Under Armour, Inc.
Form 10-Q
November 05, 2008
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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 September 30, 2008

or

¨ **TRANSITION REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934**
For the transition period from to

Commission File No. 001-33202

UNDER ARMOUR, INC.

(Exact name of registrant as specified in its charter)

Maryland	**52-1990078**
(State or other jurisdiction of 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 is a large accelerated filer, an accelerated filer, a non-accelerated filer, or a smaller reporting company. See definitions of large accelerated filer, accelerated filer and smaller reporting company in Rule 12b-2 of the Exchange Act.

Large accelerated filer þ Accelerated filer ¨

Non-accelerated filer ¨ Smaller reporting company ¨

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

Class A Common Stock, $.0003 $^{1}/3$ par value, 36,791,229 shares outstanding as of October 31, 2008 and Class B Convertible Common Stock, $.0003 $^{1}/3$ par value, 12,500,000 shares outstanding as of October 31, 2008.

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UNDER ARMOUR, INC.

September 30, 2008

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PART I. FINANCIAL INFORMATION

ITEM 1. FINANCIAL STATEMENTS

Under Armour, Inc. and Subsidiaries

Consolidated Balance Sheets

(In thousands, except share data)

	September 30, 2008 *(unaudited)*	December 31, 2007
Assets		
Current assets		
Cash and cash equivalents	$ 40,152	$ 40,588
Accounts receivable, net of allowance for doubtful accounts of $2,200 and $1,112 as of September 30, 2008 and December 31, 2007, respectively	151,086	93,515
Inventories	163,612	166,082
Income taxes receivable	-	614
Prepaid expenses and other current assets	19,571	11,028
Deferred income taxes	13,364	10,418
Total current assets	387,785	322,245
Property and equipment, net	70,645	52,332
Intangible assets, net	5,877	6,470
Deferred income taxes	6,703	8,173
Other non-current assets	3,876	1,393
Total assets	$ 474,886	$ 390,613
Liabilities and Stockholders Equity		
Current liabilities		
Revolving credit facility	$ 15,000	$ -
Accounts payable	63,265	55,012
Accrued expenses	33,201	36,111
Income taxes payable	10,238	-
Current maturities of long term debt	7,192	4,111
Current maturities of capital lease obligations	410	465
Deferred income taxes	418	-
Total current liabilities	129,724	95,699
Long term debt, net of current maturities	14,805	9,298
Capital lease obligations, net of current maturities	157	458
Other long term liabilities	10,425	4,673
Total liabilities	155,111	110,128
Commitments and contingencies (see Note 6)		
Stockholders equity		
Class A Common Stock, $.0003 1/3 par value; 100,000,000 shares authorized as of September 30, 2008 and December 31, 2007; 36,785,067 issued and outstanding as of September 30, 2008, 36,189,564 shares issued and outstanding as of December 31, 2007	12	12

Class B Convertible Common Stock, $.0003 1/3 par value; 12,500,000 shares authorized, issued and outstanding as of September 30, 2008 and December 31, 2007	4	4
Additional paid-in capital	171,579	162,362
Retained earnings	147,690	117,782
Unearned compensation	(82)	(182)
Accumulated other comprehensive income	572	507
Total stockholders equity	319,775	280,485
Total liabilities and stockholders equity	$ 474,886	$ 390,613

See accompanying notes.

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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,	
	2008	**2007**	**2008**	**2007**
	(unaudited)	*(unaudited)*	*(unaudited)*	*(unaudited)*
Net revenues	$ 231,946	$ 186,863	$ 545,965	$ 431,723
Cost of goods sold	113,679	92,346	281,959	217,526
Gross profit	118,267	94,517	264,006	214,197
Operating expenses				
Selling, general and administrative expenses	71,788	60,708	209,954	156,186
Income from operations	46,479	33,809	54,052	58,011
Other income (expense), net	(1,736)	674	(2,012)	2,868
Income before income taxes	44,743	34,483	52,040	60,879
Provision for income taxes	19,080	14,453	22,132	25,196
Net income	$ 25,663	$ 20,030	$ 29,908	$ 35,683
Net income available per common share				
Basic	$ 0.53	$ 0.42	$ 0.62	$ 0.74
Diluted	$ 0.51	$ 0.40	$ 0.60	$ 0.71
Weighted average common shares outstanding				
Basic	48,647	48,183	48,529	47,926
Diluted	49,934	50,085	49,908	49,929

See accompanying notes.

