Under Armour, Inc.
Form 10-Q
May 04, 2012
Table of Contents

UNITED STATES

SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 20549

Form 10-Q

(Mark One)

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

For the quarterly period ended March 31, 2012

or

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

For the transition period from to

Commission File No. 001-33202

UNDER ARMOUR, INC.

(Exact name of registrant as specified in its charter)

Maryland	**52-1990078**
(State or other jurisdiction of incorporation or organization)	**(I.R.S. Employer Identification No.)**
1020 Hull Street Baltimore, Maryland 21230	**(410) 454-6428**
(Address of principal executive offices) (Zip Code)	**(Registrant s telephone number, including area code)**

Indicate by check mark whether the registrant (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days.   Yes þ   No ¨

Indicate by check mark whether the registrant 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 þ   No ¨

Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, a non-accelerated filer, or a smaller reporting company. See definitions of large accelerated filer, accelerated filer and smaller reporting company in Rule 12b-2 of the Exchange Act.

Large accelerated filer	þ	Accelerated filer	¨
Non-accelerated filer	¨	Smaller reporting company	¨

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

As of April 30, 2012, there were 41,032,837 shares of Class A Common Stock and 11,100,000 shares of Class B Convertible Common Stock outstanding.

Table of Contents

UNDER ARMOUR, INC.

MARCH 31, 2012

INDEX TO FORM 10-Q

Table of Contents

PART I. FINANCIAL INFORMATION

ITEM 1. FINANCIAL STATEMENTS

Under Armour, Inc. and Subsidiaries

Unaudited Consolidated Balance Sheets

(In thousands, except share data)

	December 31, March 31, 2012	December 31, December 31, 2011	December 31, March 31, 2011
Assets			
Current assets			
Cash and cash equivalents	$ 107,052	$ 175,384	$ 110,844
Accounts receivable, net	196,411	134,043	163,385
Inventories	324,354	324,409	248,614
Prepaid expenses and other current assets	47,121	39,643	19,298
Deferred income taxes	19,164	16,184	15,963
Total current assets	694,102	689,663	558,104
Property and equipment, net	158,482	159,135	80,298
Intangible assets, net	4,648	5,535	3,982
Deferred income taxes	15,461	15,885	21,041
Other long term assets	47,544	48,992	28,285
Total assets	$ 920,237	$ 919,210	$ 691,710
Liabilities and Stockholders Equity			
Current liabilities			
Accounts payable	$ 95,844	$ 100,527	$ 88,678
Accrued expenses	40,970	69,285	38,473
Current maturities of long term debt	43,330	6,882	5,984
Other current liabilities	2,550	6,913	2,921
Total current liabilities	182,694	183,607	136,056
Long term debt, net of current maturities	32,451	70,842	7,660
Other long term liabilities	31,004	28,329	22,819
Total liabilities	246,149	282,778	166,535
Commitments and contingencies (see Note 5)			
Stockholders equity			
Class A Common Stock, $0.0003 1/3 par value; 100,000,000 shares authorized as of March 31, 2012, December 31, 2011 and March 31, 2011; 41,001,001 shares issued and outstanding as of March 31, 2012, 40,496,126 shares issued and outstanding as of December 31, 2011 and 39,498,297 shares issued and outstanding as of March 31, 2011	14	13	13
Class B Convertible Common Stock, $0.0003 1/3 par value; 11,100,000 shares authorized, issued and outstanding as of March 31, 2012, 11,250,000 shares authorized, issued and outstanding as of December 31, 2011 and 12,187,500 shares authorized, issued and outstanding as of March 31, 2011	4	4	4

Additional paid-in capital		291,660		268,223		240,626
Retained earnings		380,248		366,164		281,825
Accumulated other comprehensive income		2,162		2,028		2,707
Total stockholders equity		674,088		636,432		525,175
Total liabilities and stockholders equity	$	920,237	$	919,210	$	691,710

See accompanying notes.

