CASE 20
Under Armour

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Kevin A. Plank, the founder and Chief Executive Officer of Under Armour (UA), reviewed the press briefing that was to accompany the company's release of the financial performance for the second quarter of fiscal 2010. Plank noted that the second quarter saw the second consecutive decline in footwear sales. UA's footwear sales had declined by 4.5% over second quarter 2009 and was showing a 16.6% decline for the first six months of 2010 over 2009. This was in contrast to apparel, the company's core category, which saw a 32.2% uptick over 2009, and accessories that had gone up by 28% (**Table 1** shows summary performance for the first two quarters of fiscal 2010).[1]

TABLE 20–1 Under Armour's Summary Financials for First Two Quarters of 2010 (in US$ millions)

	First Quarter 2010	First Quarter 2009	Second Quarter 2010	Second Quarter 2009
Apparel	172,636	132,239	150,205	112,040
Footwear	42,958	56,931	35,820	37,496
Accessories	7,518	5,776	8,857	7,012
Licensing	6,295	5,054	9,904	8,100
Total	229,407	200,000	204,786	164,648

SOURCE: Under Armour 10Q, 2010.

Industry Background

The Sporting Goods Manufacturers Association (SGMA) projected the industry's revenues in the United States to hit US$75.03 billion (wholesale) in 2010, an increase of 4.5% over 2009.[2] Sports apparel and athletic footwear were two important industry categories. Sports apparel accounted for approximately US$30 billion in revenues and was projected to grow at 2.4%, while footwear was US$12.9 billion with a projected growth rate of 5.1%. The women's segment of the sports apparel category was the fastest growing industry segment with an anticipated 42% growth rate. The sporting goods industry was cyclical in nature and was impacted by the macroeconomic business cycle. There was a high correlation between disposable income and industry sales. The 4.3% drop in 2009 industry revenues over 2008 was due to the 2008–2009 recession, and as the economy recovers so will consumer spending on fitness and athletic apparel.

Ten brands accounted for 30% of the sports apparel market share. The rest were spread out among numerous small companies that focused on specific segments. Apparel made from synthetic products was the fastest growing segment of the sports apparel market. This category was referred to as "performance apparel" (the category created by UA), and products in this category were purchased for use in active sports or exercise. Performance apparel consisted of apparel that provided compression, moisture management, and temperature control.

The sports apparel market was fragmented, with Nike (16.4% market share in 2008) and Adidas (13.8%) accounting for less than one-third of the market. Champion, a brand owned by Hanesbrands Inc., was regarded as an up-and-coming player in this segment. The performance apparel segment was concentrated with UA holding a 78% market share in 2009.[3]

The athletic footwear market was dominated by Nike and Adidas (that also owned the Reebok brand). In 2009, Nike had an estimated 35% market share, Adidas 22%, followed by New Balance and Puma.[4]

Sporting goods companies typically designed the product and outsourced manufacturing to contract manufacturers in various Asian countries. In the footwear segment, Vietnam, China, and Indonesia were the leading countries for contract manufacture, while China, Thailand, and Indonesia were the most used by sports apparel companies. Many leading sporting goods companies (Nike, Adidas, and UA, among them) sourced inputs (such as synthetic rubber and fiber, leather, and canvas) to take advantage of purchasing power and pass on the inputs to the contract manufacturers. Nike, for example, also used a Japanese company for global procurement of key inputs. The contract manufacturers were responsible for shipping the finished products either to the client (for sale through company stores or online) or to the warehouses of retail chains. All the leading sporting goods companies had local offices to monitor their contract manufacturers.

Sporting goods were sold in the United States through department stores (such as Sears), mass merchandisers (such as Target and Wal-Mart), sports specialty chains (such as Dick's Sporting Goods, Modell's, and The Sports Authority), and thousands of independent stores, both freestanding and mall-based.[5] According to Standard & Poor's, in 2009,[6] sports specialty stores accounted for 30% of sporting goods sales, followed by 22% for mass merchandisers, and 14% for department stores. Internet retailers, factory stores, and independent outlets accounted for the rest of the retail sales. Leading companies in the industry sold their products through a wide variety of channels, including company owned "flagship" and factory-outlet stores, as well as via the Internet. Consumers faced a number of choices in each category of sporting goods, with some categories like athletic footwear offering 30 plus well-known brands. Sporting goods companies competed on a variety of price points, with most product categories offering some variation of the "good," "better," "best" possibilities.