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Under Armour, Inc. and Subsidiaries

Consolidated Statements of Stockholders Equity and Comprehensive Income

(Unaudited; in thousands)

	Class A Common Stock		Class B Convertible Common Stock		Additional Paid-In Capital	Retained Earnings	Unearned Compensation	Accumulated Other Comprehensive Income (Loss)	Comprehensive Income	Total Stockholders Equity
	Shares	Amount	Shares	Amount						
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 $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
Balance as of December 31, 2006	34,556	$ 12	13,250	$ 4	$ 148,562	$ 66,376	$ (463)	$ (103)		$ 214,388
Exercise of stock options	585	-	-	-	1,886	-	-	-		1,886
Issuance of Class A Common Stock, net of forfeitures	201	-	-	-	727	-	-	-		727
Stock-based compensation expense	-	-	-	-	2,732	-	234	-		2,966
Net excess tax benefits from stock-based compensation arrangements	-	-	-	-	5,820	-	-	-		5,820
Effect of adoption of FIN 48	-	-	-	-	-	(1,152)	-	-		(1,152)
Comprehensive income:										
Net income	-	-	-	-	-	35,683	-	-	$ 35,683	
Foreign currency translation adjustment, net of tax $302	-	-	-	-	-	-	-	461	461	
Comprehensive income									$ 36,144	36,144
Balance as of September 30, 2007	35,342	$ 12	13,250	$ 4	$ 159,727	$ 100,907	$ (229)	$ 358		$ 260,779

See accompanying notes.

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Under Armour, Inc. and Subsidiaries

Consolidated Statements of Cash Flows

(In thousands)

	Nine Months Ended September 30, 2008 *(unaudited)*	Nine Months Ended September 30, 2007 *(unaudited)*
Cash flows from operating activities		
Net income	$ 29,908	$ 35,683
Adjustments to reconcile net income to net cash provided by (used in) operating activities		
Depreciation and amortization	15,483	9,996
Unrealized foreign currency exchange rate (gains) losses	1,517	(2,321)
Loss on disposal of property and equipment	29	-
Stock-based compensation	5,878	2,966
Deferred income taxes	(1,166)	(6,309)
Changes in reserves for doubtful accounts, returns, discounts and inventories	2,704	6,505
Changes in operating assets and liabilities:		
Accounts receivable	(60,777)	(59,792)
Inventories	1,430	(70,881)
Prepaid expenses and other assets	(8,705)	(4,929)
Accounts payable	8,623	23,940
Accrued expenses and other liabilities	772	8,309
Income taxes payable and receivable	10,857	9,933
Net cash provided by (used in) operating activities	6,553	(46,900)
Cash flows from investing activities		
Purchase of property and equipment	(30,848)	(26,237)
Purchase of intangible assets	-	(125)
Purchase of trust owned life insurance policies	(2,868)	-
Proceeds from sales of property and equipment	7	-
Purchases of short term investments	-	(62,860)
Proceeds from sales of short term investments	-	62,860
Net cash used in investing activities	(33,709)	(26,362)
Cash flows from financing activities		
Proceeds from revolving credit facility	30,000	14,000
Payments on revolving credit facility	(15,000)	(4,000)
Proceeds from long term debt	13,214	1,117
Payments on long term debt	(4,626)	(2,085)
Payments on capital lease obligations	(355)	(674)
Excess tax benefits from stock-based compensation arrangements	1,891	5,820
Proceeds from exercise of stock options and other stock issuances	1,557	2,613
Net cash provided by financing activities	26,681	16,791
Effect of exchange rate changes on cash and cash equivalents	39	289
Net decrease in cash and cash equivalents	(436)	(56,182)
Cash and cash equivalents		
Beginning of period	40,588	70,655

End of period	$	40,152	$	14,473
Non-cash financing and investing activities				
Increase to long term liabilities due to the adoption of FIN 48	$	-	$	1,597
Purchase of property and equipment through certain obligations		1,769		-

See accompanying notes.

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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, 2008 are not necessarily indicative of the results to be expected for the year ending December 31, 2008 or any other portions thereof. Certain information in footnote disclosures normally included in annual financial statements has been condensed or omitted for the interim periods presented in accordance with the rules and regulations of the Securities and Exchange Commission (the SEC) for interim consolidated financial statements.

