the nine months ended September 30, 2009 compared to 42.5% during the same period in 2008. The effective tax rate for the nine months ended September 30, 2009 was higher than the effective tax rate for the nine months ended September 30, 2008 primarily due to an increase in the projected non-deductible expenses in the current year. Our annual 2009 effective rate is expected to approximate 44.3% which is lower than the 2008 annual effective tax rate of 45.3% due to certain sourcing and tax strategies implemented in 2009.

Seasonality

Historically, we have recognized a significant portion of our income from operations in the last two quarters of the year, driven 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. Similar to 2008 and in addition to the items noted above, a larger portion of our income from operations is expected to be in the last two quarters of 2009 partially due to the shift in the timing of marketing investments to the first two quarters of 2009 as compared to prior years. The majority of our net revenues were generated during the last two quarters in each of 2008, 2007 and 2006. The level of our working capital generally reflects the seasonality and growth in our business. We generally expect inventory, accounts payable and certain accrued expenses to be higher in the second and third quarters in preparation for the fall selling season.

Financial Position, Capital Resources and Liquidity

Our cash requirements have principally been for working capital and capital expenditures. 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 available under our revolving credit and long term debt facilities. Our working capital requirements have generally reflected the seasonality and growth in our business as we have recognized an increase in sales leading up to the fall selling season. 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 retail stores and the investment and improvements in our Enterprise Resource Planning system and a warehouse management system.

We continue to focus on our four main components of inventory management including improving our planning capabilities, managing our inventory purchases, reducing our production lead times and selling excess inventory through our factory house outlet stores and other liquidation channels. We strive for improved inventory turns over the long term.

In January 2009, we terminated our prior \$100.0 million revolving credit facility and entered into a credit agreement which provides for a committed revolving credit facility of up to \$200.0 million based on our qualified domestic inventory and accounts receivable balances. We believe that our cash and cash equivalents on hand, cash from operations and borrowings available to us under our revolving 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 that we have adequate sources of liquidity, further weakening of economic conditions could adversely affect our business and liquidity. In addition, continued instability in 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> | Nine Months Ended September 30, | |
|--|--|-------------|
| | 2009 | 2008 |
| Net cash provided by (used in): | | |
| Operating activities | \$ 25,657 | \$ 6,553 |
| Investing activities | (16,084) | (33,709) |
| Financing activities | (20,071) | 26,681 |
| Effect of exchange rate changes on cash and cash equivalents | 1,832 | 39 |
| Net decrease in cash and cash equivalents | \$ (8,666) | \$ (436) |

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, stock-based compensation, losses on disposals of property and equipment, deferred income taxes and changes in reserves for doubtful accounts, returns, discounts and inventories. 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 provided by operating activities increased \$19.1 million to \$25.7 million for the nine months ended September 30, 2009 from cash provided by operating activities of \$6.6 million during the same period in 2008. The increase in cash provided by operating activities was due to decreased net cash outflows from operating assets and liabilities of \$23.1 million, adjustments to net income for non-cash items which decreased \$5.6 million period over period, and an increase in net income of \$1.7 million. The decrease in cash outflows related to changes in operating assets and liabilities period over period was primarily driven by the following:

an increase in accrued expenses and other liabilities of \$14.3 million during the nine months ended September 30, 2009 as compared to the same period in 2008 primarily due to lower performance incentive plan payouts during the nine months ended September 30, 2009 as compared to the same period in 2008, as well as higher accruals to account for increased funding for our performance incentive plan as of September 30, 2009 as compared to September 30, 2008, and

a higher decrease in inventory of \$27.0 million, primarily driven by the operational initiatives put in place to improve our inventory management, increased liquidation sales to third parties and a larger percentage of products shipped directly from our suppliers to our customers, partially offset by a decrease in accounts payable of \$22.5 million, primarily due to the lower increase in inventory levels.

Adjustments to net income for non-cash items decreased in the nine months ended September 30, 2009 as compared to the same period of the prior year primarily due to unrealized foreign currency exchange rate gains in the 2009 period as compared to unrealized foreign currency exchange rate losses in the 2008 period.

Investing Activities

Cash used in investing activities, which includes capital expenditures and the purchase of trust owned life insurance policies, decreased \$17.6 million to \$16.1 million for the nine months ended September 30, 2009 from \$33.7 million for the same period in 2008. This decrease in cash used in investing activities is primarily due to lower investments in our direct to consumer channel, our distribution facilities, our in-store fixture program and branded concept shops, and our information technology initiatives. In addition, cash used in investing activities decreased due to the lower purchase of trust owned life insurance policies.

