Under Armour, Inc.
Form 10-Q
November 04, 2015
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UNITED STATES
SECURITIES AND EXCHANGE COMMISSION
Washington, D.C. 20549

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Form 10-Q

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(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, 2015

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

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UNDER ARMOUR, INC.
(Exact name of registrant as specified in its charter)

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

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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 September 30, 2015 there were 180,115,884 shares of Class A Common Stock and 35,700,000 shares of Class B Convertible Common Stock outstanding.

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PART I. FINANCIAL INFORMATION

ITEM 1. FINANCIAL STATEMENTS

Under Armour, Inc. and Subsidiaries
Unaudited Consolidated Balance Sheets
(In thousands, except share data)

| | September 30, 2015 | December 31, 2014 | September 30, 2014 |
|---|---|---|---|
| Assets | | | |
| Current assets | | | |
| Cash and cash equivalents | $ 159,398 | $ 593,175 | $ 249,469 |
| Accounts receivable, net | 551,188 | 279,835 | 449,221 |
| Inventories | 867,082 | 536,714 | 637,459 |
| Prepaid expenses and other current assets | 134,751 | 87,177 | 86,914 |
| Deferred income taxes | 60,692 | 52,498 | 40,840 |
| Total current assets | 1,773,111 | 1,549,399 | 1,463,903 |
| Property and equipment, net | 478,418 | 305,564 | 264,629 |
| Goodwill | 591,872 | 123,256 | 123,356 |
| Intangible assets, net | 79,692 | 26,230 | 28,850 |
| Deferred income taxes | 42,866 | 33,570 | 47,602 |
| Other long term assets | 69,543 | 57,064 | 49,770 |
| Total assets | $ 3,035,502 | $ 2,095,083 | $ 1,978,110 |
| Liabilities and Stockholders' Equity | | | |
| Current liabilities | | | |
| Revolving credit facility, current | $ 300,000 | $ — | $ — |
| Accounts payable | 274,285 | $ 210,432 | $ 273,687 |
| Accrued expenses | 188,266 | 147,681 | 143,299 |
| Current maturities of long term debt | 42,124 | 28,951 | 19,524 |
| Other current liabilities | 43,929 | 34,563 | 53,969 |
| Total current liabilities | 848,604 | 421,627 | 490,479 |
| Long term debt, net of current maturities | 362,550 | 255,250 | 172,124 |
| Revolving credit facility | 200,000 | — | — |
| Other long term liabilities | 89,094 | 67,906 | 61,366 |
| Total liabilities | 1,500,248 | 744,783 | 723,969 |
| Commitments and contingencies (see Note 5) | | | |
| Stockholders' equity | | | |
| Class A Common Stock, $0.0003 1/3 par value; 400,000,000 shares authorized as of September 30, 2015, December 31, 2014 and September 30, 2014; 180,115,884 shares issued and outstanding as of September 30, 2015, 177,295,988 shares issued and outstanding as of December 31, 2014 and 176,021,944 shares issued and outstanding as of September 30, 2014. | 60 | 59 | 59 |
| Class B Convertible Common Stock, $0.0003 1/3 par value; 35,700,000 shares authorized, issued and outstanding as of September 30, 2015, 36,600,000 shares authorized, issued and outstanding as of December 31, 2014 and 37,675,000 shares authorized, issued and outstanding as of September 30, 2014. | 12 | 12 | 13 |
| | — | — | — |

| | | | |
|---|---|---|---|
| Class C Common Stock, $0.0003 1/3 par value; 400,000,000 shares authorized as of September 30, 2015; 0 shares issued and outstanding as of September 30, 2015. | | | |
| Additional paid-in capital | 603,123 | 508,350 | 490,578 |
| Retained earnings | 971,117 | 856,687 | 770,484 |
| Accumulated other comprehensive loss | (39,058) | (14,808) | (6,993) |
| Total stockholders' equity | 1,535,254 | 1,350,300 | 1,254,141 |
| Total liabilities and stockholders' equity | $ 3,035,502 | $ 2,095,083 | $ 1,978,110 |

See accompanying notes.

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Under Armour, Inc. and Subsidiaries
Unaudited Consolidated Statements of Income
(In thousands, except per share amounts)

| | Three Months Ended September 30, | | Nine Months Ended September 30, | |
|---|---|---|---|---|
| | 2015 | 2014 | 2015 | 2014 |
| Net revenues | $1,204,109 | $937,908 | $2,792,627 | $2,189,169 |
| Cost of goods sold | 616,949 | 472,608 | 1,448,750 | 1,123,227 |
| Gross profit | 587,160 | 465,300 | 1,343,877 | 1,065,942 |
| Selling, general and administrative expenses | 415,763 | 319,194 | 1,112,912 | 858,286 |
| Income from operations | 171,397 | 146,106 | 230,965 | 207,656 |
| Interest expense, net | (4,100) | (1,535) | (10,572) | (3,608) |
| Other expense, net | (3,239) | (3,355) | (5,038) | (3,982) |
| Income before income taxes | 164,058 | 141,216 | 215,355 | 200,066 |
| Provision for income taxes | 63,581 | 52,111 | 88,384 | 79,733 |
| Net income | $100,477 | $89,105 | $126,971 | $120,333 |
| Net income available per common share | | | | |
| Basic | $0.47 | $0.42 | $0.59 | $0.56 |
| Diluted | $0.45 | $0.41 | $0.58 | $0.55 |
| Weighted average common shares outstanding | | | | |
| Basic | 215,743 | 213,522 | 215,347 | 213,035 |
| Diluted | 221,053 | 217,982 | 220,708 | 217,601 |

See accompanying notes.

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Under Armour, Inc. and Subsidiaries
Unaudited Consolidated Statements of Comprehensive Income
(In thousands)

| | Three Months Ended September 30, | | Nine Months Ended September 30, | |
|---|---|---|---|---|
| | 2015 | 2014 | 2015 | 2014 |
| Net income | $100,477 | $89,105 | $126,971 | $120,333 |
| Other comprehensive income (loss): | | | | |
| Foreign currency translation adjustment | (11,558) | (8,218) | (23,784) | (9,436) |
| Unrealized gain (loss) on cash flow hedge, net of tax of ($506) and $404 for the three months ended September 30, 2015 and 2014, respectively, and ($698) and $39 for the nine months ended September 30, 2015 and 2014, respectively. | (105) | 771 | (466) | 249 |
| Total other comprehensive loss | (11,663) | (7,447) | (24,250) | (9,187) |
| Comprehensive income | $88,814 | $81,658 | $102,721 | $111,146 |

See accompanying notes.

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Under Armour, Inc. and Subsidiaries
Unaudited Consolidated Statements of Cash Flows
(In thousands)

| | Nine Months Ended September 30, | |
|---|---|---|
| | 2015 | 2014 |
| Cash flows from operating activities | | |
| Net income | $126,971 | $120,333 |
| Adjustments to reconcile net income to net cash used in operating activities | | |
| Depreciation and amortization | 72,211 | 52,391 |
| Unrealized foreign currency exchange rate losses | 24,677 | 4,881 |
| Loss on disposal of property and equipment | 434 | 78 |
| Stock-based compensation | 44,800 | 38,965 |
| Deferred income taxes | (15,266) | (19,783) |
| Changes in reserves and allowances | 19,577 | 10,794 |
| Changes in operating assets and liabilities, net of effects of acquisitions: | | |
| Accounts receivable | (288,687) | (248,256) |
| Inventories | (357,874) | (176,770) |
| Prepaid expenses and other assets | (52,629) | (20,282) |
| Accounts payable | 58,155 | 118,236 |
| Accrued expenses and other liabilities | 44,863 | 20,180 |
| Income taxes payable and receivable | 9,320 | 26,737 |
| Net cash used in operating activities | (313,448) | (72,496) |
| Cash flows from investing activities | | |
| Purchases of property and equipment | (226,733) | (96,596) |
| Purchase of businesses, net of cash acquired | (539,460) | (10,924) |
| Purchases of available-for-sale securities | (80,272) | — |
| Sales of available-for-sale securities | 68,314 | — |
| Purchases of other assets | (2,670) | (724) |
| Net cash used in investing activities | (780,821) | (108,244) |
| Cash flows from financing activities | | |
| Proceeds from revolving credit facility | 500,000 | — |
| Payments on revolving credit facility | — | (100,000) |
| Proceeds from term loan | 150,000 | 150,000 |
| Payments on long term debt | (29,527) | (11,275) |
| Excess tax benefits from stock-based compensation arrangements | 40,768 | 33,056 |
| Proceeds from exercise of stock options and other stock issuances | 7,527 | 14,060 |
| Payments of debt financing costs | (947) | (1,714) |
| Net cash provided by financing activities | 667,821 | 84,127 |
| Effect of exchange rate changes on cash and cash equivalents | (7,329) | (1,407) |
| Net decrease in cash and cash equivalents | (433,777) | (98,020) |
| Cash and cash equivalents | | |
| Beginning of period | 593,175 | 347,489 |
| End of period | $159,398 | $249,469 |
| | | |
| Non-cash investing and financing activities | | |
| Increase (decrease) in accrual for property and equipment | $4,800 | $(10,601) |
| Property and equipment acquired under build-to-suit leases | 5,631 | — |

| | | |
|---|---|---|
| Non-cash acquisition of business | — | 11,233 |

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. The Under Armour Connected Fitness™ platform powers the world's largest digital health and fitness community. The Company uses this platform to engage its consumers and increase awareness and sales of its products.

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, 2014 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, 2014 (the “2014 Form 10-K”), which should be read in conjunction with these consolidated financial statements. The results for the nine months ended September 30, 2015 are not necessarily indicative of the results to be expected for the year ending December 31, 2015 or any other portions thereof.

On March 17, 2014, the Board of Directors declared a two-for-one stock split of the Company's Class A and Class B common stock, which was effected in the form of a 100% common stock dividend distributed on April 14, 2014. Stockholders' equity and all references to share and per share amounts in the accompanying consolidated financial statements have been retroactively adjusted to reflect the two-for-one stock split for all periods presented.

On January 5, 2015, the Company acquired 100% of the outstanding equity of Endomondo ApS (“Endomondo”), a Denmark-based digital connected fitness company. On March 17, 2015, the Company acquired 100% of the outstanding equity of MyFitnessPal, Inc. (“MFP”), a digital nutrition and connected fitness company. Both companies were acquired to expand the Under Armour Connected Fitness community. The purchase price allocation for each acquisition is reflected in the consolidated balance sheet as of September 30, 2015.