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

The consolidated balance sheet as of December 31, 2007 is derived from the audited financial statements included in the Company s Annual Report on Form 10-K filed with the SEC for the year ended December 31, 2007 (the 2007 Form 10-K), which should be read in conjunction with these consolidated financial statements.

Concentration of Credit Risk

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

	Customer A	**Customer B**	**Customer C**
Net revenues			
Nine months ended September 30, 2008	20.0%	13.8%	4.3%
Nine months ended September 30, 2007	19.5%	13.2%	4.6%
Accounts receivable			
As of September 30, 2008	26.5%	14.1%	4.1%
As of September 30, 2007	23.7%	13.5%	4.6%

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Income Taxes

The Company recorded $19.1 million and $14.5 million of income tax expense for the three months ended September 30, 2008 and 2007, respectively, and $22.1 million and $25.2 million of income tax expense for the nine months ended September 30, 2008 and 2007, respectively. The effective rate for income taxes was 42.5% and 41.4% for the nine months ended September 30, 2008 and 2007, respectively. The Company s annual 2008 effective tax rate is expected to be 42.7% compared to the 2007 annual effective tax rate of 41.0%. The increase in the 2008 full year effective tax rate is primarily attributable to an increase in the state income tax rate in Maryland, where the Company s corporate headquarters is located.

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 $5.0 million and $4.4 million for the three months ended September 30, 2008 and 2007, respectively, and $12.5 million and $9.7 million for the nine months ended September 30, 2008 and 2007, respectively.

Other Employee Benefits

Effective June 1, 2007, the Company s Board of Directors approved the Under Armour, Inc. Deferred Compensation Plan (the Plan). The Plan allows a select group of management or highly compensated employees, as approved by the Compensation Committee, to make an annual base salary and/or bonus deferral for each year. Compensation deferrals began for participating employees on January 1, 2008. As of September 30, 2008, the Plan obligation was $2.6 million and was included in other long term liabilities on the consolidated balance sheet.

The Company established a rabbi trust (the Rabbi Trust) during the three months ended March 31, 2008, to fund obligations to participants in the Plan. As of September 30, 2008, the assets held in the Rabbi Trust were trust owned life insurance policies (TOLI) with a cash-surrender value of $2.6 million. These assets are consolidated in accordance with Emerging Issues Task Force (EITF) 97-14, *Accounting for Deferred Compensation Agreements Where Amounts Earned Are Held in a Rabbi Trust and Invested*, and are included in other non-current assets on the consolidated balance sheet. Refer to Note 7 for a discussion of the fair value measurements of the assets held in the Rabbi Trust and the Plan obligations.

Management Estimates

The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates, including estimates relating to assumptions that affect the reported amounts of assets and liabilities, and disclosure of contingent assets and liabilities at the date of the consolidated financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from these estimates.

Recently Adopted Accounting Standards

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

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In February 2007, the Financial Accounting Standards Board (FASB) issued SFAS No. 159, *The Fair Value Option for Financial Assets and Financial Liabilities Including an amendment of FASB Statement No. 115* (SFAS 159). SFAS 159 permits entities to choose to measure many financial instruments and certain other assets and liabilities at fair value on an instrument-by-instrument basis. The Company adopted SFAS 159 in the first quarter of 2008 and did not choose to apply fair value accounting to any such assets or liabilities.

In September 2006, the FASB issued SFAS No. 157, *Fair Value Measurements* (SFAS 157), which defines fair value, establishes a framework for measuring fair value in accordance with generally accepted accounting principles and expands disclosures about fair value measurements. SFAS 157 was effective for fiscal years beginning after November 15, 2007, however the FASB has delayed the effective date of SFAS 157 to fiscal years beginning after November 15, 2008 for nonfinancial assets and nonfinancial liabilities, except those items recognized or disclosed at fair value on an annual or more frequent basis. The adoption of SFAS 157 for financial assets and liabilities in the first quarter of 2008 did not have a material impact on the Company s consolidated financial statements. The Company does not believe that the adoption of SFAS 157 for nonfinancial assets and nonfinancial liabilities will have a material impact on its consolidated financial statements.

