

Under Armour, Inc.  
Form 10-Q  
November 02, 2016  
Table of Contents

UNITED STATES  
SECURITIES AND EXCHANGE COMMISSION  
Washington, D.C. 20549

---

Form 10-Q

---

(Mark One)

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

For the quarterly period ended September 30, 2016  
or

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

For the transition period from \_\_\_\_\_ to \_\_\_\_\_  
Commission File No. 001-33202

---

UNDER ARMOUR, INC.

(Exact name of registrant as specified in its charter)

---

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

---

Indicate by check mark whether the registrant (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days. Yes  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  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  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

As of September 30, 2016 there were 183,739,248 shares of Class A Common Stock, 34,450,000 shares of Class B Convertible Common Stock and 219,963,397 Class C Common Stock outstanding.

Table of Contents

UNDER ARMOUR, INC.  
September 30, 2016  
INDEX TO FORM 10-Q

PART I. FINANCIAL INFORMATION

|         |  |           |
|---------|--|-----------|
| Item 1. | <u>Financial Statements:</u>   |           |
|         | <u>Unaudited Consolidated Balance Sheets as of September 30, 2016, December 31, 2015 and September 30, 2015</u>                  | <u>1</u>  |
|         | <u>Unaudited Consolidated Statements of Income for the Three and Nine Months Ended September 30, 2016 and 2015</u>               | <u>2</u>  |
|         | <u>Unaudited Consolidated Statements of Comprehensive Income for the Three and Nine Months Ended September 30, 2016 and 2015</u> | <u>3</u>  |
|         | <u>Unaudited Consolidated Statements of Cash Flows for the Nine Months Ended September 30, 2016 and 2015</u>                     | <u>4</u>  |
|         | <u>Notes to the Unaudited Consolidated Financial Statements</u>  | <u>5</u>  |
| Item 2. | <u>Management's Discussion and Analysis of Financial Condition and Results of Operations</u>                                     | <u>14</u> |
| Item 3. | <u>Quantitative and Qualitative Disclosures About Market Risk</u>  | <u>25</u> |
| Item 4. | <u>Controls and Procedures</u>   | <u>25</u> |

PART II. OTHER INFORMATION

|          |                          |           |
|----------|--------------------------|-----------|
| Item 1A. | <u>Risk Factors</u>      | <u>26</u> |
| Item 5.  | <u>Other Information</u> | <u>26</u> |
| Item 6.  | <u>Exhibits</u>          | <u>27</u> |
|          | <u>SIGNATURES</u>        | <u>28</u> |

