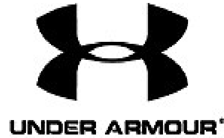

December 15, 2010

Technical Director, File Reference Number 1850-100
Financial Accounting Standards Board
401 Merritt 7
P.O. Box 5116
Norwalk, CT 06856-5116

Dear Sir or Madam:

Under Armour, Inc. ("Under Armour") is pleased to have this opportunity to provide feedback on the FASB's exposure draft of Proposed Accounting Standards Update -Leases (Topic 840). Under Armour is a leading developer, marketer and distributor of branded performance apparel, footwear and accessories. The brand's products are sold worldwide and provide a performance alternative to traditional products. The Under Armour global headquarters is located in Baltimore, Maryland, with European headquarters in Amsterdam, and additional offices in Denver, Hong Kong, Toronto, and Guangzhou, China. Under Armour's consolidated net revenues for the year ended December 31, 2009 were $0.9 billion. Under Armour is a lessee under numerous agreements to lease real property, including retail stores, corporate offices and warehouse space, as well as to lease office and plant equipment.

In general, we understand the need to require more visibility on lease obligations, but the desired objectives may be better achieved by enhancing or bringing more prominence to currently required disclosures. More quantitative and qualitative disclosures could be required on lease extensions, contingent rental payments, taxes and maintenance costs. Unfortunately, including lease obligations on the balance sheet is much more complicated both for the readers to understand and companies to prepare. The presentation on the balance sheet will not provide information on when payments are due or the amount of judgment in the balances. The way companies apply the guidance will differ as well. If two companies entered into the same lease, the companies would more than likely calculate different amounts for the initial recording of the lease. Therefore, there may be less consistency when readers review balance sheets of different companies. In addition, readers may not understand the differences between the liability to make lease payments and short or long term debt. Based on the proposed guidance, equal prevalence will exist for these balances.

We believe that some form of the proposed leasing guidance will be made effective; therefore we wish to provide some comments and suggestions on the proposed guidance based on the questions provided in the Exposure Draft.

Question 1(a): Do you agree that a lessee should recognize a right-of-use asset and a liability to make lease payments?

As stated above, we believe that the current accounting treatment is appropriate with modifications to the operating versus capital lease analysis and enhanced disclosures previously discussed. However, if these agreements are going to be brought onto the balance sheet, we believe that setting up a right-to-use asset and liability to make lease payments is the best approach with some modifications to the proposed guidance. This treatment is not overly dissimilar to the current accounting treatment for capital leases.

Question 1(b): Do you agree that a lessee should recognize amortization of the right-of-use-asset and interest on the liability to make lease payments?

No, we do not agree with this approach. By recording interest amortization on the liability, interest expense on the lease will be higher in the beginning of the lease and lower at the end of the lease. With contingent rental payments and renewal terms included in the opening balance of the liability to make lease payments, significant interest expense will be recorded in the beginning years of the lease related to revenue (if contingent rentals are based on future sales) that might not be earned for ten or twenty years. This may not result in the best matching of expenses with revenues. No additional benefits are received in the beginning of a lease term, as the recognition of expense would indicate. Alternative treatments are discussed in the response to Question 9.

In addition, as the amortization of the right-of-use asset is recorded in operating expenses, and the interest expense on the liability to make lease payments is recorded in non-operating expenses, the true operating performance of a single retail store would now need to include interest expense. Essentially, each store lease will be treated as a capital lease with the administrative burden of tracking each lease individually and regularly reviewing the estimates and judgments used to estimate the lease asset and liability. Our current assessment of a retail store operating performance includes operating income. Thus new operating performance ratios will be needed. Further, we believe that the breakout of rental expense into these different classifications will actually lead to less clarity for users of financial statements, as single payments made for rent will be classified in two different places on the income statement.

Alternative suggestions include ratably recording interest expense instead of recording higher expense in the beginning of the lease term and also considering interest expense related to leases as an operating expense.