1

Table of Contents

Under Armour, Inc. and Subsidiaries

Unaudited Consolidated Statements of Income

(In thousands, except per share amounts)

	Three Months Ended March 31, 2012	Three Months Ended March 31, 2011
Net revenues	$ 384,389	$ 312,699
Cost of goods sold	209,185	167,648
Gross profit	175,204	145,051
Selling, general and administrative expenses	150,801	123,909
Income from operations	24,403	21,142
Interest expense, net	(1,355)	(579)
Other income (expense), net	82	(510)
Income before income taxes	23,130	20,053
Provision for income taxes	8,469	7,914
Net income	$ 14,661	$ 12,139
Net income available per common share		
Basic	$ 0.28	$ 0.24
Diluted	$ 0.28	$ 0.23
Weighted average common shares outstanding		
Basic	51,923	51,444
Diluted	52,853	52,386

See accompanying notes.

Table of Contents

Under Armour, Inc. and Subsidiaries

Unaudited Consolidated Statements of Comprehensive Income

(In thousands)

	Three Months Ended March 31,	
	2012	**2011**
Net income	$ 14,661	$ 12,139
Other comprehensive income:		
Foreign currency translation adjustment	134	666
Total other comprehensive income	134	666
Comprehensive income	$ 14,795	$ 12,805

See accompanying notes.

Table of Contents

Under Armour, Inc. and Subsidiaries

Unaudited Consolidated Statements of Cash Flows

(In thousands)

	Three Months Ended March 31, 2012	2011
Cash flows from operating activities		
Net income	$ 14,661	$ 12,139
Adjustments to reconcile net income to net cash used in operating activities		
Depreciation and amortization	10,591	8,613
Unrealized foreign currency exchange rate gains	(1,686)	(1,922)
Stock-based compensation	6,418	3,315
Loss on disposal of property and equipment	390	2
Deferred income taxes	(1,837)	63
Changes in reserves and allowances	(1,917)	(2,766)
Changes in operating assets and liabilities:		
Accounts receivable	(60,391)	(56,566)
Inventories	1,552	(33,379)
Prepaid expenses and other assets	4,538	(1,860)
Accounts payable	(6,052)	3,563
Accrued expenses and other liabilities	(26,041)	(15,681)
Income taxes payable and receivable	(13,274)	(1,018)
Net cash used in operating activities	(73,048)	(85,497)
Cash flows from investing activities		
Purchase of property and equipment	(8,839)	(10,846)
Purchase of other long term assets		(1,153)
Purchase of long term investment		(3,852)
Change in restricted cash	(198)	
Net cash used in investing activities	(9,037)	(15,851)
Cash flows from financing activities		
Payments on long term debt	(1,943)	(2,298)
Excess tax benefits from stock-based compensation arrangements	9,500	5,337
Payments of deferred financing costs		(1,562)
Proceeds from exercise of stock options and other stock issuances	6,868	6,826
Net cash provided by financing activities	14,425	8,303
Effect of exchange rate changes on cash and cash equivalents	(672)	19
Net decrease in cash and cash equivalents	(68,332)	(93,026)
Cash and cash equivalents		
Beginning of period	175,384	203,870
End of period	$ 107,052	$ 110,844

See accompanying notes.

4

Table of Contents

Under Armour, Inc. and Subsidiaries

Notes to the Unaudited Consolidated Financial Statements

1. Description of the Business

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

2. Summary of Significant Accounting Policies

Basis of Presentation

The accompanying consolidated financial statements include the accounts of Under Armour, Inc. and its wholly owned subsidiaries (the Company). Certain information in footnote disclosures normally included in annual financial statements was condensed or omitted for the interim periods presented in accordance with the rules and regulations of the Securities and Exchange Commission (the SEC) and accounting principles generally accepted in the United States of America for interim consolidated financial statements. In the opinion of management, all adjustments consisting of normal, recurring adjustments considered necessary for a fair statement of the financial position and results of operations were included. All intercompany balances and transactions were eliminated. The consolidated balance sheet as of December 31, 2011 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, 2011 (the 2011 Form 10-K), which should be read in conjunction with these consolidated financial statements. The results for the three months ended March 31, 2012 are not necessarily indicative of the results to be expected for the year ending December 31, 2012 or any other portions thereof.