Competitors

UA regarded its key competitors as Nike and adidas. In addition, Champion competed with UA in the apparel category.

Nike[7]

Founded in 1964 by Bill Bowerman and Phil Knight, Nike was the world's leading supplier of athletic footwear and apparel. It reported revenues of US$19.014 billion, gross margins of 46.3%, and net income of US$1.907 billion in 2010. It sold US$10.332 billion worth of footwear, US$5.037 of apparel, and US$1.035 million of equipment (the rest of the revenues came from licensing and its other brands such as Cole Haan). Fifty-eight percent of its revenues came from international markets. It sold its products in over 170 countries., and it employed around 30,000 people. The company identified its target market as any individual playing a sport anywhere in the world. It's slogan in this regard was, "If you have a body, you are an athlete." Nike was positioned as a premium brand and the company sought to maximize its brand equity. It sold through 23,000 U.S. and 24,000 international outlets. Its 2010 marketing budget was US$2.356 billion. The company's athletic endorsers included Tiger Woods, Kobe Bryant, LeBron James, and Cristiano Ronaldo. In its 2010 annual report, Nike's CEO, Mark Parker, spoke about China being the next great opportunity for the company. In addition, he identified "action sports" as a key growth category and emphasized the need to leverage the company's Nike, Converse, and Hurley brands in this category. He spoke about the strength of the Nike brand:

> *"The NIKE brand will always be our greatest competitive advantage. It's the source of our most advanced R&D. It delivers insight and scale and leverage to every NIKE, Inc. brand and business. It's the source of our culture and personality that connects so strongly with consumers around the world. The NIKE brand is a source of instant credibility and opportunity that we never take for granted."*[8]

adidas[9]

The Adidas Group was a Germany-based global industry leader. It was the largest athletic products company in Europe and second in the world, after Nike. It reported 2009 revenues of 10.381 billion euros, a gross profit of 4.712 billion euros, and net income of 245 million euros. It employed 39,596 people and sold products under the adidas, Reebok, Rockport, and Taylor Made brand names. It used leading athletes such as Lionel Messi and David Beckham to endorse its products. Each of the company's subsidiaries created brands that catered to specific target markets, such as Taylor Made for golf, Rockport for the metropolitan professional, and Reebok Classic for the lifestyle consumer.

Champion[10]

Champion, a leading sports apparel company, was part of Hanesbrands, Inc. Hanesbrands, Inc. was spun off from Sara Lee Corporation and owned brands such as Hanes, Champion, Playtex, and L'eggs. Champion competed in the sports apparel and performance sports apparel segments with T-shirts, shorts, fleece, sports bras, and thermals. The company obtained 89% of its revenues from the United States. It reported revenues of US$3.691 billion in fiscal 2010, gross profits of US$1.265 billion, and net income of US$51.83 million. It employed 47,400 employees.

Under Armour's History[11]

In 1995, Kevin Plank was a walk-on special teams player for the University of Maryland football team. He played on the field goal, punting, and kicking teams. At 5'11" and 228 pounds, Plank tended to sweat a lot during the long, arduous practice sessions. Frustrated by being weighed down by the accumulated sweat in his cotton T-shirt, Plank began to search for alternatives. He began looking for synthetic material that would wick the sweat from his body and make him lighter and faster. He took various promising fabrics to a local fabric store to be sewn as a T-shirt. After spending US$450 on seven prototypes, Plank found a fabric usually used in women's lingerie to work very well as a tight-fitting compression T-shirt. The T-shirt (inner wear) wicked away sweat, thus keeping the outerwear light. Plank used his savings of US$17,000 from a campus flower business to order 500 shirts. Plank gave these shirts to his high school and college teammates and also mailed them to college and professional football player friends from around the country. Plank talked about the importance of player recommendation to the success of the startup company.

These early influencers included Jim Druckenmiller, then a backup quarterback for the San Francisco 49ers, and his teammate, Frank Wycheck (a teammate of Plank's at the University of Maryland). The first big exposure for Plank came serendipitously. A front-page photograph in *USA Today* of then–Oakland Raiders quarterback, Jeff George, showed George wearing the UA mock turtleneck T-shirt visibly under his uniform. This surprised Plank because he hadn't sent a sample to George. While the George photograph gave the fledgling company publicity, it did not turn into sales. Plank sent samples to every equipment manager in the Atlantic Coast Conference. His first big break came when the equipment manager for Georgia Tech University placed an order for 350 T-shirts. North Carolina State University followed with an order and the network of equipment managers soon resulted in sales to other colleges and National Football League teams.