The Company identified a prior period error in the classification of available-for-sale securities (“AFS”) for the first and second quarters of 2015. The Company concluded that the error was not material to any of its previously issued financial statements. The Company has included purchases and sales of AFS for the first six months of 2015 of $41.5 million and $19.4 million, respectively, in its cash flows from investing activities presented herein. Additionally, the Company intends to revise the affected periods when they are presented on a comparable basis to reflect the correct accounting. The revision will result in a reclassification from "Cash and cash equivalents" to "Prepaid expenses and other current assets" on the 2015 first and second quarter balance sheets of $7.1 million and $22.1 million, respectively. Correspondingly, the revision will result in the presentation of purchases and sales of AFS for the three months ended March 31, 2015 of $10.4 million and $3.3 million, respectively, in addition to the six months 2015 cash flow activities described above.

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 Company's largest customer in North America accounted for 20.7%, 23.4% and 24.7% of accounts receivable as of September 30, 2015, December 31, 2014 and September 30, 2014, respectively. The Company's largest customer accounted for

12.5% and 15.0% of net revenues for the nine months ended September 30, 2015 and 2014, respectively.

Allowance for Doubtful Accounts

As of September 30, 2015, December 31, 2014 and September 30, 2014, the allowance for doubtful accounts was $6.3 million, $3.7 million and $3.5 million, respectively.

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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 $14.3 million and $16.7 million for the three months ended September 30, 2015 and 2014, respectively, and $40.1 million and $39.7 million for the nine months ended September 30, 2015 and 2014, 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 and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the consolidated financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from these estimates.

Recently Issued Accounting Standards

In May 2014, the Financial Accounting Standards Board ("FASB") issued an Accounting Standards Update which supersedes the most current revenue recognition requirements. The new revenue recognition standard requires entities to recognize revenue in a way that depicts the transfer of goods or services to customers in an amount that reflects the consideration which the entity expects to be entitled to in exchange for those goods or services. This guidance was previously effective for annual and interim reporting periods beginning after December 15, 2016, with early adoption not permitted. In August 2015, the FASB issued a one-year deferral of the effective date of the new revenue recognition standard. The new standard will now be effective for annual and interim periods beginning after December 15, 2017 with early adoption as of the original effective date permitted. The Company is currently evaluating this standard to determine the impact of its adoption on its consolidated financial statements.

In July 2015, the FASB issued an Accounting Standard Update which simplifies the measurement of inventory by requiring certain inventory to be measured at the lower of cost or net realizable value. This guidance is effective for fiscal years beginning after December 15, 2016 and for interim periods therein. The Company does not expect the adoption of this standard to have a significant impact on its consolidated financial statements.

In September 2015, the FASB issued an Accounting Standards Update which requires the acquiring company in a business combination to recognize adjustments to provisional amounts that are identified during the measurement period in the reporting period in which the adjustment amounts are determined. The amendments in this Update require that the acquiring company record, in the same period's financial statements, the effect on earnings of changes in depreciation, amortization, or other income effects, if any, as a result of a change to the provisional amounts, calculated as if the accounting had been completed at the acquisition date. This guidance is effective for fiscal years beginning after December 15, 2015 and for interim periods therein. The Company does not expect the adoption of this standard to have a significant impact on its consolidated financial statements.

Recently Adopted Accounting Standards

In January 2015, the FASB issued an Accounting Standards Update which eliminates from GAAP the concept of extraordinary items and the need to separately classify, present, and disclose extraordinary events and transactions. This guidance is effective for annual and interim reporting periods beginning after December 15, 2015, with early adoption permitted provided that the guidance is applied from the beginning of the fiscal year of adoption. The adoption of this pronouncement did not have a material impact on the Company's consolidated financial statements.

3. Acquisitions

Endomondo

On January 5, 2015, the Company acquired 100% of the outstanding equity of Endomondo, a Denmark-based digital connected fitness company, to expand the Under Armour Connected Fitness community. The purchase price was

$85.0 million, adjusted for working capital.

The Company recognized $0.6 million and $0.8 million in acquisition related costs that were expensed during the three months ended March 31, 2015 and December 31, 2014, respectively. These costs are included in the consolidated statements of income in the line item entitled “Selling, general and administrative expenses.” Pro forma results are not presented, as the acquisition was not considered material to the consolidated Company.

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MyFitnessPal

On March 17, 2015, the Company acquired 100% of the outstanding equity of MFP, a digital nutrition and connected fitness company, to expand the Under Armour Connected Fitness community. The final adjusted transaction value totaled $474.0 million. The total consideration of $463.9 million was adjusted to reflect the accelerated vesting of certain share awards of MFP, which are not conditioned upon continued employment, and transaction costs borne by the selling shareholders. The acquisition was funded with $400.0 million of increased term loan borrowings and a draw on the revolving credit facility, with the remaining amount funded by cash on hand.

The Company recognized $5.7 million of acquisition related costs that were expensed during the three months ended March 31, 2015. These costs are included in the consolidated statement of income in the line item entitled “Selling, general and administrative expenses.”

The following represents the pro forma consolidated income statement as if MFP had been included in the consolidated results of the Company for the three and nine months ended September 30, 2015 and September 30, 2014:

| | Three Months Ended September 30, | | Nine months ended September 30, | |
|---|---|---|---|---|
| (In thousands) | 2015 | 2014 | 2015 | 2014 |
| Net revenues | $1,204,109 | $941,265 | $2,796,322 | $2,199,858 |
| Net income | 100,477 | 85,176 | 125,673 | 106,512 |

These amounts have been calculated after applying the Company’s accounting policies and adjusting the results of MFP to reflect the acquisition as if it closed on January 1, 2014. Pro forma net income for the nine months ended September 30, 2014 reflects the impact of $5.7 million in transaction expenses included in the consolidated statement of income for the nine months ended September 30, 2015, but excluded from the calculation of pro forma net income for that period.

These acquisitions have been accounted for as business combinations under the acquisition method and, accordingly, the total purchase price is allocated to the tangible and intangible assets acquired and the liabilities assumed based on their respective fair values on the acquisition dates, with the remaining unallocated purchase price recorded as goodwill. These purchase price allocations are final. The following table summarizes the allocation of estimated fair values of the net assets acquired, including the related estimated useful lives, where applicable:

| | MyFitnessPal | | Endomondo | |
|---|---|---|---|---|
| | (in thousands) | Useful life (in years) | (in thousands) | Useful life (in years) |
| Finite-lived intangible assets: | | | | |
| User base | $38,300 | 10 | $10,600 | 10 |
| Nutrition database | 4,500 | 10 | — | N/A |
| Technology | 3,200 | 5 | 5,000 | 5 |
| Trade name | 2,300 | 5 | 400 | 5 |
| Other assets acquired | 16,190 | | 3,738 | |
| Liabilities assumed | (3,291) | | (2,784) | |
| Net assets acquired | 61,199 | | 16,954 | |
| Goodwill | 402,728 | | 70,290 | |
| Total fair value of consideration | $463,927 | | $87,244 | |

The Company estimated the acquisition date fair values of intangible assets based on income-based discounted cash flow models using estimates and assumptions regarding future operations. The Company is amortizing the intangible assets on a straight-line basis over their estimated useful lives. These costs are included in the consolidated statements of income in the line item entitled “Selling, general and administrative expenses.”

The goodwill recorded as a result of the acquisitions primarily reflects unidentified intangible assets acquired, including operational synergies across the Company, assembled workforces, the value of integrating acquired technologies and engaging and growing the connected fitness community. The Company is in the process of finalizing the goodwill allocation between its reportable segments. None of the goodwill is expected to be deductible for tax

purposes.

4. Credit Facility and Other Long Term Debt

Credit Facility

In March 2015, the Company amended its existing credit agreement, providing an additional $150.0 million of term loan borrowings, which were borrowed on the closing date of the amendment, resulting in aggregate term loan borrowings under the credit agreement of $400.0 million. This amendment also increased revolving credit facility commitments available under the

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credit agreement from $400.0 million to $800.0 million, of which the Company borrowed $250.0 million on the closing date of the amendment. These additional borrowings were used to fund, in part, the acquisition of MFP. At the Company's request and the lenders' consent, revolving and/or term loan borrowings may be increased by up to $300.0 million in aggregate, subject to certain conditions as set forth in the credit agreement, as amended. These additional amounts are uncommitted and the availability thereof will depend on market conditions at the time the Company seeks to incur such borrowings.

Borrowings under the revolving credit facility may be made in U.S. Dollars, Euros, Pounds Sterling, Japanese Yen and Canadian Dollars. Up to $50.0 million of the facility may be used for the issuance of letters of credit and up to $50.0 million of the facility may be used for the issuance of swingline loans. There were $1.2 million of letters of credit and no swingline loans outstanding as of September 30, 2015.

The credit agreement contains negative covenants that, subject to significant exceptions, limit the ability of the Company and its subsidiaries to, among other things, incur additional indebtedness, make restricted payments, pledge their assets as security, make investments, loans, advances, guarantees and acquisitions, undergo fundamental changes and enter into transactions with affiliates. The Company is also required to maintain a ratio of consolidated EBITDA, as defined in the credit agreement, to consolidated interest expense of not less than 3.50 to 1.00 and is not permitted to allow the ratio of consolidated total indebtedness to consolidated EBITDA to be greater than 3.25 to 1.00 ("consolidated leverage ratio"). As of September 30, 2015, the Company was in compliance with these ratios. In addition, the credit agreement contains events of default that are customary for a facility of this nature, and includes a cross default provision whereby an event of default under other material indebtedness, as defined in the credit agreement, will be considered an event of default under the credit agreement.