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Capital investments for the full year 2009 are anticipated to be in the range of \$30.0 million to \$35.0 million, which is below the \$41.1 million invested during the full year 2008, and include investments in the build out of our new factory house outlet stores, improvements at our distribution facilities and additional branded concept shops and in-store fixtures.

Financing Activities

Cash used in financing activities increased \$46.8 million to \$20.1 million for the nine months ended September 30, 2009 from cash provided by financing activities of \$26.7 million for the same period in 2008. This increase was primarily due to additional net payments made on our revolving credit and long term debt facilities in the 2009 period versus the 2008 period, partially offset by higher excess tax benefits from stock-based compensation arrangements and proceeds from the exercise of stock options and other stock issuances.

Revolving Credit Facility Agreement

In January 2009, we entered into a revolving credit facility with certain lending institutions and terminated our prior revolving credit facility in order to increase our available financing and to expand our lending syndicate. In conjunction with the termination of the prior revolving credit facility, we repaid the then outstanding balance of \$25.0 million and did not borrow under the revolving credit facility through October 31, 2009. In the short term, we may borrow under the revolving credit facility to increase our cash position.

The revolving credit facility has a term of three years and provides for a committed revolving credit line of up to \$200.0 million based on our qualified domestic inventory and accounts receivable balances. The commitment amount under the revolving credit facility may be increased by an additional \$50.0 million, subject to certain conditions and approvals per the credit agreement. We incurred and capitalized \$1.4 million in deferred financing costs in connection with the revolving credit facility. The borrowing capacity, defined as the product of the remaining term and the maximum available credit of a financing agreement, of the new revolving credit facility is greater than the prior facility. In addition, certain lenders included in the prior revolving credit facility are also included in the new revolving credit facility. Thus, unamortized deferred financing costs of \$0.4 million relating to our prior revolving credit facility were expensed during the nine months ended September 30, 2009 and \$0.1 million of deferred financing costs were added to the deferred financing costs of the new revolving credit facility and will be amortized over the life of the new revolving credit facility.

The revolving credit facility may be used for working capital and general corporate purposes. It is collateralized by substantially all of our assets and the assets of our domestic subsidiaries (other than our trademarks), and by a pledge of 65% of the equity interests of substantially all of our foreign subsidiaries. Up to \$5.0 million of the revolving credit facility may be used to support letters of credit, of which \$3.5 million was outstanding as of September 30, 2009. We must maintain a certain leverage ratio and fixed charge coverage ratio as defined in the credit agreement. As of September 30, 2009, we were in compliance with these financial covenants. The revolving credit facility also provides our lenders with the ability to reduce the borrowing base, even if we are in compliance with all conditions of the revolving credit facility, upon a material adverse change to our business, properties, assets, financial condition or results of operations. The revolving credit facility 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 revolving credit facility 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 this credit agreement.

Borrowings under the revolving credit facility bear interest based on the daily balance outstanding at LIBOR (with LIBOR subject to a rate floor of 1.25%) plus an applicable margin (varying from 2.0% to 2.5%) or, in certain cases a base rate (based on the prime rate or as otherwise specified in the credit agreement, with the base rate subject to a rate floor of 2.25%) plus an applicable margin (varying from 1.0% to 1.5%). The revolving credit facility also carries a commitment fee varying from 0.38% to 0.5% of the committed line amount less outstanding borrowings and letters of credit. The applicable margins are calculated quarterly and vary based on our leverage ratio as set forth in the credit agreement.

Prior to entering the revolving credit facility in January 2009, we terminated our prior \$100.0 million revolving credit facility. The prior revolving credit facility was also collateralized by substantially all of our assets, other than our trademarks, and included covenants, conditions and other terms similar to our new revolving credit facility.

As of September 30, 2009, our net availability was \$158.7 million based on our eligible domestic inventory and accounts receivable balances. The weighted average interest rate on the balances outstanding under the prior revolving credit facility was 3.5% for the three months ended September 30, 2008, and 1.4% and 3.5% during the nine months ended September 30, 2009 and 2008, respectively.

Long Term Debt

In March 2005, we entered into an agreement to finance the acquisition or lease of up to \$17.0 million in qualifying capital investments. Loans under this agreement are collateralized by a first lien on the assets acquired. The agreement is not a committed facility, with each advance under the agreement subject to the lender's approval. In March 2008, the lender agreed to increase the maximum financing under the agreement to \$37.0 million.

In May 2008, we entered into an additional agreement to finance the acquisition or lease of up to \$40.0 million in qualifying capital investments. Loans under this additional agreement are collateralized by a first lien on the assets acquired. This additional agreement is not a committed facility, with each advance under the agreement subject to the lender's approval.