---

Table of Contents

## PART I. FINANCIAL INFORMATION

## ITEM 1. FINANCIAL STATEMENTS

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

|   | September 30,<br>2016 | December 31,<br>2015 | September 30,<br>2015 |
|---|-----------------------|----------------------|-----------------------|
| Assets  |                       |                      |                       |
| Current assets  |                       |                      |                       |
| Cash and cash equivalents   | \$ 179,954            | \$ 129,852           | \$ 159,398            |
| Accounts receivable, net  | 713,731               | 433,638              | 551,188               |
| Inventories   | 970,621               | 783,031              | 867,082               |
| Prepaid expenses and other current assets   | 162,255               | 152,242              | 134,751               |
| Deferred income taxes   | —                     | —                    | 60,692                |
| Total current assets  | 2,026,561             | 1,498,763            | 1,773,111             |
| Property and equipment, net   | 751,286               | 538,531              | 478,418               |
| Goodwill  | 576,903               | 585,181              | 591,872               |
| Intangible assets, net  | 68,248                | 75,686               | 79,692                |
| Deferred income taxes   | 155,592               | 92,157               | 42,866                |
| Other long term assets  | 106,747               | 75,652               | 66,404                |
| Total assets  | \$ 3,685,337          | \$ 2,865,970         | \$ 3,032,363          |
| Liabilities and Stockholders' Equity  |                       |                      |                       |
| Current liabilities   |                       |                      |                       |
| Revolving credit facility, current  | \$ 250,000            | \$ —                 | \$ 300,000            |
| Accounts payable  | 254,222               | 200,460              | 274,285               |
| Accrued expenses  | 238,284               | 192,935              | 188,266               |
| Current maturities of long term debt  | 27,000                | 42,000               | 42,124                |
| Other current liabilities   | 87,744                | 43,415               | 43,929                |
| Total current liabilities   | 857,250               | 478,810              | 848,604               |
| Long term debt, net of current maturities   | 796,768               | 624,070              | 559,411               |
| Other long term liabilities   | 108,165               | 94,868               | 89,094                |
| Total liabilities   | 1,762,183             | 1,197,748            | 1,497,109             |
| Commitments and contingencies (see Note 4)  |                       |                      |                       |
| Stockholders' equity  |                       |                      |                       |
| Class A Common Stock, \$0.0003 1/3 par value; 400,000,000 shares authorized as of September 30, 2016, December 31, 2015 and September 30, 2015; 183,739,248 shares issued and outstanding as of September 30, 2016, 181,646,468 shares issued and outstanding as of December 31, 2015 and 180,115,884 shares issued and outstanding as of September 30, 2015. | 61                    | 61                   | 60                    |
| Class B Convertible Common Stock, \$0.0003 1/3 par value; 34,450,000 shares authorized, issued and outstanding as of September 30, 2016 and December 31, 2015 and 35,700,000 shares authorized, issued and outstanding as of September 30, 2015.  | 11                    | 11                   | 12                    |
| Class C Common Stock, \$0.0003 1/3 par value; 400,000,000 shares authorized as of September 30, 2016, December 31, 2015 and September 30, 2015; 219,963,397 shares issued and outstanding as of September 30,   | 73                    | 72                   | 72                    |

Edgar Filing: Under Armour, Inc. - Form 10-Q

2016, 216,096,468 shares issued and outstanding as of December 31,  
2015 and 215,815,884 shares issued and outstanding as of September 30,  
2015.

|  |              |              |              |
|--|--------------|--------------|--------------|
| Additional paid-in capital                 | 816,390      | 636,558      | 603,051      |
| Retained earnings                          | 1,156,650    | 1,076,533    | 971,117      |
| Accumulated other comprehensive loss       | (50,031      | ) (45,013    | ) (39,058    |
| Total stockholders' equity                 | 1,923,154    | 1,668,222    | 1,535,254    |
| Total liabilities and stockholders' equity | \$ 3,685,337 | \$ 2,865,970 | \$ 3,032,363 |

See accompanying notes.