Borrowings under the credit agreement bear interest at a rate per annum equal to, at the Company’s option, either (a) an alternate base rate, or (b) a rate based on the rates applicable for deposits in the interbank market for U.S. Dollars or the applicable currency in which the loans are made (“adjusted LIBOR”), plus in each case an applicable margin. The applicable margin for loans will be adjusted by reference to a grid (the “Pricing Grid”) based on the consolidated leverage ratio and ranges between 1.00% to 1.25% for adjusted LIBOR loans and 0.00% to 0.25% for alternate base rate loans. The weighted average interest rates under the initial term loan, delayed draw term loan, new term loan and revolving credit facility were 1.33%, 1.33%, 1.33% and 1.34% during the three months ended September 30, 2015, and 1.27%, 1.27%, 1.31% and 1.32% during the nine months ended September 30, 2015, respectively. As of September 30, 2015, $500.0 million was outstanding under the Company’s revolving credit facility. Additionally, the Company pays a commitment fee on the average daily unused amount of the revolving credit facility and certain fees with respect to letters of credit. As of September 30, 2015, the commitment fee was 15.0 basis points. The Company incurred and capitalized $2.9 million in deferred financing costs in connection with the credit facility.

Other 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. At September 30, 2015, December 31, 2014 and September 30, 2014, the outstanding principal balance under these agreements was $0.1 million, $2.0 million and $2.6 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 3.3% and 3.0% for the three months ended September 30, 2015 and 2014, respectively, and 4.2% and 3.2% for the nine months ended September 30, 2015 and 2014, respectively.

In December 2012, the Company entered into a $50.0 million recourse loan collateralized by the land, buildings and tenant improvements comprising the Company's corporate headquarters. The loan has a seven year term and maturity date of December 2019. The loan bears interest at one month LIBOR plus a margin of 1.50%, and allows for prepayment without penalty. The loan includes covenants and events of default substantially consistent with the Company's credit agreement discussed above. The loan also requires prior approval of the lender for certain matters related to the property, including transfers of any interest in the property. As of September 30, 2015, December 31, 2014 and September 30, 2014, the outstanding balance on the loan was $44.5 million, $46.0 million and $46.5 million, respectively. The weighted average interest rate on the loan was 1.7% for the three and nine months ended September 30, 2015 and 2014.

Interest expense, net was $4.1 million and $1.5 million for the three months ended September 30, 2015 and 2014, respectively, and $10.6 million and $3.6 million for the nine months ended September 30, 2015 and 2014, respectively. Interest expense includes the amortization of deferred financing costs, bank fees, capital and built-to-suit lease interest and interest expense under the credit and other long term debt facilities.

The Company monitors the financial health and stability of its lenders under the credit and other 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.

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5. Commitments and Contingencies

There were no significant changes to the contractual obligations reported in the 2014 Form 10-K other than those which occur in the normal course of business.

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. Generally, such indemnification obligations do not apply in situations in which the counterparties are grossly negligent, engage in willful misconduct, or act in bad faith. 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.

From time to time, the Company is involved in litigation and other proceedings, including matters related to commercial and intellectual property disputes, as well as trade, regulatory and other claims related to its business. Other than as described below, the Company believes that all current proceedings are routine in nature and incidental to the conduct of its business, and that the ultimate resolution of any such proceedings will not have a material adverse effect on its consolidated financial position, results of operations or cash flows.

Following the Company's announcement of the creation of a new class of common stock, referred to as the Class C common stock, par value $0.0003 1/3 per share, four purported class action lawsuits were brought against the Company and the members of the Company's Board of Directors on behalf of the stockholders of the Company, the first of which was filed on June 18, 2015. These lawsuits were filed in the Circuit Court for Baltimore City, Maryland, and were consolidated into one action, In re: Under Armour Shareholder Litigation, Case No. 24-C-15-003240. The lawsuits (the "Court") generally alleged that the individual defendants breached their fiduciary duties in connection with approving the creation of the Class C common stock, as well as in connection with recommending for approval by stockholders certain governance related changes to the Company's charter.

On October 7, 2015, the Company announced that it had reached an agreement on settlement terms with the lead plaintiff. A stipulation of settlement reflecting those terms has been submitted to the Court for preliminary approval, and the Court is expected to rule on whether to preliminarily approve the settlement after briefing is complete on the lead plaintiff's motion for preliminary approval. In the event that the Court preliminarily approves the settlement, the Court would then set a hearing date to determine whether to grant final approval to the settlement. Under the terms of the settlement, following the initial distribution of the Class C common stock, the Company has agreed to issue additional consideration to the holders of Class C common stock in the form of a dividend with a value of $59 million, which will be payable in the form of the Company's Class A common stock, Class C common stock, cash or a combination thereof, to be determined at the sole discretion of the Company's Board of Directors. This dividend must be authorized by the Board of Directors within approximately 60 days following the initial distribution of the Class C common stock. Additionally, the settlement agreement includes certain non-monetary remedies, including an amendment to the Confidentiality, Non-Competition and Non-Solicitation Agreement between the Company and Kevin A. Plank, the Company's Chairman and Chief Executive Officer, and an agreement that the Company's Board of Directors will undertake certain considerations when using more than a specified amount of shares of Class C common stock as consideration in certain acquisition transactions.

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 are set forth in the table below:

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| | September 30, 2015 | | | December 31, 2014 | | | September 30, 2014 | | |
|---|---|---|---|---|---|---|---|---|---|
| (In thousands) | Level 1 | Level 2 | Level 3 | Level 1 | Level 2 | Level 3 | Level 1 | Level 2 | Level 3 |
| Available-for-sale | $11,958 | $— | $— | $— | $— | $— | $— | $— | $— |
| Derivative foreign currency contracts (see Note 9) | — | 1,371 | — | — | 806 | — | — | 8 | — |
| Interest rate swap contracts (see Note 9) | — | (3,391) | — | — | (607) | — | — | 1,182 | — |
| TOLI policies held by the Rabbi Trust | — | 4,384 | — | — | 4,734 | — | — | 4,665 | — |
| Deferred Compensation Plan obligations | — | (4,741) | — | — | (4,525) | — | — | (4,252) | — |

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 Company purchases marketable securities that are designated as available-for-sale. The foreign currency 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 market exchange rate. The interest rate swap contracts represent gains and losses on the derivative contracts, which is the net difference between the fixed interest to be paid and variable interest to be received over the term of the contract based on current market rates. The fair value of the trust owned life 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 initially made 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 carrying value of the Company's long term debt approximated its fair value as of September 30, 2015 and 2014. 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

During the nine months ended September 30, 2015, 0.8 million performance-based restricted stock units and 0.3 million performance-based options were awarded to certain officers and key employees under the Company's Second Amended and Restated 2005 Omnibus Long-Term Incentive Plan. The awards have vesting conditions tied to the achievement of certain combined annual operating income targets for 2015 and 2016. Upon the achievement of the targets, one third of the restricted stock units and options will vest each in February 2017, February 2018 and February 2019. If certain lower levels of combined annual operating income for 2015 and 2016 are achieved, fewer or no restricted stock units or options will vest and the remaining restricted stock units and options will be forfeited. The Company deemed the achievement of certain operating income targets for 2015 and 2016 probable during the three months ended March 31, 2015. The Company assesses the probability of the achievement of the remaining operating income targets at the end of each reporting period. If it becomes probable that any remaining 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. During the three months ended September 30, 2015, the Company deemed the achievement of certain additional operating income targets for 2015 and 2016 probable and recorded a cumulative adjustment of $4.9 million. Additional stock based compensation of up to $2.5 million would have been recorded during the nine months ended September 30, 2015, for these performance-based restricted stock units and options had the achievement of the remaining operating income targets been deemed probable.

During 2014, the Company granted performance-based restricted stock units with vesting conditions tied to the achievement of certain combined annual operating income targets for 2014 and 2015. During the three months ended September 30, 2014, the Company deemed the achievement of certain operating income targets for 2014 and 2015 probable and recorded a cumulative adjustment of $3.8 million. During the three months ended September 30, 2015, the Company deemed the achievement of the remaining operating income targets for 2014 and 2015 probable and recorded a cumulative adjustment of $5.1 million.

During 2012 and 2013, the Company granted performance-based restricted stock units with vesting conditions tied to the achievement of certain combined annual operating income targets for 2013 and 2014. During the three months ended March 31, 2014, the Company deemed the achievement of the remaining operating income targets for 2013 and 2014 probable and recorded a cumulative adjustment of $6.6 million.

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The Company issued approximately 289.7 thousand options to purchase shares of the Company's Class A common stock in connection with the acquisition of MFP, which are conditioned upon continuous employment. These shares have been excluded from purchase consideration and are being recognized over the requisite service period as stock-based compensation.

8. Stockholders' Equity

In June 2015, the Company's Board of Directors (the "Board") approved Articles Supplementary to the Company's charter which designated 400,000,000 shares of common stock as a new class of common stock, referred to as the Class C common stock, par value $0.0003 1/3 per share. The Articles Supplementary became effective on June 15, 2015. The Company has not yet issued any shares of Class C common stock, but the Company has announced the intention of its Board to consider distributing shares of the Class C common stock as a dividend to the Company's holders of Class A and Class B common stock. The decision to proceed with, and timing of, this dividend will be made by the Board in its discretion and there can be no assurance that this dividend will be declared or paid. The terms of the Class C common stock are substantially identical to those of the Company's Class A common stock, except that the Class C common stock has no voting rights (except in limited circumstances), will automatically convert into Class A common stock under certain circumstances and includes provisions intended to ensure equal treatment of Class C common stock and Class B common stock in certain corporate transactions, such as mergers, consolidations, statutory share exchanges, conversions or negotiated tender offers, and including consideration incidental to these transactions.

9. Risk Management and Derivatives

Foreign Currency Risk Management

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 and inventory purchases denominated in currencies other than the functional currency of the purchasing entity. From time to time, the Company may elect to enter into foreign currency contracts to reduce the risk associated with foreign currency exchange rate fluctuations on intercompany transactions and projected inventory purchases for its international subsidiaries.