These agreements include a cross default provision whereby an event of default under other debt obligations, including the revolving credit facility agreement, will be considered an event of default under these agreements. In addition, these agreements require a prepayment fee if we pay amounts outstanding ahead of the scheduled term. Through September 30, 2009, we have financed \$36.6 million of property and equipment under these agreements. The terms of our revolving credit facility limit the total amount of additional financing under these agreements to \$35.0 million, of which \$31.4 million was available as of September 30, 2009.

As of September 30, 2009 and December 31, 2008, the outstanding principal balances were \$18.1 million and \$20.1 million, respectively, under these agreements. Advances under these agreements bear interest rates which are fixed at the time of each advance. The weighted average interest rates on outstanding borrowings were 6.0% and 5.9% for the three months ended September 30, 2009 and 2008, respectively, and 6.0% and 6.1% for the nine months ended September 30, 2009 and 2008, respectively.

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

Contractual Commitments and Contingencies

There have been no significant changes to the contractual obligations reported in our 2008 Form 10-K other than those which occur in the normal course of business (primarily changes in our product purchase obligations which fluctuate throughout the year as a result of our seasonality).

Off-Balance Sheet Arrangements

In connection with various contracts and agreements, we have agreed to indemnify counterparties against certain third party claims relating to the infringement of intellectual property rights and other items. Based on our historical experience and the estimated probability of future loss, we have determined that the fair value of such indemnifications is not material to our financial position or results of operations.

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 and liabilities. These estimates also affect our reported revenues and expenses. Judgments must be made about the disclosure of contingent liabilities as well. Actual results could be significantly different from these estimates.

Our significant accounting policies are described in Note 2 of the audited consolidated financial statements included in our 2008 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 judgment 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 2008 Form 10-K. There have been no significant changes to our critical accounting policies during the first nine months of 2009 other than the balance sheet treatment of certain sales markdowns as noted below.

Sales Returns, Allowances, Markdowns and Discounts

We record reductions to revenue for estimated customer returns, allowances, markdowns and discounts. We base our 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 us. We base our estimates for customer returns and allowances primarily on anticipated sales volume throughout the year. The actual amount of customer returns and allowances, which is inherently uncertain, may differ from our estimates. If we determined that actual or expected returns or allowances were significantly greater or lower than the reserves we had established, we would record a reduction or increase, as appropriate, to net sales in the period in which we made such a determination. Provisions for customer specific discounts based on contractual obligations with certain major customers are recorded as reductions to net sales.

Reserves for returns, allowances, certain markdowns and certain discounts are recorded as an offset to accounts receivable as settlements are made through offsets to outstanding customer invoices. 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 our cash disbursements. In addition, certain markdowns expected to be paid to customers through cash disbursements are recorded as liabilities within accrued expenses.

Recently Issued Accounting Standards

In June 2009, the Financial Accounting Standards Board (FASB) issued an amendment to the accounting and disclosure requirements for the consolidation of variable interest entities (VIEs). This amendment requires an enterprise to perform a qualitative analysis when determining whether or not it must consolidate a VIE. The amendment also requires an enterprise to continuously reassess whether it must consolidate a VIE. Finally, an enterprise will be required to disclose significant judgments and assumptions used to determine whether or not to consolidate a VIE. This amendment is effective for financial statements issued for annual periods beginning after November 15, 2009, and for interim periods within the first annual period. We are currently evaluating the impact of this amendment on our consolidated financial statements.

Recently Adopted Accounting Standards

In June 2009, the FASB issued the FASB Accounting Standards Codification (Codification). The Codification will become the single source of authoritative generally accepted accounting principles (GAAP) recognized by the FASB to be applied by nongovernmental entities. Rules and interpretive releases of the SEC under authority of federal securities laws are also sources of authoritative U.S. GAAP for SEC registrants. The Codification was effective for financial statements issued for interim and annual periods ending after September 15, 2009. The Codification superseded all existing non-SEC accounting and reporting standards. All other non-grandfathered non-SEC accounting literature not included in the Codification is non-authoritative. The adoption of the Codification did not have any impact on our consolidated financial statements.

In May 2009, the FASB issued accounting guidance that establishes accounting and reporting standards for events that occur after the balance sheet date but before financial statements are issued or are available to be issued. In addition, entities must disclose the date through which subsequent events have been evaluated and the basis for selecting that date, that is, whether that date represents the date the financial statements were issued or were available to be issued. The guidance was effective for fiscal years and interim periods ending after June 15, 2009. The adoption of this guidance did not have any impact on our consolidated financial statements.