Concentration of Credit Risk

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

	Customer A	Customer B	Customer C
Net revenues			
Three months ended March 31, 2012	18.6%	7.3%	7.2%
Three months ended March 31, 2011	20.2%	8.9%	6.8%
Accounts receivable			
As of March 31, 2012	26.0%	10.1%	8.1%
As of December 31, 2011	25.4%	8.6%	5.5%
As of March 31, 2011	28.5%	12.4%	7.3%

Allowance for Doubtful Accounts

As of March 31, 2012, December 31, 2011 and March 31, 2011, the allowance for doubtful accounts was $3.8 million, $4.1 million and $3.8 million, 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 handling costs as a component of selling, general and administrative expenses. Outbound handling costs include costs associated with preparing goods to ship to customers and certain costs to operate the Company s distribution facilities. These costs, included within selling, general and administrative expenses, were $7.4 million and $4.8 million for the three months ended March 31, 2012 and 2011, respectively. The Company includes outbound freight costs associated with shipping goods to customers as a component of cost of goods sold.

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.

Table of Contents

Recently Adopted Accounting Standards

In June 2011, the Financial Accounting Standards Board (FASB) issued an Accounting Standards Update which eliminates the option to report other comprehensive income and its components in the statement of changes in stockholders equity. It requires an entity to present total comprehensive income, which includes the components of net income and the components of other comprehensive income, either in a single continuous statement or in two separate but consecutive statements. This pronouncement is effective for financial statements issued for fiscal years, and interim periods within those years, beginning after December 15, 2011. In accordance with this guidance, the Company has presented two separate but consecutive statements which include the components of net income and other comprehensive income.

In May 2011, the FASB issued an Accounting Standards Update which clarifies requirements for how to measure fair value and for disclosing information about fair value measurements common to accounting principles generally accepted in the United States of America and International Financial Reporting Standards. This guidance is effective for interim and annual periods beginning on or after December 15, 2011. The adoption of this guidance did not have a material impact on its consolidated financial statements.

3. Inventories

Inventories consisted of the following:

(In thousands)	December 31, March 31, 2012	December 31, December 31, 2011	December 31, March 31, 2011
Finished goods	$ 323,724	$ 323,606	$ 247,919
Raw materials	630	803	683
Work-in-process			12
Total inventories	$ 324,354	$ 324,409	$ 248,614

4. Credit Facility and Long Term Debt

Credit Facility

The Company has a credit facility with certain lending institutions. The credit facility has a term of four years through March 2015 and provides for a committed revolving credit line of up to $300.0 million, in addition to a $25.0 million term loan facility. The commitment amount under the revolving credit facility may be increased by an additional $50.0 million, subject to certain conditions and approvals as set forth in the credit agreement. No balance was outstanding under the revolving credit facility during the three months ended March 31, 2012 or 2011, respectively.

The credit facility may be used for working capital and general corporate purposes and is collateralized by substantially all of the assets of the Company and certain of its domestic subsidiaries (other than trademarks and the land, buildings and other assets comprising the Company s corporate headquarters) and by a pledge of 65% of the equity interests of certain of the Company s foreign subsidiaries. Up to $5.0 million of the facility may be used to support letters of credit, of which none were outstanding as of March 31, 2012 and 2011. The Company is required to maintain a certain leverage ratio and interest coverage ratio as set forth in the credit agreement. As of March 31, 2012, the Company was in compliance with these ratios. The credit agreement also provides the lenders with the ability to reduce the borrowing base, even if the Company is in compliance with all conditions of the credit agreement, upon a material adverse change to the business, properties, assets, financial condition or results of operations of the Company. The credit agreement contains a number of restrictions that limit the Company s ability, among other things, and subject to certain limited exceptions, to incur additional indebtedness, pledge its assets as security, guaranty obligations of third parties, make investments, undergo a merger or consolidation, dispose of assets, or materially change its line of business. In addition, the credit agreement includes a cross default provision whereby an event of default under other debt obligations, as defined in the credit agreement, will be considered an event of default under the credit agreement.