As of September 30, 2015, the aggregate notional value of the Company's outstanding foreign currency contracts was $433.2 million, which was comprised of Canadian Dollar/U.S. Dollar, Euro/U.S. Dollar, Yen/Euro, Mexican Peso/Euro and Pound Sterling/Euro currency pairs with contract maturities ranging from one to fourteen months. A portion of the Company's foreign currency contracts are not designated as cash flow hedges, and accordingly, changes in their fair value are recorded in earnings. During 2014, the Company began entering into foreign currency contracts designated as cash flow hedges. For foreign currency contracts designated as cash flow hedges, changes in fair value, excluding any ineffective portion, are recorded in other comprehensive income until net income is affected by the variability in cash flows of the hedged transaction. The effective portion is generally released to net income after the maturity of the related derivative and is classified in the same manner as the underlying exposure. During the three and nine months ended September 30, 2015, the Company reclassified $0.9 million and $2.3 million, respectively, from other comprehensive income to cost of goods sold related to foreign currency contracts designated as cash flow hedges. The fair values of the Company's foreign currency contracts were assets of $1.4 million, $0.8 million and $8.0 thousand as of September 30, 2015, December 31, 2014 and September 30, 2014, respectively, and were included in prepaid expenses and other current assets on the consolidated balance sheet. Refer to Note 6 for a discussion of the fair value measurements. Included in other expense, net were the following amounts related to changes in foreign currency exchange rates and derivative foreign currency contracts:

| | Three Months Ended September 30, | | Nine Months Ended September 30, | |
|---|---|---|---|---|
| (In thousands) | 2015 | 2014 | 2015 | 2014 |
| Unrealized foreign currency exchange rate gains (losses) | $(5,454) | $(4,981) | $(24,677) | $(4,881) |
| Realized foreign currency exchange rate gains (losses) | (1,858) | 81 | 6,999 | 303 |

| | | | | |
|---|---|---|---|---|
| Unrealized derivative gains (losses) | (112) | (134) | (182) | (152) |
| Realized derivative gains (losses) | 3,559 | 1,679 | 12,196 | 748 |

Interest Rate Risk Management

In order to maintain liquidity and fund business operations, the Company enters into long term debt arrangements with various lenders which bear a range of variable rates of interest. The nature and amount of the Company's long-term debt can be expected to vary as a result of future business requirements, market conditions and other factors. The Company may elect to enter into interest rate swap contracts to reduce the impact associated with interest rate fluctuations. The Company utilizes interest rate swap contracts to convert a portion of variable rate debt to fixed rate debt. The contracts pay fixed and receive

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variable rates of interest. The interest rate swap contracts are accounted for as cash flow hedges and accordingly, the effective portion of the changes in their fair value are recorded in other comprehensive income and reclassified into interest expense over the life of the underlying debt obligation. Refer to Note 4 for a discussion of long term debt. As of September 30, 2015, the notional value of the Company's outstanding interest rate swap contracts was $175.0 million. During the three months ended September 30, 2015 and 2014, the Company recorded a $0.7 million and $0.6 million increase in interest expense, respectively, representing the effective portion of the contract reclassified from accumulated other comprehensive income. During the nine months ended September 30, 2015 and 2014, the Company recorded a $2.1 million and $1.0 million increase in interest expense, respectively, representing the effective portion of the contract reclassified from accumulated other comprehensive income. The fair value of the interest rate swap contracts was a liability of $3.4 million and $0.6 million as of September 30, 2015 and December 31, 2014, respectively, and was included in other long term liabilities on the consolidated balance sheet. The fair value of the interest rate swap contract was an asset of $1.2 million as of September 30, 2014, and was included in other long term assets on the consolidated balance sheet.

The Company enters into derivative 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 derivative contracts. However, the Company monitors the credit quality of these financial institutions and considers the risk of counterparty default to be minimal.

10. Provision for Income Taxes

The effective rates for income taxes were 41.0% and 39.9% for the nine months ended September 30, 2015 and 2014, respectively. The effective tax rate for the nine months ended September 30, 2015 was higher than the effective tax rate for the nine months ended September 30, 2014 primarily due to continued international investments, along with increased non-deductible costs incurred in connection with our connected fitness acquisitions. The Company's annual 2015 effective tax rate is expected to be approximately 41.0%.

11. Earnings per Share

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

| | Three Months Ended September 30, | | Nine Months Ended September 30, | |
|---|---|---|---|---|
| (In thousands, except per share amounts) | 2015 | 2014 | 2015 | 2014 |
| Numerator | | | | |
| Net income | $100,477 | $89,105 | $126,971 | $120,333 |
| Denominator | | | | |
| Weighted average common shares outstanding | 215,743 | 213,522 | 215,347 | 213,035 |
| Effect of dilutive securities | 5,310 | 4,460 | 5,361 | 4,566 |
| Weighted average common shares and dilutive securities outstanding | 221,053 | 217,982 | 220,708 | 217,601 |
| Earnings per share - basic | $0.47 | $0.42 | $0.59 | $0.56 |
| Earnings per share - diluted | $0.45 | $0.41 | $0.58 | $0.55 |

Effects of potentially dilutive securities are presented only in periods in which they are dilutive. Stock options and restricted stock units representing 47.1 thousand and 5.2 thousand shares of common stock outstanding for the three months ended September 30, 2015 and 2014, respectively, were excluded from the computation of diluted earnings per share because their effect would have been anti-dilutive. Stock options and restricted stock units representing 463.1 thousand and 27.0 thousand shares of common stock outstanding for the nine months ended September 30, 2015 and 2014, respectively, were excluded from the computation of diluted earnings per share because their effect would have been anti-dilutive.

12. 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 for the Company's principal business 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-Pacific. Each geographic segment operates exclusively in one industry: the development, marketing and distribution of branded performance apparel, footwear and accessories. Beginning in the first quarter of 2015, the CODM began receiving discrete financial information for the Company's Connected Fitness business. Following the completion of the Company's acquisition of

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Endomondo and MFP in 2015, the Company has determined its Connected Fitness business is significant and will no longer be combined into other foreign countries for disclosure purposes. Due to the insignificance of the Latin America, EMEA and Asia-Pacific operating segments, they continue to be combined into other foreign countries for disclosure purposes.

The net revenues and operating income (loss) associated with the Company's segments are summarized in the following tables. Net revenues represent sales to external customers for each segment. In addition to net revenues, operating income (loss) is a primary financial measure used by the Company to evaluate performance of each segment. Intercompany balances were eliminated for separate disclosure. The majority of corporate service costs within North America have not been allocated to other foreign countries or Connected Fitness; however, certain costs and revenues included within North America in the prior period have been allocated to Connected Fitness in the current period. Prior period segment data has been recast by an immaterial amount within the tables below to conform to current period presentation.

| | Three Months Ended September 30, | | Nine Months Ended September 30, | |
|---|---|---|---|---|
| (In thousands) | 2015 | 2014 | 2015 | 2014 |
| Net revenues | | | | |
| North America | $1,059,440 | $847,563 | $2,440,728 | $1,988,141 |
| Other foreign countries | 130,230 | 85,847 | 315,467 | 187,089 |
| Connected Fitness | 14,439 | 4,498 | 36,432 | 13,939 |
| Total net revenues | $1,204,109 | $937,908 | $2,792,627 | $2,189,169 |

| | Three Months Ended September 30, | | Nine Months Ended September 30, | |
|---|---|---|---|---|
| (In thousands) | 2015 | 2014 | 2015 | 2014 |
| Operating income (loss) | | | | |
| North America | $181,822 | $147,509 | $272,543 | $227,045 |
| Other foreign countries | 6,180 | 3,817 | 6,126 | (3,910) |
| Connected Fitness | (16,605) | (5,220) | (47,704) | (15,479) |
| Total operating income | 171,397 | 146,106 | 230,965 | 207,656 |
| Interest expense, net | (4,100) | (1,535) | (10,572) | (3,608) |
| Other expense, net | (3,239) | (3,355) | (5,038) | (3,982) |
| Income before income taxes | $164,058 | $141,216 | $215,355 | $200,066 |

Net revenues by product category are as follows:

| | Three Months Ended September 30, | | Nine Months Ended September 30, | |
|---|---|---|---|---|
| (In thousands) | 2015 | 2014 | 2015 | 2014 |
| Apparel | $865,514 | $704,557 | $1,936,221 | $1,583,834 |
| Footwear | 196,279 | 121,597 | 510,864 | 345,177 |
| Accessories | 103,564 | 84,949 | 249,755 | 196,419 |
| Total net sales | 1,165,357 | 911,103 | 2,696,840 | 2,125,430 |
| License revenues | 24,313 | 22,307 | 59,355 | 49,800 |
| Connected Fitness | 14,439 | 4,498 | 36,432 | 13,939 |
| Total net revenues | $1,204,109 | $937,908 | $2,792,627 | $2,189,169 |

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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 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, the implementation of our marketing and branding strategies, future benefits and opportunities from acquisitions and our planned dividend of shares of our Class C common stock. In many cases, you can identify forward-looking statements by terms such as "may," "will," "should," "expects," "plans," "anticipates," "believes," "estimates," "predicts," "outlook," "intends," "potential" or the negative of these terms or other comparable terminology.

The forward-looking statements contained in this Form 10-Q 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, 2014 filed with the Securities and Exchange Commission ("SEC") (our "2014 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 successfully manage or realize expected results from acquisitions and other significant investments and capital expenditures;
- 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 lose market share or reduce the prices of our products or to increase significantly our marketing efforts;
- 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, including due to port disruptions;
- 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;
- risks related to foreign currency exchange rate fluctuations;
- our ability to effectively market and maintain a positive brand image;
- our ability to comply with trade and other regulations;
- the availability, integration and effective operation of information systems and other technology, as well as any potential interruption in such systems or technology;
- risks related to data security or privacy breaches;
- our ability to raise additional capital required to grow our business on terms acceptable to us;
- our potential exposure to litigation and other proceedings; and
- our ability to attract and retain the services of our senior management and key employees.

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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. The Under Armour Connected Fitness platform powers the world's largest digital health and fitness community and our strategy is focused on engaging with these consumers and increasing awareness and sales of our products. We plan to grow this community by developing innovative applications, services and other digital solutions to impact how athletes and fitness-minded individuals train, perform and live.

Our net revenues grew to $3,084.4 million in 2014 from $1,063.9 million in 2010. We reported net revenues of $2,792.6 million for the first nine months of 2015, which represented a 27.6% increase from the first nine months of 2014. 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, expansion in international markets and engaging with consumers through our Connected Fitness business. Our direct to consumer sales channel includes our brand and factory house stores and websites. New product offerings for 2015 include Armour® baselayer, our Stephen Curry signature basketball shoes and new UA SpeedForm® running introductions.

Our operating segments include North America; Latin America; Europe, the Middle East and Africa ("EMEA"); Asia-Pacific; and Connected Fitness. Due to the insignificance of the Latin America, EMEA, and Asia-Pacific operating segments, they have been combined into other foreign countries for disclosure purposes.

Segment operating income consists of the revenues generated by that segment, less the cost of goods sold and selling, general and administrative costs that are incurred directly by that segment, as well as an allocation of certain centrally managed costs. Corporate services costs, which are generally included in our North America operating segment, include company-wide administrative costs.