In June 2008, the FASB issued accounting guidance requiring that unvested stock-based compensation awards that contain non-forfeitable rights to dividends or dividend equivalents (whether paid or unpaid) should be classified as participating securities and should be included in the computation of earnings per share pursuant to the two-class method. The provisions of this guidance were required for fiscal years beginning after December 15, 2008. We have adopted this guidance for current period computations of earnings per share, and have updated prior period computations of earnings per share as directed by this guidance. The adoption of this guidance did not have a material impact on our computation of earnings per share. Refer to Note 9 of the consolidated financial statements for further discussion on this accounting guidance.

In June 2008, the FASB issued accounting guidance addressing the determination of whether provisions that introduce adjustment features (including contingent adjustment features) would prevent treating a derivative contract or an embedded derivative on a company's own stock as indexed solely to the company's stock. This guidance was effective for fiscal years beginning after December 15, 2008. The adoption of this guidance in the first quarter of 2009 did not have any impact on our consolidated financial statements.

In March 2008, the FASB issued accounting guidance 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. This guidance was effective for the fiscal years and interim periods beginning after November 15, 2008. The adoption of this guidance in the first quarter of 2009 did not have any impact on our consolidated financial statement.

In December 2007, the FASB issued replacement guidance that requires the acquirer of a business to recognize and measure the identifiable assets acquired, the liabilities assumed, and any non-controlling interest in the acquired entity at fair value. This replacement guidance requires transaction costs related to the business combination to be expensed as incurred.

It was effective for business combinations for which the acquisition date is on or after the start of the fiscal year beginning after December 15, 2008. The adoption of this guidance in the first quarter of 2009 did not have any impact on our consolidated financial statements.

In December 2007, the FASB issued accounting guidance that establishes accounting and reporting standards for the noncontrolling interest in a subsidiary and for the deconsolidation of a subsidiary. This guidance was effective for fiscal years beginning after December 15, 2008. The adoption of this guidance in the first quarter of 2009 did not have any impact on our consolidated financial statements.

In September 2006, the FASB issued accounting guidance 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. This guidance was effective for fiscal years beginning after November 15, 2007, however the FASB delayed the effective date 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 this guidance for nonfinancial assets and liabilities in the first quarter of 2009 did not have any impact on our consolidated financial statements.

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 international 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 international 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 international 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 income (expense), net on the consolidated statements of income. Since 2007, 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 Canadian subsidiary. Beginning in December 2008, we began using foreign currency forward contracts in order to reduce the risk associated with foreign currency exchange rate fluctuations on inter-company transactions for our European subsidiary. We do not enter into derivative financial instruments for speculative or trading purposes. Based on the foreign currency forward contracts outstanding as of September 30, 2009, we receive US Dollars in exchange for Canadian Dollars at a weighted average contractual forward foreign currency exchange rate of 1.09 CAD per \$1.00 and US Dollars in exchange for Euros at a weighted average contractual foreign currency exchange rate of 0.69 EUR per \$1.00. As of September 30, 2009, the notional value of our outstanding foreign currency forward contracts for our Canadian subsidiary was approximately \$20.7 million with contract maturities of 1 to 2 months, and the notional value of our outstanding foreign currency forward contracts for our European subsidiary was approximately \$45.0 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 income (expense), net on the consolidated statements of income. As of September 30, 2009, the fair value of our foreign currency forward contracts was (\$0.5) million which is included in accrued expenses on the consolidated balance sheet.

Other income (expense), net included the following amounts related to changes in foreign currency exchange rates and derivative foreign currency forward contracts:

| <i>(In thousands)</i> | Three Months Ended | | Nine Months Ended | |
|--|--------------------|--------------------|--------------------|--------------------|
| | September 30, 2009 | September 30, 2008 | September 30, 2009 | September 30, 2008 |
| Unrealized foreign currency exchange rate gains (losses) | \$ 3,171 | \$ (1,697) | \$ 6,135 | \$ (1,517) |
| Realized foreign currency exchange rate gains (losses) | 460 | (490) | (340) | (882) |
| Unrealized derivative gains (losses) | (661) | 403 | (1,748) | 750 |
| Realized derivative gains (losses) | (2,874) | 140 | (4,300) | 116 |

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.

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, 2008 have not materially changed.

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

From July 28, 2009 through September 14, 2009 we issued 135.4 thousand shares of Class A Common Stock upon the exercise of previously granted stock options to employees at a weighted average exercise price of \$5.65 per share, for an aggregate amount of consideration of \$765.0 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 | Second Amendment to the Office Lease by and between Beason Properties LLLP (as successor to 1450 Beason Street LLC) and the Company dated October 1, 2009 (portions of this exhibit have been omitted pursuant to a request for confidential treatment) |
| 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 |

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: November 4, 2009

By: /s/ BRAD DICKERSON
Brad Dickerson
Chief Financial Officer