Borrowings under the credit facility bear interest based on the daily balance outstanding at LIBOR (with no rate floor) plus an applicable margin (varying from 1.25% to 1.75%) or, in certain cases a base rate (based on a certain lending institution s Prime Rate or as otherwise specified in the credit agreement, with no rate floor) plus an applicable margin (varying from 0.25% to 0.75%). The credit facility also carries a commitment fee equal to the unused borrowings multiplied by an applicable margin (varying from 0.25% to 0.35%). The applicable margins are calculated quarterly and vary based on the Company s leverage ratio as set forth in the credit agreement. As of March 31, 2012, the $25.0 million term loan was outstanding. The interest rate on the term loan was 1.7% during the three months ended March 31, 2012. The maturity date of the term loan is March 2015, which is the end of the credit facility term.

Long Term Debt

The Company has long term debt agreements with various lenders to finance the acquisition or lease of qualifying capital investments. Loans under these agreements are collateralized by a first lien on the related assets acquired. As these agreements are not committed facilities, each advance is subject to approval by the lenders. Additionally, these agreements include a cross default provision whereby an event of default under other debt obligations, including the Company s credit facility, will be considered an event of default under these agreements. These agreements require a prepayment fee if the Company pays outstanding amounts ahead of the scheduled terms. The terms of the credit facility limit the total amount of additional financing under these agreements to $40.0 million, of which $21.5 million was available for additional financing as of March 31, 2012. At March 31, 2012, December 31, 2011 and March 31, 2011, the outstanding principal balance under these agreements was $12.8 million, $14.5 million and $13.6 million, respectively. Currently, 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 3.9% and 4.0% for the three months ended March 31, 2012 and 2011, respectively.

The Company monitors the financial health and stability of its lenders under the revolving credit and long term debt facilities, however during any period of significant instability in the credit markets lenders could be negatively impacted in their ability to perform under these facilities.

In July 2011, in connection with the Company s acquisition of its corporate headquarters, the Company assumed a $38.6 million nonrecourse loan secured by a mortgage on the acquired property. The assumed loan had an original term of approximately ten years with a scheduled maturity date of March 1, 2013. The loan includes a balloon payment of $37.3 million due at maturity, and may not be prepaid prior to December 2012. The loan has an interest rate of 6.73%. As of March 31, 2012, the outstanding balance on the loan was $38.0 million. In addition, in connection with this loan, the Company was required to set aside amounts in reserve and cash collateral accounts. As of March 31, 2012 and December 31, 2011, restricted cash balances were $5.2 million and $5.0 million, respectively.

Interest expense was $1.4 million and $0.6 million for the three months ended March 31, 2012 and 2011, respectively. Interest expense includes the amortization of deferred financing costs and interest expense under the credit and long term debt facilities, as well as the assumed loan discussed above.

5. Commitments and Contingencies

There were no significant changes to the contractual obligations reported in the 2011 Form 10-K other than those which occur in the normal course of business.

6. Fair Value Measurements

Fair value is defined as the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date (an exit price). The fair value accounting guidance outlines a valuation framework, creates a fair value hierarchy in order to increase the consistency and comparability of fair value measurements and the related disclosures, and prioritizes the inputs used in measuring fair value as follows:

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

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

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

Financial assets and (liabilities) measured at fair value as of March 31, 2012 are set forth in the table below:

(In thousands)	**Level 1**	**Level 2**	**Level 3**
Derivative foreign currency forward contracts (refer to Note 8)		(110)	
TOLI policies held by the Rabbi Trust		4,227	
Deferred Compensation Plan obligations		(3,696)	

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 is the net difference between the U.S. dollar value to be received or paid at the contracts 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 trust owned life

Table of Contents

insurance (TOLI) policies held by the Rabbi Trust is based on the cash-surrender value of the life insurance policies, which are invested primarily in mutual funds and a separately managed fixed income fund. These investments are in the same funds and purchased in substantially the same amounts as the selected investments of participants in the Under Armour, Inc. Deferred Compensation Plan (the Deferred Compensation Plan), which represent the underlying liabilities to participants in the Deferred Compensation Plan. Liabilities under the Deferred Compensation Plan are recorded at amounts due to participants, based on the fair value of participants selected investments.