General

Net revenues comprise net sales, license revenues and Connected Fitness revenues. Net sales comprise sales from our primary product categories, which are apparel, footwear and accessories. Our license revenues primarily consist of fees paid to us by our licensees in exchange for the use of our trademarks on our products. Our Connected Fitness revenues consist of digital advertising, digital fitness platform licenses and subscriptions from our Connected Fitness business.

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. A limited portion of cost of goods sold is associated with license and other revenues, primarily website hosting and other costs related to our Connected Fitness business.

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 $14.3 million and $16.7 million for the three

months ended September 30, 2015 and 2014, respectively, and $40.1 million and $39.7 million for the nine months ended September 30, 2015 and 2014, respectively.

Our selling, general and administrative expenses consist of costs related to marketing, selling, product innovation and supply chain and corporate services. Beginning in 2015, we consolidated our selling, general and administrative expenses into two primary categories: marketing and other. The other category is the sum of our previously outlined selling, product innovation and supply chain and corporate services categories. Personnel costs are included in these categories based on the employees' function. Personnel costs include salaries, benefits, incentives and stock-based compensation related to our employees. Our marketing costs are an important driver of our growth. Marketing costs consist primarily of commercials, print

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ads, league, team, player and event sponsorships and depreciation expense specific to our in-store fixture program for our concept shops.

Other expense, net consists of unrealized and realized gains and losses on our foreign currency derivative financial instruments and unrealized and realized gains and losses on adjustments that arise from fluctuations in foreign currency exchange rates relating to transactions generated by our international subsidiaries.

Results of Operations

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

| | Three Months Ended September 30, | | Nine Months Ended September 30, | |
|---|---|---|---|---|
| (In thousands) | 2015 | 2014 | 2015 | 2014 |
| Net revenues | $1,204,109 | $937,908 | $2,792,627 | $2,189,169 |
| Cost of goods sold | 616,949 | 472,608 | 1,448,750 | 1,123,227 |
| Gross profit | 587,160 | 465,300 | 1,343,877 | 1,065,942 |
| Selling, general and administrative expenses | 415,763 | 319,194 | 1,112,912 | 858,286 |
| Income from operations | 171,397 | 146,106 | 230,965 | 207,656 |
| Interest expense, net | (4,100) | (1,535) | (10,572) | (3,608) |
| Other expense, net | (3,239) | (3,355) | (5,038) | (3,982) |
| Income before income taxes | 164,058 | 141,216 | 215,355 | 200,066 |
| Provision for income taxes | 63,581 | 52,111 | 88,384 | 79,733 |
| Net income | $100,477 | $89,105 | $126,971 | $120,333 |

| | Three Months Ended September 30, | | Nine Months Ended September 30, | |
|---|---|---|---|---|
| (As a percentage of net revenues) | 2015 | 2014 | 2015 | 2014 |
| Net revenues | 100.0% | 100.0% | 100.0% | 100.0% |
| Cost of goods sold | 51.2% | 50.4% | 51.9% | 51.3% |
| Gross profit | 48.8% | 49.6% | 48.1% | 48.7% |
| Selling, general and administrative expenses | 34.6% | 34.0% | 39.8% | 39.2% |
| Income from operations | 14.2% | 15.6% | 8.3% | 9.5% |
| Interest expense, net | (0.3)% | (0.2)% | (0.4)% | (0.2)% |
| Other expense, net | (0.3)% | (0.3)% | (0.2)% | (0.2)% |
| Income before income taxes | 13.6% | 15.1% | 7.7% | 9.1% |
| Provision for income taxes | 5.3% | 5.6% | 3.2% | 3.6% |
| Net income | 8.3% | 9.5% | 4.5% | 5.5% |

Consolidated Results of Operations

Three Months Ended September 30, 2015 Compared to Three Months Ended September 30, 2014

Net revenues increased $266.2 million, or 28.4%, to $1,204.1 million for the three months ended September 30, 2015 from $937.9 million during the same period in 2014. Net revenues by product category are summarized below:

| | Three Months Ended September 30, | | | |
|---|---|---|---|---|
| (In thousands) | 2015 | 2014 | $ Change | % Change |
| Apparel | $865,514 | $704,557 | $160,957 | 22.8% |
| Footwear | 196,279 | 121,597 | 74,682 | 61.4% |
| Accessories | 103,564 | 84,949 | 18,615 | 21.9% |
| Total net sales | 1,165,357 | 911,103 | 254,254 | 27.9% |
| License revenues | 24,313 | 22,307 | 2,006 | 9.0% |
| Connected Fitness | 14,439 | 4,498 | 9,941 | 221.0% |
| Total net revenues | $1,204,109 | $937,908 | $266,201 | 28.4% |

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The increase in net sales was driven primarily by:

- Apparel unit sales growth and new offerings in multiple lines led by training, golf and outdoor performance; and
- Footwear unit sales growth, led by running and basketball and the expansion of our footwear offerings internationally.

License revenues increased $2.0 million, or 9.0%, to $24.3 million for the three months ended September 30, 2015 from $22.3 million during the same period in 2014 driven primarily by increased distribution and unit volume growth of our licensed products in Japan.

Connected Fitness revenue increased $9.9 million, or 221.0%, to $14.4 million for the three months ended September 30, 2015 from $4.5 million during the same period in 2014 primarily driven by revenue growth in our existing Connected Fitness business and our connected fitness acquisitions in the first quarter of 2015.

Gross profit increased $121.9 million to $587.2 million for the three months ended September 30, 2015 from $465.3 million for the same period in 2014. Gross profit as a percentage of net revenues, or gross margin, decreased 80 basis points to 48.8% for the three months ended September 30, 2015 compared to 49.6% during the same period in 2014. The decrease in gross margin percentage was primarily driven by the following:

- approximate 90 basis point decrease due to strengthening of the U.S. dollar negatively impacting our gross margins within our businesses outside the United States, which we expect to continue through the rest of the year;
- approximate 50 basis point decrease driven by sales mix in North America, which we expect to continue through the rest of the year, but on a more limited basis; and
- approximate 20 basis point decrease driven by higher inbound airfreight costs necessary to service our customers.

The above decreases were partially offset by:

- approximate 90 basis point increase driven primarily by favorable product input costs in our North American and International businesses. We expect this favorable trend to continue through the remainder of 2015, but on a more limited basis.

Selling, general and administrative expenses increased $96.6 million to $415.8 million for the three months ended September 30, 2015 from $319.2 million for the same period in 2014. As a percentage of net revenues, selling, general and administrative expenses increased to 34.6% for the three months ended September 30, 2015 compared to 34.0% for the same period in 2014. These changes were primarily attributable to the following:

- Marketing costs increased $28.7 million to $128.5 million for the three months ended September 30, 2015 from $99.8 million for the same period in 2014. This increase was primarily due to key marketing campaigns and investments in sponsorships. As a percentage of net revenues, marketing costs increased to 10.7% for the three months ended September 30, 2015 from 10.6% for the same period in 2014.
- Other costs increased $67.9 million to $287.3 million for the three months ended September 30, 2015 from $219.4 million for the same period in 2014. This increase was primarily due to higher personnel and other costs incurred for the continued expansion of our direct to consumer distribution channel, including increased investment for our brand house stores. This increase is also due to additional investment in our Connected Fitness business. As a percentage of net revenues, other costs increased to 23.9% for the three months ended September 30, 2015 from 23.4% for the same period in 2014.

Income from operations increased $25.3 million, or 17.3%, to $171.4 million for the three months ended September 30, 2015 from $146.1 million for the same period in 2014. Income from operations as a percentage of net revenues decreased to 14.2% for the three months ended September 30, 2015 from 15.6% for the same period in 2014.

Interest expense, net increased $2.6 million to $4.1 million for the three months ended September 30, 2015 from $1.5 million for the same period in 2014. This increase was primarily due to interest on the increase of $650.0 million in term loan and revolving credit facility borrowings during 2015.

Other expense, net decreased $0.2 million to $3.2 million for the three months ended September 30, 2015 from $3.4 million for the same period in 2014. This decrease was due to higher net losses on the combined foreign currency exchange rate changes on transactions denominated in foreign currencies and our derivative financial instruments as compared to the prior period.

Provision for income taxes increased $11.5 million to $63.6 million during the three months ended September 30, 2015 from $52.1 million during the same period in 2014. For the three months ended September 30, 2015, our

effective tax rate was 38.8% compared to 36.9% for the same period in 2014. The effective rate for the three months ended September 30, 2015 was higher than the effective tax rate for the three months ended September 30, 2014 primarily due to increased non-deductible costs incurred in connection with our Connected Fitness acquisitions, along with continued international investments. Our 2015 annual effective tax rate is expected to be approximately 41.0%.

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Nine Months Ended September 30, 2015 Compared to Nine Months Ended September 30, 2014

Net revenues increased $603.4 million, or 27.6%, to $2,792.6 million for the nine months ended September 30, 2015 from $2,189.2 million during the same period in 2014. Net revenues by product category are summarized below:

| | Nine Months Ended September 30, | | | | |
|---|---|---|---|---|---|
| (In thousands) | 2015 | 2014 | $ Change | % Change | |
| Apparel | $1,936,221 | $1,583,834 | $352,387 | 22.2 | % |
| Footwear | 510,864 | 345,177 | 165,687 | 48.0 | % |
| Accessories | 249,755 | 196,419 | 53,336 | 27.2 | % |
| Total net sales | 2,696,840 | 2,125,430 | 571,410 | 26.9 | % |
| License revenues | 59,355 | 49,800 | 9,555 | 19.2 | % |
| Connected Fitness | 36,432 | 13,939 | 22,493 | 161.4 | % |
| Total net revenues | $2,792,627 | $2,189,169 | $603,458 | 27.6 | % |

The increase in net sales was driven primarily by:

- Apparel unit sales growth and new offerings in multiple lines led by training, golf and team sports; and
- Footwear unit sales growth, led by running and basketball and the expansion of our footwear offerings internationally.

License revenues increased $9.6 million, or 19.2%, to $59.4 million during the nine months ended September 30, 2015 from $49.8 million during the same period in 2014 driven primarily by increased distribution and unit volume growth of our licensed products in North America.