Further exposure came with the release of Oliver Stone's football movie *Any Given Sunday*. Plank had heard about the movie from a former high school classmate and sent samples of his product to the costume designer. It resulted in the movie's star, Jamie Foxx wearing a UA jockstrap prominently in a locker room scene. Anticipating publicity from the movie, Plank paid US$25,000 for an advertisement in *ESPN The Magazine*. The advertisement generated orders worth US$750,000 and the three-year old company was on its way. In effect, Plank had created, using US$17,000 of his own cash and a US$40,000 credit card debt, a new category of sports apparel, one that focused on the athlete's performance, and hence dubbed "performance apparel."

Plank talked about how the company was able to create an entirely new category:

> *"Analysts often ask me: "How was the door left so wide open for UA's entry into the industry?" I tell them that my many detractors did not think consumers would pay $25 to $35 for a T-shirt. But, when you give consumers some tangible benefit, you're able to reinvent entire product categories."*[12]

Plank took the company public in a 2005 IPO. Under Armour was granted the rights to outfit the fictitious Dillon Panthers high school football team when the television show *Friday Night Lights* premiered in 2006 on NBC. The company, headquartered in Baltimore, Maryland, had a market cap of US$2.28 billion in September 2010. Plank owned 25% of UA shares and also controlled 77% of the company's voting shares.[13]

Under Armour's Activities

Products[14]

UA sold products in three categories: apparel, footwear, and accessories (**Table 2** contains a sample list of UA's products). UA sold a wide variety of innerwear and outerwear in the apparel segment, a broad line of footwear, and a line of accessories for both men and women.

UA's price points were comparable to those of competitors like Nike, adidas, and Champion (**Table 3** provides a price comparison of selected products for UA and its competitors).

Under Armour created the performance apparel segment, a sub-segment of the sports apparel category, and had a 78% market in 2009. UA's core apparel product was the tight-fitting compression T-shirt. It was a three-layered synthetic fabric that used moisture wicking technology to speed up the evaporation of sweat.

In tests, UA demonstrated that its T-shirt was 52% lighter than a cotton T-shirt after 60 minutes of exercise. In addition, tests indicated that a UA T-shirt released 80% of its moisture after 30 minutes, in comparison to a cotton T-shirt that released 39% of its moisture after the same period. UA's T-shirt was also able to keep the body 3.5 degrees cooler than cotton.[15]

The initial product was marketed as HeatGear. The same microfiber technology was used to develop a line of cold weather T-shirts called ColdGear. In 2010, UA had additional

TABLE 20–2 Sample List of Under Armour Products

Apparel

Men
- ColdGear Longsleeve Mock
- Men's Armour Fleece
- UA Tech Short Sleeve
- ColdGear Action Legging
- UA Barrage Jacket (Rainwear)
- HeatGear Zone Socks

Women
- UA Victory Burnout T
- UA HeartGear Fitted Shortsleeve
- UA Form Cardio Tank
- UA Duplicity (A/B Cup)
- UA Surge Jacket (Rainwear)
- QuickStep Lo Cut Liner socks

Footwear
- Men's UA Fleet (Running)
- Women's UA Proto Interval (Training)
- Men's UA Blur (Football)
- Men's UA Twin Bill II Mid (Baseball)

Accessories
- Men's Cage III Batting Glove (Baseball)
- Thief (Eyewear)
- UA Surge Backpack
- Performance Bottle (Water Bottle)

SOURCE: www.underarmour.com

TABLE 20–3 Sample Price Comparison Apparel

Apparel Type	Nike	Under Armour	Champion
Men's Graphic Tee	$25.00	$24.99	$11.99
Men's Jersey	$30.00	$34.99	$40.00
Men's Shorts	$22.00	$24.99	$22.00
Women's Short Sleeve Tee	$20.00	$19.99	$22.00
Women's Track Pant	$60.00	$54.99	$40.00

Shoe Type	Footwear		
	Nike	Under Armour	adidas
Men's Football Cleats	$129.99	$119.99	$99.99
Men's Baseball Cleats	$104.99	$ 99.99	$89.99
Men's Performance Training Shoes	$ 89.99	$ 89.99	$99.99
Women's Running Shoes	$ 89.99	$ 84.99	$84.99
Women's Performance Training Shoes	$ 84.99	$ 89.99	$75.00

SOURCE: Company websites and www.dickssportinggoods.com products embodying the same technology and was sold under the LooseGear and AllSeasons-Gear trade names. In addition to the microfiber technology for temperature control, UA also developed "Lockertag" technology to prevent skin irritation from tags and labels. UA's technology heat-sealed the label onto the shirt, thereby preventing the irritation caused by the tag rubbing against the skin. The company's other product technologies included UA Metal and UA Tech for men, and Duplicity Sports Bras for women.