Question 3: Do you agree that a lessee or a lessor should account for short-term leases in this way?

We agree that accommodations should be made for short term leases. Although treating these leases similarly to current operating leases would be less labor intensive than including undiscounted amounts on the balance sheet.

We disagree with the proposed definition of a short term lease. Short term leases are defined in the Exposure Draft as leases in which the maximum possible lease term, including options to renew or extend, is twelve months or less. We believe that this definition should be expanded to include leases in which the maximum possible lease term is three years or less. While lease terms of twelve months or less are extremely rare and can be very labor intensive to manage, common office equipment leases typically have terms of three years or less. Entities may elect to negotiate leases specifically to meet the "twelve months or less" requirement then re-negotiate the same lease once the twelve months are over. Leases with lease terms of three years are much more common, especially with common office equipment that generally is immaterial to a company's overall operations. Therefore companies will be able to avoid the onerous process of recording the present value of future lease payments on immaterial agreements and shorter term leases.

Question 5: Do you agree with the proposed scope of the proposed guidance?

Similarly to Question 3, we agree with the proposed scope of the exposure draft other than the fact that there is no specific guidance related to immaterial leases. It is understood that all guidance should not be applied to immaterial items. Under Armour has many leases for immaterial office and plant equipment that individually are not material, but when aggregated the right-of-use asset and liability for future lease payments may be more significant. The income statement impact of accounting for these leases under the Exposure Draft will not be materially different than current accounting practices for these leases. In addition, there may be a disparity in the way different entities account for these types of leases which will prevent consistency.

Question 8: Do you agree that a lessee or a lessor should determine the lease term as the longest possible term that is more likely than not to occur taking into account the effect of any options to extend or terminate the lease?

We disagree that the longest possible term should take into account the effect of options to extend or terminate the lease. In the beginning of the lease term, interest expense on the liability to make lease payments will be increased significantly if it is more likely than not that the term will be extended. If an entity later determines it is more likely than not that they will not extend their lease, this adjustment will be made prospectively through decreasing the right-of-use asset. Meanwhile, interest expense has already been recorded relating to original judgment on the option to extend. This creates unnecessary volatility in earnings that could be avoided if options to renew are excluded in the asset and liability until they are contractually obligated.

At the inception of the lease, options to extend or terminate the lease are not contractually obligated. According to FASB Concepts 6, *Elements of Financial Statements*, ("CON 6"), liabilities are defined as "probable future sacrifices of economic benefits arising from **present obligations** of a particular entity to transfer assets or provide services to other entities in the future as a result of **past transactions or events**." Generally, the lease renewal does not become a present obligation until the lessee officially communicates their plans with the lessor in the future. Therefore we believe lease renewal terms do not meet the definition of a liability. We recommend that no change is made to the lease term definition under the current lease accounting. The definition of a lease term under the current lease accounting guidance includes all renewal periods that the lessee is reasonably assured of exercising as well as any renewal periods that are at the lessor's option. This current definition results in a lease term that includes renewal periods in which the lessee is economically compelled to exercise, which is a more practical application.

Question 9: Do you agree that contingent rentals and expected payments under term option penalties and residual value guarantees that are specified in the lease should be included in the measurement of assets and liabilities arising from a lease using an expected outcome technique?

We disagree that contingent rentals should be included in the measurement of assets and liabilities arising from a lease. Our contingent rental payments are based on a percentage of revenues ("percentage rent"). Consistent with current accounting guidance, we record an accrual during the entire year if our forecasts indicate that the level of revenue will require percentage rent during the year. Current accounting guidance follows the matching principle in that percentage rent is recorded to offset revenues earned during a particular year. Generally, an entity would expect revenues to increase over time while occupying retail space. This is due to brand recognition and the products an entity offers, as opposed to a benefit received once a lease agreement is signed. Contingent rent is a result of how the asset is used as opposed to a result of the right to use the asset. If percentage rent for the duration of a lease is included in the initial measurement of the lease asset and liability, interest expense will be higher at inception before any revenue is earned related to the percentage rent. Again, this treatment contradicts the matching principle. Additionally, we do not believe contingent rental fees meet the definitions of assets and liabilities. According to CON 6, an asset is defined as "probable future economic benefits obtained or controlled by a particular entity as a result of **past transactions or events**". As stated above, a liability is also created by past transactions or events. We believe that contingent rental payments are created by future events, such as the earning of revenues, not past events. While the execution of the lease agreement occurs in the past, the true triggering event for the contingent rental fee is achieving a certain amount of revenues.