Connected Fitness revenue increased $22.5 million, or 161.4%, to $36.4 million during the nine months ended September 30, 2015 from $13.9 million during the same period in 2014 primarily driven by revenue growth in our existing Connected Fitness business and our connected fitness acquisitions in the first quarter of 2015.

Gross profit increased $278.0 million to $1,343.9 million for the nine months ended September 30, 2015 from $1,065.9 million for the same period in 2014. Gross profit as a percentage of net revenues, or gross margin, decreased 60 basis points to 48.1% for the nine months ended September 30, 2015 compared to 48.7% for the same period in 2014. The decrease in gross margin percentage was primarily driven by the following:

- approximate 80 basis point decrease due to strengthening of the U.S. dollar negatively impacting our gross margins within our international businesses, which we expect to continue through the rest of the year; and
- approximate 50 basis point decrease driven by higher inbound airfreight costs necessary to service our customers.

The above decreases were partially offset by:

- approximate 90 basis points increase driven primarily by favorable product input costs in our North American and International businesses. We expect this favorable trend to continue through the remainder of 2015, but on a more limited basis.

Selling, general and administrative expenses increased $254.6 million to $1,112.9 million for the nine months ended September 30, 2015 from $858.3 million for the same period in 2014. As a percentage of net revenues, selling, general and administrative expenses increased to 39.8% for the nine months ended September 30, 2015 compared to 39.2% for the same period in 2014. These changes were primarily attributable to the following:

- Marketing costs increased $67.2 million to $325.5 million for the nine months ended September 30, 2015 from $258.3 million for the same period in 2014. This increase was primarily due to key marketing campaigns, our investments in collegiate sponsorships and increased marketing in connection with the growth of our international business. As a percentage of net revenues, marketing costs decreased to 11.7% for the nine months ended September 30, 2015 from 11.8% for the same period in 2014.
- Other costs increased $187.5 million to $787.4 million for the nine months ended September 30, 2015 from $599.9 million for the same period in 2014. This increase was primarily due to higher personnel and other costs incurred for the continued expansion of our direct to consumer distribution channel, including increased investment for our factory house and brand house stores. This increase is also due to additional investment in our Connected Fitness business, including the impact of the acquisitions of Endomondo and MyFitnessPal. As a percentage of net revenues, other costs increased to 28.2% for the nine months ended September 30, 2015 from 27.4% for the same period in 2014.

Income from operations increased $23.3 million, or 11.2%, to $231.0 million for the nine months ended September 30, 2015 from $207.7 million for the same period in 2014. Income from operations as a percentage of net revenues decreased to 8.3% for the nine months ended September 30, 2015 from 9.5% for the same period in 2014.

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Interest expense, net increased $7.0 million to $10.6 million for the nine months ended September 30, 2015 from $3.6 million for the same period in 2014. This increase was primarily due to interest on the increase of $650.0 million in term loan and revolving credit facility borrowings during 2015.

Other expense, net decreased $1.0 million to $(5.0) million for the nine months ended September 30, 2015 from $(4.0) million for the same period in 2014. This decrease was due to higher net losses on the combined foreign currency exchange rate changes on transactions denominated in foreign currencies and our derivative financial instruments as compared to the prior period.

Provision for income taxes increased $8.7 million to $88.4 million during the nine months ended September 30, 2015 from $79.7 million during the same period in 2014. For the nine months ended September 30, 2015, our effective tax rate was 41.0% compared to 39.9% for the same period in 2014. The effective tax rate for the nine months ended September 30, 2015 was higher than the effective tax rate for the nine months ended September 30, 2014 primarily due to continued international investments, along with increased non-deductible costs incurred in connection with our connected fitness acquisitions. Our annual 2015 effective tax rate is expected to be approximately 41.0%.

Segment Results of Operations

The net revenues and operating income (loss) associated with our segments are summarized in the following tables. The majority of corporate service costs within North America have not been allocated to other foreign countries or Connected Fitness; however, certain costs and revenues included within North America in the prior period have been allocated to Connected Fitness in the current period. Prior period segment data has been recast by an immaterial amount within the tables to conform to the current period presentation.

Three Months Ended September 30, 2015 Compared to Three Months Ended September 30, 2014

Net revenues by segment are summarized below:

| | Three Months Ended September 30, | | | | |
|---|---|---|---|---|---|
| (In thousands) | 2015 | 2014 | $ Change | % Change | |
| North America | $1,059,440 | $847,563 | $211,877 | 25.0 | % |
| Other foreign countries | 130,230 | 85,847 | 44,383 | 51.7 | % |
| Connected Fitness | 14,439 | 4,498 | 9,941 | 221.0 | % |
| Total net revenues | $1,204,109 | $937,908 | $266,201 | 28.4 | % |

Net revenues in our North America operating segment increased $211.8 million to $1,059.4 million for the three months ended September 30, 2015 from $847.6 million for the same period in 2014 primarily due to the items discussed above in the Consolidated Results of Operations. Net revenues in other foreign countries increased $44.4 million to $130.2 million for the three months ended September 30, 2015 from $85.8 million for the same period in 2014 primarily due to unit sales growth in our Asia-Pacific and Latin America operating segments. Net revenues in our Connected Fitness operating segment increased $9.9 million to $14.4 million for the three months ended September 30, 2015 from $4.5 million for the same period in 2014 primarily due to revenues generated from Endomondo and MyFitnessPal, which were acquired in the first quarter of 2015, and growth in our existing Connected Fitness business.

Operating income (loss) by segment is summarized below:

| | Three Months Ended September 30, | | | | |
|---|---|---|---|---|---|
| (In thousands) | 2015 | 2014 | $ Change | % Change | |
| North America | $181,822 | $147,509 | $34,313 | 23.3 | % |
| Other foreign countries | 6,180 | 3,817 | 2,363 | 61.9 | % |
| Connected Fitness | (16,605) | (5,220) | (11,385) | (218.1) | % |
| Total operating income | $171,397 | $146,106 | $25,291 | 17.3 | % |

Operating income in our North America operating segment increased $34.3 million to $181.8 million for the three months ended September 30, 2015 from $147.5 million for the same period in 2014 primarily due to the items discussed above in the Consolidated Results of Operations. Operating income in other foreign countries increased $2.4 million to $6.2 million for the three months ended September 30, 2015 from $3.8 million for the same period in 2014 primarily due to sales growth in our EMEA and Asia-Pacific operating segments. Operating loss in our Connected Fitness segment increased $11.4 million to $16.6 million for the three months ended September 30, 2015 from $5.2

million for the same period in 2014 primarily due to

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investments to support growth in our Connected Fitness business, including the impact of the acquisitions of Endomondo and MyFitnessPal.

Nine Months Ended September 30, 2015 Compared to Nine Months Ended September 30, 2014

Net revenues by segment are summarized below:

| | Nine Months Ended September 30, | | | | |
|---|---|---|---|---|---|
| (In thousands) | 2015 | 2014 | $ Change | % Change | |
| North America | $2,440,728 | $1,988,141 | $452,587 | 22.8 | % |
| Other foreign countries | 315,467 | 187,089 | 128,378 | 68.6 | % |
| Connected Fitness | 36,432 | 13,939 | 22,493 | 161.4 | % |
| Total net revenues | $2,792,627 | $2,189,169 | $603,458 | 27.6 | % |

Net revenues in our North America operating segment increased $452.6 million to $2,440.7 million for the nine months ended September 30, 2015 from $1,988.1 million for the same period in 2014 primarily due to the items discussed above in the Consolidated Results of Operations. Net revenues in other foreign countries increased $128.4 million to $315.5 million for the nine months ended September 30, 2015 from $187.1 million for the same period in 2014 primarily due to sales growth in our Asia-Pacific and Latin America operating segments. Net revenues in our Connected Fitness operating segment increased $22.5 million to $36.4 million for the nine months ended September 30, 2015 from $13.9 million for the same period in 2014 primarily due to revenues generated from Endomondo and MyFitnessPal, which were acquired in the first quarter of 2015, and growth in our existing Connected Fitness business.

Operating income (loss) by segment is summarized below:

| | Nine Months Ended September 30, | | | | |
|---|---|---|---|---|---|
| (In thousands) | 2015 | 2014 | $ Change | % Change | |
| North America | $272,543 | $227,045 | $45,498 | 20.0 | % |
| Other foreign countries | 6,126 | (3,910) | 10,036 | 256.7 | % |
| Connected Fitness | (47,704) | (15,479) | (32,225) | (208.2) | % |
| Total operating income | $230,965 | $207,656 | $23,309 | 11.2 | % |

Operating income in our North America operating segment increased $45.5 million to $272.5 million for the nine months ended September 30, 2015 from $227.0 million for the same period in 2014 primarily due to the items discussed above in the Consolidated Results of Operations. Operating income in other foreign countries increased $10.0 million to $6.1 million for the nine months ended September 30, 2015 from $(3.9) million for the same period in 2014 primarily due to sales growth in our EMEA and Asia-Pacific operating segments. Operating loss in our Connected Fitness segment increased $32.2 million to $47.7 million for the nine months ended September 30, 2015 from $15.5 million for the same period in 2014 primarily due to investments to support growth in our Connected Fitness business, including the impact of the acquisitions of Endomondo and MyFitnessPal.

Seasonality

Historically, we have recognized a majority of our net revenues and a significant portion of our income from operations in the last two quarters of the year, driven primarily by increased sales volume of our products during the fall selling season, including our higher priced cold weather products, along with a larger proportion of higher margin direct to consumer sales. The level of our working capital generally reflects the seasonality and growth in our business.

Financial Position, Capital Resources and Liquidity

Our cash requirements have principally been for working capital and capital expenditures. We fund our working capital, primarily inventory, and capital investments from cash flows from operating activities, cash and cash equivalents on hand and borrowings available under our credit and long term debt facilities. Our working capital requirements generally reflect the seasonality and growth in our business as we recognize the majority of our net revenues in the last two quarters of the year. Our capital investments have included expanding our in-store fixture and branded concept shop program, improvements and expansion of our distribution and corporate facilities to support our

growth, leasehold improvements to our brand and factory house stores, and investment and improvements in information technology systems.

Our inventory strategy is focused on continuing to meet consumer demand while improving our inventory efficiency over the long term by putting systems and processes in place to improve our inventory management. These systems and processes are designed to improve our forecasting and supply planning capabilities. In addition to systems and processes, key areas of

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focus that we believe will enhance inventory performance are added discipline around the purchasing of product, production lead time reduction, and better planning and execution in selling of excess inventory through our factory house stores and other liquidation channels.