UA sold a line of sports accessories that featured items such as sweatbands, headbands, running goggles, backpacks, and water bottles.

The footwear line was launched in 2006 in the form of football cleats, followed by baseball cleats. The company soon established itself as the number-two player (in terms of market share) behind Nike in the niche segment of athletic cleats. A four-product running shoe line (running shoes were a US$5 billion market and the largest segment in athletic footwear) was launched on January 31, 2009. The running shoes featured a proprietary technology, Cartilage, that has, according to a company press release, an "independent suspension system [that] serves as the connective tissue between a runner and his environment to enhance performance and provide an exceptionally stable and smooth ride." Plank believes that Under Armour will surpass Nike as the preferred brand of today's teenagers.

In spite of the high-profile launch, Under Armour couldn't meet their sales expectations for running shoes. UA replaced its head of footwear operations and decided to revamp the line. The company had to mark down its prices to clear inventory, and Wall Street responded by pummeling its stock price. UA announced that it was forgoing any new footwear launch until late 2010 or early 2011. Plank cautioned analysts to be patient while the company navigated its way through the 18-month cycle necessary to bring new models to market.

Operations[16]

UA outsourced almost all of its manufacturing to contract manufacturers in Asia and Latin America. In 2009, 22 manufacturers operating in 17 countries manufactured the company's products. A team from UA evaluated potential contract manufacturers on quality, social compliance, and financial strength prior to certifying them. UA's Hong Kong and Guangzhou, China offices supported and monitored the company's outsourced manufacturing activities for apparel and footwear. Manufacturers procured raw materials (specialty fabrics, canvas, etc.) and provided finished products to the company's distribution facilities. Manufacturing contracts were typically for the short-term and UA ensured that it had multiple manufacturers for a single product.

UA operated a small manufacturing facility in Glen Burnie, Maryland, called Special Make-Up Shop. This 17,000-square-foot shop manufactured apparel products for the company's high-profile athletes, leagues, and teams. The purpose of this operation was to provide superior (and quick) service to special customers. The company treated the cost of operating this facility as a marketing expense.

Distribution[17]

UA operated two leased distribution facilities in Glen Burnie, Maryland, a short distance away from the company's headquarters in Baltimore, Maryland. The first was a 359,000-square-foot facility, while the second occupied 308,000 square feet. Products were shipped to retailers and company stores via a third-party logistics provider, both in the United States and in Europe. Inventory management was critical because of two factors. Industry practice was for retailers to return defective or improperly shipped merchandise. In addition, because of overseas sourcing, the lead times for design and production was long, which meant that production orders were to be made much before customer orders for new products.

Marketing

UA's 2009 annual report summed up the company's vision as: "The athletic brand of this generation. And next." To guide its marketing, UA also developed a brand mission: "To make all athletes better through passion, science and the relentless pursuit of innovation." UA spent between 12% and 13% of revenues on marketing.[18]

The market for sporting apparel and gear spanned the entire population, although primary users were the sports-oriented and/or active and health conscious segments. Young males constituted a large segment of this market, although recent trends indicated an upsurge in the female and older age group segments. UA targeted individuals in the 15–25 age group.

From the inception of UA, Plank relied on what he called "influencers" to market his products. After high school, determined to get a scholarship to play Division I football, Plank enrolled in Fork Union Military Academy to bulk up, play with top high school athletes, and attract the attention of major programs. Fork Union Military Academy was well-known as a "football mill," that sent a lot of athletes to the top college football programs. The contacts that Plank made at Fork helped him select his first influencers.