The nonrecourse loan that the Company assumed in connection with the acquisition of its corporate headquarters had a carrying value of $38.0 million and $38.2 million as of March 31, 2012 and December 31, 2011, respectively. The fair value of the nonrecourse loan was $39.0 million and $39.2 million as of March 31, 2012 and December 31, 2011, respectively. The carrying value of the Company s remaining long term debt approximated its fair value as of March 31, 2012 and December 31, 2011. The fair value of the Company s long term debt was estimated based upon quoted prices for similar instruments (Level 2 input).

7. Stock-Based Compensation

In February 2012, 0.4 million performance-based restricted stock units were awarded to certain officers and key employees under the 2005 Plan. The performance-based restricted stock units have vesting that is tied to the achievement of a certain combined annual operating income target for 2013 and 2014. Upon the achievement of the combined operating income target, 50% of the restricted stock units will vest on February 15, 2015 and the remaining 50% will vest on February 15, 2016. If certain lower levels of combined operating income for 2013 and 2014 are achieved, fewer or no restricted stock units will vest at that time and one year later, and the remaining restricted stock units will be forfeited. As of March 31, 2012, the Company had not begun recording stock-based compensation expense for these performance-based restricted stock units as the Company determined the achievement of the combined operating income targets was not probable. The Company will assess the probability of the achievement of the operating income targets at the end of each reporting period. If it becomes probable that the performance targets related to these performance-based restricted stock units will be achieved, a cumulative adjustment will be recorded as if ratable stock-based compensation expense had been recorded since the grant date. Additional stock based compensation of up to $1.1 million would have been recorded through March 31, 2012 for these performance-based restricted stock units had the achievement of these operating income targets been deemed probable.

During 2011, the Company granted restricted stock units with vesting tied to the achievement of certain combined annual operating income targets for 2012 and 2013. As of March 31, 2012, the Company determined that the achievement of certain operating income targets for 2012 and 2013 were deemed probable. As a result, the Company began recording compensation expense for a portion of the performance-based restricted stock units awarded in 2011 resulting in a cumulative adjustment of $2.4 million. Additional stock based compensation of up to $4.9 million would have been recorded through March 31, 2012 for these performance-based restricted stock units had the full achievement of these operating income targets been deemed probable.

8. Foreign Currency Risk Management and Derivatives

The Company is exposed to gains and losses resulting from fluctuations in foreign currency exchange rates relating to transactions generated by its international subsidiaries in currencies other than their local currencies. These gains and losses are primarily driven by intercompany transactions. From time to time, the Company may elect to enter into foreign currency forward contracts to reduce the risk associated with foreign currency exchange rate fluctuations on intercompany transactions and projected inventory purchases for its European and Canadian subsidiaries. In addition, the Company may elect to enter into foreign currency forward contracts to reduce the risk associated with foreign currency exchange rate fluctuations on Pound Sterling denominated balance sheet items.

As of March 31, 2012, the notional value of the Company s outstanding foreign currency forward contract used to mitigate the foreign currency exchange rate fluctuations on its Canadian subsidiary s intercompany transactions was $27.8 million with a contract maturity of 1 month. As of March 31, 2012, the notional value of the Company s outstanding foreign currency forward contracts used to mitigate the foreign currency exchange rate fluctuations on its European subsidiary s intercompany transactions was $49.4 million with contract maturities of 1 month. As of March 31, 2012, the notional value of the Company s outstanding foreign currency forward contract used to mitigate the foreign currency exchange rate fluctuations on Pounds Sterling denominated balance sheet items was 9.3 million, or $12.5 million, with a contract maturity 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 values of the Company s foreign currency forward contracts were liabilities of $0.1 million, $0.7 million and $0.5 million as of March 31, 2012, December 31, 2011 and March 31, 2011, respectively, and were included in accrued expenses on the consolidated balance sheets. Refer to Note 6 for a discussion of the fair value measurements. Included in other income (expense), net were the following amounts related to changes in foreign currency exchange rates and derivative foreign currency forward contracts:

(In thousands)	Three Months Ended March 31, 2012	2011
Unrealized foreign currency exchange rate gains	$ 1,686	$ 1,922
Realized foreign currency exchange rate gains	782	455
Unrealized derivative gains	554	15
Realized derivative losses	(2,940)	(2,902)

Table of Contents

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

9. Provision for Income Taxes

The Company recorded $8.5 million and $7.9 million of income tax expense for the three months ended March 31, 2012 and 2011, respectively. The effective rates for income taxes were 36.6% and 39.5% for the three months ended March 31, 2012 and 2011, respectively. The effective tax rate for the three months ended March 31, 2012 was lower than the effective tax rate for the three months ended March 31, 2011 primarily due to state tax credits received and included in the Company s 2012 annual effective rate and discrete items recorded during the three months ended March 31, 2012 reducing income tax expense. The Company s annual 2012 effective tax rate is expected to be approximately 37.5% to 38.0%.

10. Earnings per Share

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

	Three Months Ended March 31,	
(In thousands, except per share amounts)	**2012**	**2011**
Numerator		
Net income	$ 14,661	$ 12,139
Net income attributable to participating securities	(59)	(109)
Net income available to common shareholders (1)	$ 14,602	$ 12,030
Denominator		
Weighted average common shares outstanding	51,707	50,962
Effect of dilutive securities	929	943
Weighted average common shares and dilutive securities outstanding	52,636	51,905
Earnings per share - basic	$ 0.28	$ 0.24
Earnings per share - diluted	$ 0.28	$ 0.23
(1) Basic weighted average common shares outstanding	51,707	50,962
Basic weighted average common shares outstanding and participating securities	51,923	51,444
Percentage allocated to common stockholders	99.6%	99.1%

Effects of potentially dilutive securities are presented only in periods in which they are dilutive. Stock options and restricted stock units representing 0.1 million shares of common stock outstanding for each of the three months ended March 31, 2012 and 2011 were excluded from the computation of diluted earnings per share because their effect would have been anti-dilutive.

11. Segment Data and Related Information

The Company s operating segments are based on how the Chief Operating Decision Maker (CODM) makes decisions about allocating resources and assessing performance. As such, the CODM receives discrete financial information by geographic region based on the Company s strategy to become a global brand. These geographic regions include North America; Latin America; Europe, the Middle East and Africa (EMEA); and Asia. The Company s operating segments are

9

Table of Contents

based on these geographic regions. Each geographic segment operates exclusively in one industry: the development, marketing and distribution of branded performance apparel, footwear and accessories. Due to the insignificance of the EMEA, Latin America and Asia operating segments, they have been combined into other foreign countries for disclosure purposes.

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

	Three Months Ended March 31,	
(In thousands)	2012	2011
Net revenues		
North America	$ 362,521	$ 296,077
Other foreign countries	21,868	16,622
Total net revenues	$ 384,389	$ 312,699

	Three Months Ended March 31,	
(In thousands)	2012	2011
Operating income		
North America	$ 22,361	$ 18,555
Other foreign countries	2,042	2,587
Total operating income	24,403	21,142
Interest expense, net	(1,355)	(579)
Other income (expense), net	82	(510)
Income before income taxes	$ 23,130	$ 20,053

(In thousands)	December 31, March 31, 2012	December 31, December 31, 2011	December 31, March 31, 2011
Total assets			
North America	$ 839,445	$ 842,121	$ 629,513
Other foreign countries	80,792	77,089	62,197
Total assets	$ 920,237	$ 919,210	$ 691,710

Net revenues by product category are as follows:

	Three Months Ended March 31,	
(In thousands)	2012	2011
Apparel	$ 283,331	$ 230,484
Footwear	63,663	51,436
Accessories	29,635	23,537

Total net sales	376,629	305,457
License revenues	7,760	7,242
Total net revenues	$ 384,389	$ 312,699