Recently Issued Accounting Standards

In June 2008, the FASB issued FASB Staff Position (FSP) EITF No. 03-6-1, *Determining Whether Instruments Granted in Share-Based Payment Transactions are Participating Securities* (FSP EITF 03-6-1). FSP EITF 03-6-1 requires 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 as described by SFAS No. 128, *Earnings per Share*. The provisions of FSP EITF 03-6-1 are required for fiscal years beginning after December 15, 2008. The Company does not believe the adoption of FSP EITF 03-6-1 will have a material impact on its computation of earnings per share.

In June 2008, the FASB issued EITF Issue No. 07-5, *Determining Whether an Instrument (or an Embedded Feature) is Indexed to an Entity s Own Stock* (EITF 07-5). EITF 07-5 addresses 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. EITF 07-5 is effective for fiscal years beginning after December 15, 2008. The Company is currently evaluating the impact of adopting EITF 07-5 on its consolidated financial statements.

In March 2008, the FASB issued SFAS No. 161, *Disclosures about Derivative Instruments and Hedging Activities* (SFAS 161). SFAS 161 is intended to improve financial reporting about derivative instruments and hedging activities by requiring enhanced disclosures to enable investors to better understand their effects on an entity s financial position, financial performance, and cash flows. The provisions of SFAS 161 are effective for the fiscal years and interim periods beginning after November 15, 2008. The Company does not believe the adoption of SFAS 161 will have a material impact on its consolidated financial statement disclosures.

In December 2007, the FASB issued SFAS No. 141R, *Business Combinations (revised 2007)* (SFAS 141R). SFAS 141R replaces SFAS 141 and requires the acquirer of a business to recognize and measure the identifiable assets acquired, the liabilities assumed, and any non-controlling interest in the acquiree at fair value. SFAS 141R also requires transaction costs related to the business combination to be expensed as incurred. SFAS 141R is effective for business combinations for which the acquisition date is on or after fiscal years beginning after December 15, 2008. The Company does not believe the adoption of SFAS 141R will have a material impact on its consolidated financial statements.

In December 2007, the FASB issued SFAS No. 160, *Noncontrolling Interests in Consolidated Financial Statements-an amendment of ARB No. 51* (SFAS 160). SFAS 160 establishes accounting and reporting standards for the noncontrolling interest in a subsidiary and for the deconsolidation of a subsidiary. SFAS 160 is effective for fiscal years beginning after December 15, 2008. The Company does not believe the adoption of SFAS 160 will have a material impact on its consolidated financial statements.

3. Inventories

Inventories consisted of the following:

(In thousands)	September 30, 2008	December 31, 2007
Finished goods	$ 167,801	$ 169,560
Raw materials	784	1,180
Work-in-process	8	208
Subtotal inventories	168,593	170,948
Inventories reserve	(4,981)	(4,866)
Total inventories	$ 163,612	$ 166,082

4. Intangible Assets, Net

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

	September 30, 2008			December 31, 2007		
(In thousands)	Gross Carrying Amount	Accumulated Amortization	Net Carrying Amount	Gross Carrying Amount	Accumulated Amortization	Net Carrying Amount
Intangible assets subject to amortization:						
Footwear promotional rights	$ 8,500	$ (3,250)	$ 5,250	$ 8,500	$ (2,125)	$ 6,375
Other	725	(98)	627	125	(30)	95
Total	$ 9,225	$ (3,348)	$ 5,877	$ 8,625	$ (2,155)	$ 6,470

Intangible assets are amortized using estimated useful lives of 33 months to 89 months with no residual value. Amortization expense, which is primarily included in selling, general and administrative expenses, was $0.4 million for each of the three months ended September 30, 2008 and 2007, and $1.2 million and $1.1 million for the nine months ended September 30, 2008 and 2007, respectively. The estimated amortization expense of the Company s intangible assets is $1.6 million for each of the years ending December 31, 2008 through 2011, and $0.5 million for the year ending December 31, 2012.

5. Revolving Credit Facility and Long Term Debt

Revolving Credit Facility

In December 2006, the Company entered into a third amended and restated financing agreement with a lending institution. This financing agreement has a term of five years and provides for a committed revolving credit line of up to $100.0 million based on the Company s eligible domestic inventory and accounts receivable balances and may be used for working capital and general corporate purposes. This financing agreement is collateralized by substantially all of the Company s domestic assets, other than its trademarks. Up to $10.0 million of the facility may be used to support letters of credit, which if utilized would reduce the availability under the revolving credit facility.