An early series of influencers included former and current NFL players such as Jim Druckenmiller, Frank Wycheck, and Eddie George. Later influencers included Brandon Jacobs (of the NFL New York Giants), Heather Mitts (U.S. women's soccer player), Brandon Jennings (of the NBA Milwaukee Bucks), and Lindsay Vonn (a gold medal–winning U.S. skier from the Vancouver Olympics). Plank's former teammate, Eric Ogbogu (who played seven years in the NFL and was dubbed "The Big E") was the company's brand spokesman.

UA's marketing budget was spent on athlete influencers, print, digital and television advertising, and payments to college teams to wear the company's products. Steve Battista, UA's senior vice president of brand, wanted UA's ads featuring professional athletes wearing Under Armour apparel to come across as similar to comic book superheroes.

UA's signature commercial "Protect This House" was featured in numerous college football and NFL stadiums in both print and video forms. Other commercials included "Click-Clack, I Think You Hear Us Coming" (for the footwear line launch), "Athlete's Run" (for running shoes), and "Protect This House, I Will" (for the women's line of products). UA was the official outfitter for around 50 universities (including Auburn University, University of Maryland, and Texas Tech University), while Nike had over a 100 universities under contract. UA paid its universities for the privilege of being named the "Official Outfitter."[19]

UA priced its products competitively on a par with Nike and adidas. The company supported its product positioning with a policy of full retail pricing, rarely allowing its brand to be discounted. The idea was to add to the company's up-market appeal and position its brand as distinct from competing brands. UA, however, was forced to discount its prices in the running shoe line because of overstock.

In 2009, UA generated approximately 78% of its revenues from its U.S. wholesale distribution channel. UA was highly dependent on its two primary retailers—Dick's Sporting Goods and The Sports Authority—which accounted for 30% of its wholesale distribution. In addition to the two retailers, UA also sold through stores such as Modell's Sporting Goods, Academy Sports and Outdoors in the United States, and Sportcheck International and Sportsman International in Canada. UA's distribution channels also included independent and specialty retailers, institutional athletic departments, leagues and teams, and company-owned stores, as well as its website. When UA got into footwear, it extended its distribution to include footwear chains such as Finish Line and Foot Locker. Worldwide, UA sold its product in over 20,000 stores.

Personnel[20]

In September 2010, UA employed approximately 3,000 people. About half of the employees worked at the company's manufacturing facility, the Special Make-Up Shop, and various company-owned stores. The rest worked at UA's distribution facilities and the corporate headquarters. The company's employees were non-unionized. The company reported that in 2008 it received about 26,000 resumes, of which it hired 215 employees.

Eight executives made up UA's top management team. Kevin A. Plank was the President, Chief Executive Officer, and Chairman of the Board, Wayne A. Marino was the Chief Operating Officer, and Brad Dickerson was the Chief Financial Officer. The operations of the company were divided into apparel (led by Senior Vice President, Henry B. Stafford) and footwear (headed by Senior Vice President, Gene McCarthy). Distribution was the responsibility of Dan J. Sawall (Vice President of Retail), and John S. Rogers (Vice President/General manager of e-Commerce). Finally, Kevin Plank's older brother, J. Scott Plank headed the company's domestic and global business development efforts as an Executive Vice President.

Culture

Football, the sport that gave UA its start, not only dominated the company's product categories, but also permeated its culture. For example, employees were referred to as "teammates." Further, posted on the walls of company offices were "Under Armour Huddles," short, pithy statements that provided guidance to all. Examples were "manage the clock," "execute the play," and "run the huddle."

Plank himself set the aggressive tone for the company by never considering UA to be too small to take on giants such as Nike.

Plank and Marino, the COO, had developed a tradition of meeting at Plank's house every Saturday morning at 6:00 A.M. Accompanied by personal trainers, the two would engage in a strenuous physical workout while talking about UnderArmour.

Tori Hanna, UA's director of women's sports marketing, talked about how Plank's belief in playing offense even in a tough economy percolated throughout the company.

Finances

Table 4 contains UA's financials for the last three years. The company broke down its revenues into apparel, footwear, accessories, and licensing.[21] It did not, however, provide category-wise operating margins. The company explained that the 2009 decline in gross profit margins was due to a less favorable footwear and apparel product mix and the liquidation of unsold footwear inventory. The company's finances were affected by seasonality with the last two quarters showing better numbers because of the Fall football season. The company did not break down revenues geographically, although one report indicated that in 2009, UA obtained nearly 94% of its revenues from the United States and Canada.