In January 2015, we completed our acquisition of Endomondo. The purchase price was funded with the proceeds from our $100.0 million delayed draw term loan, which we drew in November 2014 for general corporate purposes. In March 2015, we completed our acquisition of MyFitnessPal. The purchase was funded through a combination of $250.0 million revolving credit facility borrowings, $150.0 million of term loan facility borrowings and cash on hand. During the third quarter of 2015, we borrowed $200.0 million under our revolving credit facility for working capital needs. As of September 30, 2015, we had $300.0 million of remaining borrowing capacity under our revolving credit facility.

We believe our cash and cash equivalents on hand, cash from operations and borrowings available to us under our credit agreement and other financing instruments are adequate to meet our liquidity needs and capital expenditure requirements for at least the next twelve months. Although we believe we have adequate sources of liquidity over the long term, an economic recession or a slow recovery could adversely affect our business and liquidity. In addition, instability in or tightening of the capital markets could adversely affect our ability to obtain additional capital to grow our business and will affect the cost and terms of such capital.

Cash Flows

The following table presents the major components of net cash flows provided by and used in operating, investing and financing activities for the periods presented:

| | Nine Months Ended September 30, | |
|---|---|---|
| (In thousands) | 2015 | 2014 |
| Net cash provided by (used in): | | |
| Operating activities | $(313,448) | $(72,496) |
| Investing activities | (780,821) | (108,244) |
| Financing activities | 667,821 | 84,127 |
| Effect of exchange rate changes on cash and cash equivalents | (7,329) | (1,407) |
| Net decrease in cash and cash equivalents | $(433,777) | $(98,020) |

Operating Activities

Operating activities consist primarily of net income adjusted for certain non-cash items. Adjustments to net income for non-cash items include depreciation and amortization, unrealized foreign currency exchange rate gains and losses, losses on disposals of property and equipment, stock-based compensation, deferred income taxes and changes in reserves and allowances. In addition, operating cash flows include the effect of changes in operating assets and liabilities, principally inventories, accounts receivable, income taxes payable and receivable, prepaid expenses and other assets, accounts payable and accrued expenses.

Cash used in operating activities increased $240.9 million to $313.4 million for the nine months ended September 30, 2015 from $72.5 million during the same period in 2014. The increase in cash used in operating activities was due to an increase in net cash outflows from operating assets and liabilities of $306.6 million, partially offset by an increase in net income of $6.6 million and an increase in adjustments to net income for non-cash items of $59.1 million. The increase in cash outflows related to changes in operating assets and liabilities period over period was primarily driven by the following:

- a larger increase in inventory investments of $181.1 million in the current period as compared to the prior period primarily due to earlier purchases to better service consumer demand for our peak season; and
- a larger decrease in accounts payable of $60.1 million in the current period compared to the prior period, primarily due to the timing of payments compared to the prior year.

Adjustments to net income for non-cash items increased in the nine months ended September 30, 2015 as compared to the same period in 2014 primarily due to increased depreciation and amortization expense in the current period as compared to the prior period related to the expansion of our distribution and corporate facilities as well as our

acquisitions of MyFitnessPal and Endomondo.

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Investing Activities

Cash used in investing activities increased $672.6 million to $780.8 million for the nine months ended September 30, 2015 from $108.2 million for the same period in 2014, primarily due to our acquisitions of MyFitnessPal and Endomondo during the first quarter of 2015.

Capital expenditures for the full year 2015 are expected to be approximately $350.0 million to $360.0 million, comprised primarily of investments in a new distribution facility in North America, expansion of our corporate headquarters, and investments in our new and expanding SAP platform.

Financing Activities

Cash provided by financing activities increased $583.7 million to $667.8 million for the nine months ended September 30, 2015 from $84.1 million for the same period in 2014. This increase was primarily due to our amended credit agreement that provided an additional $150.0 million in term loan facility proceeds and $500.0 million in revolving credit facility proceeds during the nine months ended September 30, 2015.

Credit Facility

In March 2015, we amended our existing credit agreement, providing an additional $150.0 million of term loan borrowings, which were borrowed on the closing date of the amendment, resulting in aggregate term loan borrowings under the credit agreement of $400.0 million. This amendment also increased revolving credit facility commitments available under the credit agreement from $400.0 million to $800.0 million. As of September 30, 2015, we had $300.0 million of available borrowing capacity under our revolving credit facility. At our request and the lenders' consent, revolving and/or term loan borrowings may be increased by up to $300.0 million in aggregate, subject to certain conditions as set forth in the credit agreement, as amended. These additional amounts are uncommitted and the availability thereof will depend on market conditions at the time we seek to incur such borrowings.

Borrowings under the revolving credit facility may be made in U.S. Dollars, Euros, Pounds Sterling, Japanese Yen and Canadian Dollars. Up to $50.0 million of the facility may be used for the issuance of letters of credit and up to $50.0 million of the facility may be used for the issuance of swingline loans. There were $1.2 million of letters of credit and no swingline loans outstanding as of September 30, 2015.

The credit agreement contains negative covenants that, subject to significant exceptions, limit our ability to, among other things, incur additional indebtedness, make restricted payments, pledge our assets as security, make investments, loans, advances, guarantees and acquisitions, undergo fundamental changes and enter into transactions with affiliates. We are also required to maintain a ratio of consolidated EBITDA, as defined in the credit agreement, to consolidated interest expense of not less than 3.50 to 1.00 and we are not permitted to allow the ratio of consolidated total indebtedness to consolidated EBITDA to be greater than 3.25 to 1.00. As of September 30, 2015, we were in compliance with these ratios. In addition, the credit agreement contains events of default that are customary for a facility of this nature, and includes a cross default provision whereby an event of default under other material indebtedness, as defined in the credit agreement, will be considered an event of default under the credit agreement.

Borrowings under the credit agreement bear interest at a rate per annum equal to, at our option, either (a) an alternate base rate, or (b) the adjusted LIBOR rate, plus in each case an applicable margin. The applicable margin for loans will be adjusted by reference to the Pricing Grid based on the consolidated leverage ratio and ranges between 1.00% to 1.25% for adjusted LIBOR rate loans and 0.00% to 0.25% for alternate base rate loans. The weighted average interest rates under the initial term loan, delayed draw term loan, new term loan and revolving credit facility were 1.33%, 1.33%, 1.33% and 1.34% during the three months ended September 30, 2015, and 1.27%, 1.27%, 1.31% and 1.32% during the nine months ended September 30, 2015, respectively. As of September 30, 2015, $500.0 million was outstanding under our revolving credit facility. Additionally, we pay a commitment fee on the average daily unused amount of the revolving credit facility and certain fees with respect to letters of credit. As of September 30, 2015, the commitment fee was 15.0 basis points. We incurred and capitalized $2.9 million in deferred financing costs in connection with the credit facility.

Other Long Term Debt

We have 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. At September 30, 2015, December 31, 2014 and September 30, 2014, the outstanding principal balance under these agreements was $0.1 million, $2.0 million and $2.6 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 3.3% and 3.0% for the three months ended September 30, 2015 and 2014, respectively, and 4.2% and 3.2% for the nine months ended September 30, 2015 and 2014, respectively.

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In December 2012, we entered into a $50.0 million recourse loan collateralized by the land, buildings and tenant improvements comprising our corporate headquarters. The loan has a seven year term and maturity date of December 2019. The loan bears interest at one month LIBOR plus a margin of 1.50%, and allows for prepayment without penalty. The loan includes covenants and events of default substantially consistent with our credit agreement discussed above. The loan also requires prior approval of the lender for certain matters related to the property, including transfers of any interest in the property. As of September 30, 2015, December 31, 2014 and September 30, 2014, the outstanding balance on the loan was $44.5 million, $46.0 million and $46.5 million, respectively. The weighted average interest rate on the loan was 1.7% for the three and nine months ended September 30, 2015 and 2014.

Interest expense, net was $4.1 million and $1.5 million for the three months ended September 30, 2015 and 2014, respectively, and $10.6 million and $3.6 million for the nine months ended September 30, 2015 and 2014, respectively. Interest expense includes the amortization of deferred financing costs and interest expense under the credit and long term debt facilities.

We monitor the financial health and stability of our lenders under the credit and other 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.

Contractual Commitments and Contingencies

There were no significant changes to the contractual obligations reported in our 2014 Form 10-K other than those which occur in the normal course of business.

Critical Accounting Policies and Estimates

Our consolidated financial statements have been prepared in accordance with accounting principles generally accepted in the United States of America. To prepare these financial statements, we must make estimates and assumptions that affect the reported amounts of assets, liabilities, revenues and expenses, as well as the disclosures of contingent assets and liabilities. Actual results could be significantly different from these estimates. We believe the following addresses the critical accounting policies that are necessary to understand and evaluate our reported financial results.

Our significant accounting policies are described in Note 2 of the audited consolidated financial statements included in our 2014 Form 10-K. The SEC suggests companies provide additional disclosure on those accounting policies considered most critical. The SEC considers an accounting policy to be critical if it is important to our financial condition and results of operations and requires significant judgments and estimates on the part of management in its application. Our estimates are often based on complex judgments, probabilities and assumptions that management believes to be reasonable, but that are inherently uncertain and unpredictable. It is also possible that other professionals, applying reasonable judgment to the same facts and circumstances, could develop and support a range of alternative estimated amounts. For a complete discussion of our critical accounting policies, see the “Critical Accounting Policies” section of the MD&A in our 2014 Form 10-K. There were no significant changes to our critical accounting policies during the nine months ended September 30, 2015.

Recently Issued Accounting Standards

In May 2014, the FASB issued an Accounting Standards Update which supersedes the most current revenue recognition requirements. The new revenue recognition standard requires entities to recognize revenue in a way that depicts the transfer of goods or services to customers in an amount that reflects the consideration which the entity expects to be entitled to in exchange for those goods or services. This guidance was previously effective for annual and interim reporting periods beginning after December 15, 2016, with early adoption not permitted. In August 2015, the FASB issued a one-year deferral of the effective date of the new revenue recognition standard. The new standard will now be effective for annual and interim periods beginning after December 15, 2017 with early adoption as of the original effective date permitted. We are currently evaluating this standard to determine the impact of its adoption on our consolidated financial statements.