If net availability under the financing agreement falls below a certain threshold as defined in the agreement, the Company would be required to maintain a maximum leverage ratio of 1.25 and a minimum fixed charge coverage ratio of 1.10 to 1.25 as defined in the agreement. This financing agreement also provides the lenders

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with the ability to reduce the available revolving credit line amount even if the Company is in compliance with all conditions of the agreement, based on negative forecasts, trends or other circumstances that the lenders reasonably determine could negatively impact the Company or its business, profits, operations, financial condition or assets. The Company s net availability as of September 30, 2008 was well above the threshold for compliance with the financial covenants and the Company was substantially below the maximum leverage ratio and substantially above the minimum fixed charge coverage ratio as of September 30, 2008.

As of September 30, 2008, $15.0 million was outstanding under the revolving credit facility, and the Company s net availability was $85.0 million based on its eligible domestic inventory and accounts receivable balances. The weighted average interest rate on the balances outstanding under the revolving credit facility was 3.5% and 6.8% for the three months ended September 30, 2008 and 2007, respectively, and 3.5% and 6.8% for the nine months ended September 30, 2008 and 2007, 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. As of September 30, 2008 and December 31, 2007, the outstanding principal balance was $22.0 million and $13.4 million, respectively, under these agreements. Currently, advances under these agreements bear interest rates which are fixed at the time of each advance. The weighted average interest rate on outstanding borrowings was 5.9% and 6.6% for the three months ended September 30, 2008 and 2007, respectively, and 6.1% and 6.6% for the nine months ended September 30, 2008 and 2007, respectively.

The following is a schedule of future principal and interest payments on long term debt as of September 30, 2008:

(In thousands)		
October 1 - December 31, 2008	$	2,171
2009		8,041
2010		7,872
2011		3,742
2012 and thereafter		2,326
Total future payments on long term debt		24,152
Less amount representing interest		(2,155)
Total principal payments on long term debt		21,997
Less current maturities of long term debt		(7,192)
Long term debt obligations	$	14,805

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.

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6. Commitments and Contingencies

Sponsorships and Other Marketing Commitments

Within the normal course of business, the Company enters into contractual commitments in order to promote the Company s brand and products. These commitments include sponsorship agreements with teams and athletes on the collegiate and professional levels, official supplier agreements, athletic event sponsorships and other marketing commitments. The following is a schedule of the Company s future minimum payments under its sponsorship and other marketing agreements as of September 30, 2008:

(In thousands)		
October 1 - December 31, 2008	$	3,699
2009		22,408
2010		19,873
2011		16,212
2012 and thereafter		7,715
Total future minimum sponsorship and other marketing payments	$	69,907

The amounts listed above are the minimum obligations required to be paid under the Company s sponsorship and other marketing agreements. The amounts listed above do not include additional incentives based on performance achievements while wearing or using the Company s products and product supply obligations provided under some of these agreements.

Other

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 that fall under the scope of Financial Accounting Standards Board (FASB) Interpretation No. 45, *Guarantor s Accounting and Disclosure Requirements for Guarantees, Including Indirect Guarantees of Indebtedness of Others*. 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.

7. Fair Value Measurements

The Company adopted SFAS 157 as of January 1, 2008 for its financial assets and liabilities. SFAS 157 defines fair value 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). SFAS 157 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

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Level 3: Unobservable inputs in 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, 2008 are set forth in the table below:

(In thousands) Description	Level 1	Level 2	Level 3
Derivative foreign currency forward contracts (see Note 10)	$ -	$ 516	$ -
TOLI held by the Rabbi Trust (see Note 2)	-	2,620	-
The Plan obligations (see Note 2)	-	(2,586)	-

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. dollars 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 TOLI held by the Rabbi Trust 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.

8. Other Income (Expense), Net

The components of other income (expense), net consisted of the following:

	Three Months Ended September 30,		Nine Months Ended September 30,	
(In thousands)	2008	2007	2008	2007
Interest income	$ 84	$ 106	$ 358	$ 1,354
Interest expense	(195)	(207)	(856)	(532)
Unrealized foreign currency exchange rate gains (losses)	(1,697)	1,329	(1,517)	2,321
Realized foreign currency exchange rate gains (losses)	(490)	71	(882)	350
Unrealized derivative gains (losses)	403	(550)	750	(550)
Realized derivative gains (losses)	140	(75)	116	(75)
Other	19	-	19	