1

---

Table of Contents

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

|  | Three Months Ended<br>September 30, |             | Nine Months Ended<br>September 30, |             |
|--|-------------------------------------|-------------|------------------------------------|-------------|
|  | 2016                                | 2015        | 2016                               | 2015        |
| Net revenues   | \$1,471,573                         | \$1,204,109 | \$3,520,058                        | \$2,792,627 |
| Cost of goods sold   | 772,949                             | 616,949     | 1,863,151                          | 1,448,750   |
| Gross profit   | 698,624                             | 587,160     | 1,656,907                          | 1,343,877   |
| Selling, general and administrative expenses                             | 499,314                             | 415,763     | 1,403,336                          | 1,112,912   |
| Income from operations   | 199,310                             | 171,397     | 253,571                            | 230,965     |
| Interest expense, net  | (8,189)                             | (4,100)     | (18,476)                           | (10,572)    |
| Other expense, net   | (772)                               | (3,239)     | (1,025)                            | (5,038)     |
| Income before income taxes   | 190,349                             | 164,058     | 234,070                            | 215,355     |
| Provision for income taxes   | 62,124                              | 63,581      | 80,322                             | 88,384      |
| Net income   | 128,225                             | 100,477     | 153,748                            | 126,971     |
| Adjustment payment to Class C capital stockholders                       | —                                   | —           | 59,000                             | —           |
| Net income available to all stockholders                                 | \$128,225                           | \$100,477   | \$94,748                           | \$126,971   |
| Basic net income per share of Class A and B common stock                 | \$0.29                              | \$0.23      | \$0.22                             | \$0.29      |
| Basic net income per share of Class C common stock                       | \$0.29                              | \$0.23      | \$0.49                             | \$0.29      |
| Diluted net income per share of Class A and B common stock               | \$0.29                              | \$0.23      | \$0.21                             | \$0.29      |
| Diluted net income per share of Class C common stock                     | \$0.29                              | \$0.23      | \$0.48                             | \$0.29      |
| Weighted average common shares outstanding Class A and B<br>common stock |                                     |             |                                    |             |
| Basic  | 218,074                             | 215,743     | 217,535                            | 215,347     |
| Diluted  | 222,115                             | 221,053     | 221,709                            | 220,708     |
| Weighted average common shares outstanding Class C common<br>stock       |                                     |             |                                    |             |
| Basic  | 219,756                             | 215,743     | 218,147                            | 215,347     |
| Diluted  | 223,738                             | 221,053     | 222,301                            | 220,708     |
| See accompanying notes.  |                                     |             |                                    |             |

Table of Contents

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

|  | Three Months Ended<br>September 30, |           | Nine Months Ended<br>September 30, |           |
|--|-------------------------------------|-----------|------------------------------------|-----------|
|  | 2016                                | 2015      | 2016                               | 2015      |
| Net income   | \$128,225                           | \$100,477 | \$153,748                          | \$126,971 |
| Other comprehensive income (loss):   |                                     |           |                                    |           |
| Foreign currency translation adjustment  | (6,182 )                            | (11,558 ) | (1,917 )                           | (23,784 ) |
| Unrealized gain (loss) on cash flow hedge, net of tax of \$769 and \$(506)<br>for the three months ended September 30, 2016 and 2015, respectively,<br>and \$(1,654) and \$(698) for the nine months ended September 30, 2016<br>and 2015, respectively. | 1,411                               | (105 )    | (3,101 )                           | (466 )    |
| Total other comprehensive income (loss)  | (4,771 )                            | (11,663 ) | (5,018 )                           | (24,250 ) |
| Comprehensive income (loss)  | \$123,454                           | \$88,814  | \$148,730                          | \$102,721 |
| See accompanying notes.  |                                     |           |                                    |           |