TABLE 4 Under Armour's Financial Statements Consolidated Balance Sheets (In thousands, except share data)

	December 31, 2009	December 31, 2008	December 31, 2007
Assets			
Current assets			
Cash and cash equivalents	$ 187,297	102,042	40,588
Accounts receivable, net	79,356	81,302	93,515
Inventories	148,888	182,232	166,082
Prepaid expenses and other current assets	19,989	18,023	11,642
Deferred income taxes	12,870	12,824	10,418
Total current assets	448,000	396,423	322,245
Property and equipment, net	72,926	73,548	52,332
Intangible assets, net	5,681	5,470	6,470
Deferred income taxes	13,908	8,687	8,173
Other long term assets	5,073	3,427	1,393
Total assets	$ 545,588	487,555	390,613
Liabilities and Stockholders' Equity			
Current liabilities			
Revolving credit facility	$ —	25,000	—
Accounts payable	68,710	72,435	55,012
Accrued expenses	40,885	25,905	36,111
Current maturities of long-term debt	9,178	7,072	4,111
Current maturities of capital lease obligations	97	361	465
Other current liabilities	1,292	2,337	—
Total current liabilities	120,162	133,110	95,699
Long-term debt, net of current maturities	10,948	13,061	9,298
Capital lease obligations, net of current maturities	—	97	458
Other long-term liabilities	14,481	10,190	4,673
Total liabilities	$ 145,591	156,458	110,128
Stockholders' equity			
Class A Common Stock, $.0003 1/3 par value; 100,000,000 shares authorized as of December 31, 2009 and 2008; 37,747,647 shares issued and outstanding as of December 31, 2009 and 36,808,750 shares issued and outstanding as of December 31, 2008	13	12	12
Class B Convertible Common Stock, $.0003 1/3 par value; 12,500,000 shares authorized, issued and outstanding as of December 31, 2009 and 2008	4	4	4
Additional paid-in capital	197,342	174,725	162,362
Retained earnings	202,188	156,011	117,782
Unearned compensation	(14)	(60)	(182)
Accumulated other comprehensive income	464	405	507
Total stockholders' equity	399,997	331,097	280,485
Total liabilities and stockholders' equity	$ 545,588	487,555	390,613

SOURCE: Under Armour Annual Report, 2009.

Consolidated Statements of Income (In thousands, except per-share amounts)

	December 31, 2009	December 31, 2008	December 31, 2007
Net revenues	$856,411	725,244	606,561
Cost of goods sold	443,386	370,296	301,517
Gross profit	413,025	354,948	305,044
Operating expenses			
Selling, general, and administrative expenses	327,752	278,023	218,779
Income from operations	85,273	76,925	86,265
Interest income (expense), net	(2,344)	(850)	749
Other income (expense), net	(511)	(6,175)	2,029
Income before income taxes	82,418	69,900	89,043
Provision for income taxes	35,633	31,671	36,485
Net income	$ 46,785	38,229	52,558
Net income available per common share			
Basic	$0.94	0.78	1.09
Diluted	$0.92	0.76	1.05
Weighted average common shares outstanding			
Basic	49,848	49,086	48,345
Diluted	50,650	50,342	50,141

SOURCE: Under Armour Annual Report, 2009.

Consolidated Statements of Cash Flows (In thousands)

	December 31, 2009	December 31, 2008	December 31, 2007
Cash flows from operating activities			
Net income	$46,785	38,229	52,558
Adjustments to reconcile net income to net cash provided by (used in) operating activities: Depreciation and amortization	28,249	21,347	14,622
Unrealized foreign currency exchange rate (gains) losses	(5,222)	5,459	(2,567)
Loss on disposal of property and equipment	37	15	—
Stock-based compensation	12,910	8,466	4,182
Deferred income taxes	(5,212)	(2,818)	(4,909)
Changes in reserves for doubtful accounts, returns, discounts and inventories	1,623	8,711	4,551
Changes in operating assets and liabilities:			
Accounts receivable	3,792	2,634	(24,222)
Inventories	32,998	(19,497)	(83,966)
Prepaid expenses and other assets	1,870	(7,187)	(2,067)
Accounts payable	(4,386)	16,957	11,873
Accrued expenses and other liabilities	11,656	(5,316)	11,825
Income taxes payable and receivable	(6,059)	2,516	3,492
Net cash provided by (used in) operating activities	119,041	69,516	(14,628)

(Continued)