In addition, entities do not have detailed revenue plans that extend more than five or ten years. Estimates may be needed at inception for fifteen or twenty years in the future, which would not

be practical. Although future cash flows are used to support impairment testing and other fair value measurements, these estimates are not directly recorded on the balance sheet and are only completed when events indicate that an impairment may have occurred. There is a constant requirement to update estimates related to contingent rentals; therefore future percentage rent estimates will frequently change under the proposed guidance. Similar to renewal options, future revenue forecasts will update the value of the right-of-use asset and liability to make lease payments for prospective recognition. Interest expense will have already been recorded based on the original estimates. We believe that this creates further unnecessary volatility in earnings that could be avoided if contingent rentals are recorded in the year they relate to offset revenue. We recommend that the accounting treatment for contingent rental fees remain the same with enhanced disclosures about estimated payments in the future.

Question 17: Do you agree with the board's assessment that the benefits of the proposals would outweigh the costs?

We do not believe that the benefits of this change in accounting guidance outweigh the costs. Information on lease obligations is already required for disclosure. Including this information on the balance sheet will make the obligations more prevalent, but we do not believe that the "average" financial statement user will understand the inputs and assumptions that are used to value the liability in the proposed guidance. Instead the average financial statement user will view the liability negatively especially if options to renew and contingent rentals are included. In addition, the significant front loading of interest expense driven by including renewal terms and contingent rent will be misleading to financial statement users.

Under Armour is a growth company that does not have a real estate department to handle the accounting treatment of leases. There will be an increased need for required expertise, which isn't necessary under the current lease accounting guidance. Retail based companies expect that the implementation of the proposed lease accounting will cost more than the implementation of Sarbanes Oxley 404. The following is a summary of some of the costs that will be incurred to implement and maintain the proposed guidance in the Exposure Draft:

- amendments to debt facilities as debt covenants will be impacted by this accounting change;
- internal and external costs to negotiate leases as companies try to decrease the impact of the new lease accounting guidance;
- those companies that currently use a software system to maintain their leases will need modifications or replacement software for the new accounting guidance, and those companies that currently do not use a software system will need to implement one;
- additional time with executives to determine the appropriate forward looking forecasts and appropriate lease terms considering the initial recording and necessary updates required by the proposed guidance;

- additional costs for real estate consultants; and
- resources to initially record and then maintain the right-of-use asset and liability to make lease payments.

We view the majority of this Exposure Draft as an onerous task that will not provide a distinguishable amount of value to our financial statement users and may actually create more confusion for preparers and users. As support to this view, we've included Appendix A which demonstrates the calculations necessary to meet the guidance proposed by the Exposure Draft of one lease. Many companies our size or larger will have hundreds or thousands of leases to consider.

Question 18: Do you have any other comments on the proposal?

Our strongest views relate to the inclusion of options to renew and contingent rental payments in the initial measurement of the right-to-use asset and liability to make lease payments. We believe these items will create unnecessary current and future volatility in earnings. In addition, it will not provide timely, accurate and consistent measurement on the statement of financial position and statement of operations, as well as provide accurate matching of revenues and expenses. Instead we recommend enhanced disclosures to inform readers of possible future obligations under current lease agreements including ranges of contingent lease payments and specific information on lease renewal terms.

We appreciate the opportunity to comment on this guidance and your consideration of these comments.

Respectfully,

/s/ David Bergman________________
David Bergman
Controller
Under Armour, Inc.