In July 2015, the FASB issued an Accounting Standard Update which simplifies the measurement of inventory by requiring certain inventory to be measured at the lower of cost or net realizable value. This guidance is effective for

fiscal years beginning after December 15, 2016 and for interim periods therein. We do not expect the adoption of this standard to have a significant impact on our consolidated financial statements.

In September 2015, the FASB issued an Accounting Standards Update which requires the acquiring company in a business combination to recognize adjustments to provisional amounts that are identified during the measurement period in the reporting period in which the adjustment amounts are determined. The amendments in this Update require that the acquiring company record, in the same period's financial statements, the effect on earnings of changes in depreciation, amortization, or other income effects, if any, as a result of a change to the provisional amounts, calculated as if the accounting had been completed at the acquisition date. This guidance is effective for fiscal years beginning after December 15, 2015 and for interim

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periods therein. We do not expect the adoption of this standard to have a significant impact on our consolidated financial statements.

Recently Adopted Accounting Standards

In January 2015, the FASB issued an Accounting Standards Update which eliminates from GAAP the concept of extraordinary items and the need to separately classify, present, and disclose extraordinary events and transactions. This guidance is effective for annual and interim reporting periods beginning after December 15, 2015, with early adoption permitted provided that the guidance is applied from the beginning of the fiscal year of adoption. The adoption of this pronouncement did not have a material impact on our consolidated financial statements.

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ITEM 3. QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK

Foreign Currency Risk

We currently generate a majority of our consolidated net revenues in the United States, and the reporting currency for our consolidated financial statements is the U.S. dollar. As our net revenues and expenses generated outside of the United States increase, our results of operations could be adversely impacted by changes in foreign currency exchange rates. For example, as we recognize foreign revenues in local foreign currencies and if the U.S. dollar strengthens, it could have a negative impact on our foreign revenues upon translation of those results into the U.S. dollar upon consolidation of our financial statements. In addition, we are exposed to gains and losses resulting from fluctuations in foreign currency exchange rates on transactions generated by our foreign subsidiaries in currencies other than their local currencies. These gains and losses are primarily driven by intercompany transactions and inventory purchases denominated in currencies other than the functional currency of the purchasing entity. These exposures are included in other expense, net on the consolidated statements of income.

From time to time, we may elect to use foreign currency contracts to reduce the risk from exchange rate fluctuations primarily for our international subsidiaries. As we expand our international business, we anticipate expanding our current hedging program to include additional currency pairs and instruments. We do not enter into derivative financial instruments for speculative or trading purposes.

As of September 30, 2015, the aggregate notional value of our outstanding foreign currency contracts was $433.2 million, which was comprised of Canadian Dollar/U.S. Dollar, Euro/U.S. Dollar, Yen/Euro, Mexican Peso/Euro and Pound Sterling/Euro currency pairs with contract maturities of one to fourteen months. The foreign currency contracts outstanding as of September 30, 2015 have weighted average contractual foreign currency exchange rates of 1.32 CAD per $1.00, €0.89 per $1.00, 143.36 JPY per €1.00, 18.91 MXN per €1.00 and £0.79 per €1.00. A portion of our foreign currency contracts are not designated as cash flow hedges, and accordingly, changes in their fair value are recorded in earnings. During the second quarter of 2014, we began entering into foreign currency contracts designated as cash flow hedges. For foreign currency contracts designated as cash flow hedges, changes in fair value, excluding any ineffective portion, are recorded in other comprehensive income until net income is affected by the variability in cash flows of the hedged transaction. The effective portion is generally released to net income after the maturity of the related derivative and is classified in the same manner as the underlying exposure. During the three and nine months ended September 30, 2015, we reclassified $0.9 million and $2.3 million, respectively, from other comprehensive income to cost of goods sold related to foreign currency contracts designated as cash flow hedges. The fair values of our foreign currency contracts were assets of $1.4 million, $0.8 million and $8.0 thousand as of September 30, 2015, December 31, 2014 and September 30, 2014, respectively, and were included in prepaid expenses and other current assets on the consolidated balance sheet. Refer to Note 6 to the Consolidated Financial Statements for a discussion of the fair value measurements. Included in other expense, net were the following amounts related to changes in foreign currency exchange rates and derivative foreign currency contracts:

| | Three Months Ended September 30, | | Nine Months Ended September 30, | |
|---|---|---|---|---|
| (In thousands) | 2015 | 2014 | 2015 | 2014 |
| Unrealized foreign currency exchange rate gains (losses) | $(5,454) | $(4,981) | $(24,677) | $(4,881) |
| Realized foreign currency exchange rate gains (losses) | (1,858) | 81 | 6,999 | 303 |
| Unrealized derivative gains (losses) | (112) | (134) | (182) | (152) |
| Realized derivative gains (losses) | 3,559 | 1,679 | 12,196 | 748 |

We enter into foreign currency contracts with major financial institutions with investment grade credit ratings and are 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 contracts. However, we monitor the credit quality of these financial institutions and consider the risk of counterparty default to be minimal. Although we have entered into foreign currency contracts to minimize some of the impact of foreign currency exchange rate fluctuations on future cash flows, we cannot be assured that foreign currency exchange rate fluctuations will not have a material adverse impact on our financial condition and results of operations.

Interest Rate Risk

In order to maintain liquidity and fund business operations, we enter into long term debt arrangements with various lenders which bear a range of fixed and variable rates of interest. The nature and amount of our long-term debt can be expected to vary as a result of future business requirements, market conditions and other factors. We may elect to enter into interest rate swap contracts to reduce the impact associated with interest rate fluctuations. We utilize interest rate swap contracts to convert a portion of variable rate debt to fixed rate debt. The contracts pay fixed and receive variable rates of interest. The interest rate swap contracts are accounted for as cash flow hedges and accordingly, the effective portion of the changes in fair value are recorded in other comprehensive income and reclassified into interest expense over the life of the underlying debt obligation.

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As of September 30, 2015, the notional value of our outstanding interest rate swap contracts was $175.0 million. During the three months ended September 30, 2015 and 2014, we recorded a $0.7 million and $0.6 million increase in interest expense, respectively, representing the effective portion of the contract reclassified from accumulated other comprehensive income. During the nine months ended September 30, 2015 and 2014, we recorded a $2.1 million and $1.0 million increase in interest expense, respectively, representing the effective portion of the contract reclassified from accumulated other comprehensive income. The fair value of the interest rate swap contracts was a liability of $3.4 million and $0.6 million as of September 30, 2015 and December 31, 2014, respectively, and was included in other long term liabilities on the consolidated balance sheet. The fair value of the interest rate swap contract was an asset of $1.2 million as of September 30, 2014, and was included in other long term assets on the consolidated balance sheet.

Credit Risk

We are exposed to credit risk primarily on our accounts receivable. We provide credit to customers in the ordinary course of business and perform ongoing credit evaluations. We believe that our exposure to concentrations of credit risk with respect to trade receivables is largely mitigated by our customer base. We believe that our allowance for doubtful accounts is sufficient to cover customer credit risks as of September 30, 2015.

Inflation

Inflationary factors such as increases in the cost of our product and overhead costs may adversely affect our operating results. Although we do not believe that inflation has had a material impact on our financial position or results of operations in recent periods, a high rate of inflation in the future may have an adverse effect on our ability to maintain current levels of gross margin and selling, general and administrative expenses as a percentage of net revenues if the selling prices of our products do not increase with these increased costs.

## ITEM 4. CONTROLS AND PROCEDURES

Evaluation of Disclosure Controls and Procedures

Our management has evaluated, under the supervision and with the participation of our Chief Executive Officer and Chief Financial Officer, the effectiveness of our disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e) under the Securities Exchange Act of 1934 (the “Exchange Act”)) as of the end of the period covered by this report. Based on that evaluation, our Chief Executive Officer and Chief Financial Officer have concluded that our disclosure controls and procedures are effective in ensuring that information required to be disclosed in our Exchange Act reports is (1) recorded, processed, summarized and reported in a timely manner and (2) accumulated and communicated to our management, including our Chief Executive Officer and Chief Financial Officer, as appropriate to allow timely decisions regarding required disclosure.

Changes in Internal Controls

There has been no change in our internal control over financial reporting as defined in Exchange Act Rules 13a-15(f) and 15d-15(f) during the most recent fiscal quarter that has materially affected, or that is reasonably likely to materially affect our internal control over financial reporting.

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PART II. OTHER INFORMATION

ITEM 1. LEGAL PROCEEDINGS

From time to time, we are involved in litigation and other proceedings, including matters related to commercial and intellectual property, as well as trade, regulatory and other claims related to our business. See Note 5 to our Consolidated Financial Statements for information on certain legal proceedings, which is incorporated by reference herein.

ITEM 1A. RISK FACTORS

The Risk Factors included in our Annual Report on Form 10-K filed with the Securities and Exchange Commission for the year ended December 31, 2014 have not materially changed.

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

From July 1, 2015 through September 30, 2015, we entered into contractual arrangements to issue 16,102 deferred stock units automatically exchangeable for shares of Class A Common Stock on a one-for-one basis to one or more of our marketing partners in connection with their entering into endorsement and other marketing services agreements with us. These offers of our securities were made in reliance upon Section 4(2) under the Securities Act and did not involve any public offering. We did not receive any cash consideration in connection with these arrangements.

ITEM 6. EXHIBITS

| Exhibit No. | |
|---|---|
| 31.01 | Section 302 Chief Executive Officer Certification. |
| 31.02 | Section 302 Chief Financial Officer Certification. |
| 32.01 | Section 906 Chief Executive Officer Certification. |
| 32.02 | Section 906 Chief Financial Officer Certification. |
| 101.INS | XBRL Instance Document |
| 101.SCH | XBRL Taxonomy Extension Schema Document |
| 101.CAL | XBRL Taxonomy Extension Calculation Linkbase Document |
| 101.DEF | XBRL Taxonomy Extension Definition Linkbase Document |
| 101.LAB | XBRL Taxonomy Extension Label Linkbase Document |
| 101.PRE | XBRL Taxonomy Extension Presentation Linkbase Document |

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SIGNATURES

Pursuant to the requirements of Section 13 or 15(d) of the Securities Exchange Act of 1934, the registrant has duly caused this report to be signed on its behalf by the undersigned, thereunto duly authorized.

UNDER ARMOUR, INC.

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

Date: November 4, 2015