	December 31, 2009	December 31, 2008	December 31, 2007
Cash flows from investing activities			
Purchase of property and equipment	(19,845)	(38,594)	(33,959)
Purchase of intangible assets	—	(600)	(125)
Purchase of trust owned life insurance policies	(35)	(2,893)	—
Proceeds from sales of property and equipment	—	21	—
Purchases of short-term investments	—	—	(62,860)
Proceeds from sales of short-term investments	—	—	62,860
Net cash used in investing activities	(19,880)	(42,066)	(34,084)
Cash flows from financing activities			
Proceeds from revolving credit facility	—	40,000	14,000
Payments on revolving credit facility	(25,000)	(15,000)	(14,000)
Proceeds from long-term debt	7,649	13,214	11,841
Payments on long-term debt	(7,656)	(6,490)	(2,973)
Payments on capital lease obligations	(361)	(464)	(794)
Excess tax benefits from stock-based compensation arrangements	5,127	2,131	6,892
Proceeds from exercise of stock options and other stock issuances	5,128	1,990	3,182
Payments of debt financing costs	(1,354)	—	—
Net cash provided by (used in) financing activities	(16,467)	35,381	18,148
Effect of exchange rate changes on cash and cash equivalents	2,561	(1,377)	497
Net increase (decrease) in cash and cash equivalents	85,255	61,454	(30,067)
Cash and cash equivalents			
Beginning of year	102,042	40,588	70,655
End of year	$187,297	102,042	40,588
Non-cash financing and investing 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	4,784	2,486	1,110
Purchase of intangible asset through certain obligations	2,105	—	—
Other supplemental information			
Cash paid for income taxes	40,834	29,561	30,502
Cash paid for interest	1,273	1,444	525

SOURCE: Under Armour Annual Report, 2009.

The Pursuit of Three Percent

Several experts criticized the company's foray into footwear. Laura Ries, a marketing expert, was quite critical of UA's entry into footwear:

> *"The key to remember is that Under Armour isn't just a great brand; Under Armour pioneered and dominates a great category. Its power comes from the category it owns in the mind, not the brand name it puts on the package. "Under Armour" are the words that represent that category in mind. So putting the Under Armour brand name on another category is not going to guarantee success, especially if that category has little to do with performance clothing. Under Armour is an apparel brand. Nike is a footwear brand. Each might sell other stuff too, but the brands are rooted in these categories and can't grow too far from them. Here is a company (UA) with no credibility in athletic shoes attacking one of the world's most iconic and dominant brands for athletic footwear. Furthermore, Under Armour was doing so with no clear-cut product advantage and with a name that defined a totally different strategy."*[22]

John Horan, publisher of *Sporting Goods Intelligence*, an industry newsletter, talked about the U.S. sports apparel/footwear market becoming a duopoly with Nike and Under Armour. He believes that Under Armour is one of a very small number of companies that has successfully challenged Nike in the marketplace.

But Plank and his team were attracted by the US$31 billion international branded footwear market. Their contention was that even a 3% share of the market would nearly double UA's total revenues. They based their support of the footwear foray on the strength of UA's brand.

In addition, UA's team believed that the strong relationships they had with the distribution channel was a viable foundation to succeed in the new category.

In a number of interviews, Plank and his top management team members had reiterated the importance of the international markets for its apparel products. In fact, Plank's favorite line was "We haven't sold a single T-shirt in China." UA was a company that was largely dependent on the U.S. market for its revenues.

As Plank reflected on UA's second quarter 2010 financial results, he thought about what he wanted UA to be. Should the company attempt to be a leading athletic brand with products beyond apparel, or should UA cement its reputation as the leading U.S. performance apparel maker and extend its dominance globally?

ENDNOTES

1. Under Armour Press Release, July 27, 2010, http://investor.underarmour.com/releases.cfm.
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5. Websites of Nike and Under Armour.
6. Standard & Poor's Industry Surveys, Apparel and Footwear: Retailers and Brands, September 3, 2009.
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8. Ibid., 2010 Annual Report.
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12. Under Armour, 2006 Annual Report.
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14. Under Armour, 2009 10K.
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16. Under Armour, 2009 10K.
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18. Under Armour, 2009 Annual Report.
19. Under Armour, 2009 10K.
20. Under Armour, Investor Relations Website.
21. Under Armour, 2009 10K.
22. http://ries.typepad.com/ries_blog/2009/11/under-armour-too-big-for-its-shirt.html, extracted September 28, 2010.