Under Armour, Inc.
Leases Exposure Draft Example
Appendix A

FACTS

The lease begins 1/1/2010. The lease term is 10 years with an option to renew for 5 years. The following base rents and contingent rental fees apply during the lease term. The contingent rental fees are based on a percentage of revenues. Throughout the lease term, it is more likely than not that UA will not extend the term, and UA does not renew in 2019. No adjustments are needed for actual revenues throughout the lease term as actual revenues equal the revenue estimates used to calculate the right-of-use asset and liability to make lease payments.

BASE RENT

	$ / Sq Ft	Square Footage	Annual Payment	Monthly Payment
2010	$ 50.00	4,000	$ 200,000.00	$ 16,666.67
2011	$ 51.50	4,000	$ 206,000.00	$ 17,166.67
2012	$ 53.05	4,000	$ 212,180.00	$ 17,681.67
2013	$ 54.64	4,000	$ 218,545.40	$ 18,212.12
2014	$ 56.28	4,000	$ 225,101.76	$ 18,758.48
2015	$ 57.96	4,000	$ 231,854.81	$ 19,321.23
2016	$ 59.70	4,000	$ 238,810.46	$ 19,900.87
2017	$ 61.49	4,000	$ 245,974.77	$ 20,497.90
2018	$ 63.34	4,000	$ 253,354.02	$ 21,112.83
2019	$ 65.24	4,000	$ 260,954.64	$ 21,746.22

CONTINGENT RENTAL FEES

	Amt / Sq Ft	Sq Ft	Breakpoint	Expected Sales	Difference	Rate	Percentage Rent
2010	$ 750.00	4,000	$ 3,000,000	$ 4,400,000	$ 1,400,000	4%	$ 56,000
2011	$ 772.50	4,000	$ 3,090,000	$ 4,620,000	$ 1,530,000	4%	$ 61,200
2012	$ 795.68	4,000	$ 3,182,700	$ 4,851,000	$ 1,668,300	4%	$ 66,732
2013	$ 819.55	4,000	$ 3,278,181	$ 5,093,550	$ 1,815,369	4%	$ 72,615
2014	$ 844.13	4,000	$ 3,376,526	$ 5,348,228	$ 1,971,701	4%	$ 78,868
2015	$ 869.46	4,000	$ 3,477,822	$ 5,615,639	$ 2,137,817	4%	$ 85,513
2016	$ 895.54	4,000	$ 3,582,157	$ 5,896,421	$ 2,314,264	4%	$ 92,571
2017	$ 922.41	4,000	$ 3,689,622	$ 6,191,242	$ 2,501,620	4%	$ 100,065
2018	$ 950.08	4,000	$ 3,800,310	$ 6,500,804	$ 2,700,494	4%	$ 108,020
2019	$ 978.58	4,000	$ 3,914,320	$ 6,825,844	$ 2,911,525	4%	$ 116,461

Under Armour, Inc.
Leases Exposure Draft Example
Appendix A

OPERATING LEASE CALCULATION

Annual Straightline Expense	$	229,278

EXPOSURE DRAFT CALCULATION

Asset	$	2,402,390	**Annual Amortization**	$	240,239
Liability	$	2,402,390	**Interest Expense**		Varies by year

ANNUAL EXPENSE

		Operating Lease		Exposure Draft		Difference
2010	$	285,278	$	358,452	$	73,175
2011	$	290,478	$	351,267	$	60,789
2012	$	296,010	$	343,136	$	47,127
2013	$	301,892	$	333,987	$	32,095
2014	$	308,146	$	323,739	$	15,593
2015	$	314,790	$	312,307	$	(2,483)
2016	$	321,848	$	299,601	$	(22,247)
2017	$	329,342	$	285,523	$	(43,819)
2018	$	337,297	$	269,971	$	(67,326)
2019	$	345,739	$	252,836	$	(92,903)
	$	3,130,819	$	3,130,819	$	0