Table of Contents

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

Forward-Looking Statements

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

The forward-looking statements contained in this Form 10-Q and the documents incorporated herein by reference (if any) reflect our current views about future events and are subject to risks, uncertainties, assumptions and changes in circumstances that may cause events or our actual activities or results to differ significantly from those expressed in any forward-looking statement. Although we believe that the expectations reflected in the forward-looking statements are reasonable, we cannot guarantee future events, results, actions, levels of activity, performance or achievements. Readers are cautioned not to place undue reliance on these forward-looking statements. A number of important factors could cause actual results to differ materially from those indicated by these forward-looking statements, including, but not limited to, those factors described in our Annual Report on Form 10-K for the year ended December 31, 2011 filed with the Securities and Exchange Commission (SEC) (our 2011 Form 10-K) or in this Form 10-Q under Risk Factors , if included herein, and Management s Discussion and Analysis of Financial Condition and Results of Operations (MD&A). These factors include without limitation:

- changes in general economic or market conditions that could affect consumer spending and the financial health of our retail customers;
- our ability to effectively manage our growth and a more complex, global business;
- our ability to effectively develop and launch new, innovative and updated products;
- our ability to accurately forecast consumer demand for our products and manage our inventory in response to changing demands;
- increased competition causing us to reduce the prices of our products or to increase significantly our marketing efforts in order to avoid losing market share;
- fluctuations in the costs of our products;
- loss of key suppliers or manufacturers or failure of our suppliers or manufacturers to produce or deliver our products in a timely or cost-effective manner;
- our ability to further expand our business globally and to drive brand awareness and consumer acceptance of our products in other countries;
- our ability to accurately anticipate and respond to seasonal or quarterly fluctuations in our operating results;

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

- 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 fabrications are engineered in many different designs and styles for wear in nearly every climate to provide a performance alternative to traditional products. Our products are sold worldwide and worn by athletes at all levels, from youth to professional, on playing fields around the globe, as well as by consumers with active lifestyles.

Table of Contents

We are a growth company as evidenced by the increase in net revenues to $1,472.7 million in 2011 from $606.6 million in 2007. We reported net revenues of $384.4 million for the first three months of 2012, which represented a 22.9% increase from the first three months of 2011. We believe that our growth in net revenues has been driven by a growing interest in performance products and the strength of the Under Armour brand in the marketplace. We plan to continue to increase our net revenues over the long term by increased sales of our apparel, footwear and accessories, expansion of our wholesale distribution sales channel, growth in our direct to consumer sales channel and expansion in international markets. Our direct to consumer sales channel includes our factory house and specialty stores, website and catalog. New offerings for 2012 include the Armour Bra and coldblack® apparel.

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

Our operating segments are geographic and include North America; Latin America; Europe, the Middle East and Africa (EMEA); and Asia. Due to the insignificance of the EMEA, Latin American and Asian operating segments, they have been combined into other foreign countries for disclosure purposes.

General

Net revenues comprise both net sales and license revenues. Net sales comprise sales from our primary product categories, which are apparel, footwear and accessories. Our license revenues consist of fees paid to us by our licensees in exchange for the use of our trademarks on core products of socks, team uniforms, baby and kids apparel, eyewear, custom-molded mouth guards, as well as the distribution of our products in Japan.

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

We include outbound freight costs associated with shipping goods to customers as cost of goods sold; however, we include the majority of outbound handling costs as a component of selling, general and administrative expenses. As a result, our gross profit may not be comparable to that of other companies that include outbound handling costs in their cost of goods sold. Outbound handling costs include costs associated with preparing goods to ship to customers and certain costs to operate our distribution facilities. These costs were $7.4 million and $4.8 million for the three months ended March 31, 2012 and 2011, respectively.

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

Table of Contents

Results of Operations

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

	Three Months Ended March 31,	
(In thousands)	**2012**	**2011**
Net revenues	$ 384,389	$ 312,699
Cost of goods sold	209,185	167,648
Gross profit	175,204	145,051
Selling, general and administrative expenses	150,801	123,909
Income from operations	24,403	21,142
Interest expense, net	(1,355)	(579)
Other income (expense), net		