Table of Contents

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

|  | Nine Months Ended<br>September 30, |            |
|--|------------------------------------|------------|
|  | 2016                               | 2015       |
| Cash flows from operating activities   |                                    |            |
| Net income   | \$153,748                          | \$126,971  |
| Adjustments to reconcile net income to net cash used in operating activities |                                    |            |
| Depreciation and amortization  | 105,382                            | 72,211     |
| Unrealized foreign currency exchange rate (gains) losses                     | (4,846 )                           | 24,677     |
| Loss on disposal of property and equipment                                   | 504                                | 434        |
| Stock-based compensation   | 43,445                             | 44,800     |
| Deferred income taxes  | (61,561 )                          | (15,266 )  |
| Changes in reserves and allowances   | 70,565                             | 19,577     |
| Changes in operating assets and liabilities, net of effects of acquisitions: |                                    |            |
| Accounts receivable  | (342,342 )                         | (288,687 ) |
| Inventories  | (186,472 )                         | (357,874 ) |
| Prepaid expenses and other assets  | (19,702 )                          | (52,629 )  |
| Accounts payable   | 68,093                             | 58,155     |
| Accrued expenses and other liabilities                                       | 38,099                             | 44,863     |
| Income taxes payable and receivable  | 40,925                             | 9,320      |
| Net cash used in operating activities  | (94,162 )                          | (313,448 ) |
| Cash flows from investing activities   |                                    |            |
| Purchases of property and equipment  | (251,378 )                         | (226,733 ) |
| Purchases of property and equipment from related parties                     | (70,288 )                          | —          |
| Purchase of businesses, net of cash acquired                                 | —                                  | (539,460 ) |
| Purchases of available-for-sale securities                                   | (24,230 )                          | (80,272 )  |
| Sales of available-for-sale securities                                       | 30,712                             | 68,314     |
| Purchases of other assets  | (858 )                             | (2,670 )   |
| Net cash used in investing activities  | (316,042 )                         | (780,821 ) |
| Cash flows from financing activities   |                                    |            |
| Proceeds from long term debt and revolving credit facility                   | 1,302,537                          | 650,000    |
| Payments on long term debt and revolving credit facility                     | (889,000 )                         | (29,527 )  |
| Excess tax benefits from stock-based compensation arrangements               | 44,444                             | 40,768     |
| Proceeds from exercise of stock options and other stock issuances            | 13,022                             | 7,527      |
| Payments of debt financing costs   | (5,250 )                           | (947 )     |
| Cash dividends paid  | (2,927 )                           | —          |
| Contingent consideration payments for acquisitions                           | (2,424 )                           | —          |
| Net cash provided by financing activities                                    | 460,402                            | 667,821    |
| Effect of exchange rate changes on cash and cash equivalents                 | (96 )                              | (7,329 )   |
| Net increase (decrease) in cash and cash equivalents                         | 50,102                             | (433,777 ) |
| Cash and cash equivalents  |                                    |            |
| Beginning of period  | 129,852                            | 593,175    |
| End of period  | \$179,954                          | \$159,398  |
| Non-cash investing and financing activities                                  |                                    |            |
| Change in accrual for property and equipment                                 | (9,374 )                           | 4,800      |

Edgar Filing: Under Armour, Inc. - Form 10-Q

|  |           |       |
|--|-----------|-------|
| Non-cash dividends paid                                    | (56,073 ) | —     |
| Property and equipment acquired under build-to-suit leases | —         | 5,631 |
| See accompanying notes.                                    |           |       |

4

---



Table of Contents

Under Armour, Inc. and Subsidiaries

Notes to the Unaudited Consolidated Financial Statements

1. Description of the Business

Under Armour, Inc. is a developer, marketer and distributor of branded performance apparel, footwear and accessories. These products are sold worldwide and worn by athletes at all levels, from youth to professional on playing fields around the globe, as well as by consumers with active lifestyles. 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. Intercompany balances and transactions were eliminated. The consolidated balance sheet as of December 31, 2015 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, 2015 (the "2015 Form 10-K"), which should be read in conjunction with these consolidated financial statements. The results for the nine months ended September 30, 2016 are not necessarily indicative of the results to be expected for the year ending December 31, 2016 or any other portions thereof.

On March 16, 2016, the Board of Directors approved the issuance of the Company's new Class C non-voting common stock, referred to as the Class C stock. The Class C stock was issued through a stock dividend on a one-for-one basis to all existing holders of the Company's Class A and Class B common stock. The shares of Class C stock were distributed on April 7, 2016, to stockholders of record of Class A and Class B common stock as of March 28, 2016. Stockholders' equity and all references to share and per share amounts in the accompanying consolidated financial statements have been retroactively adjusted to reflect this one-for-one stock dividend.

On June 3, 2016, the Board of Directors approved the payment of a \$59.0 million dividend to the holders of the Company's Class C stock in connection with shareholder litigation related to the creation of the Class C stock. The Company's Board of Directors approved the payment of this dividend in the form of additional shares of Class C stock, with cash in lieu of any fractional shares. This dividend was distributed on June 29, 2016, in the form of 1,470,256 shares of Class C stock and \$2.9 million in cash.

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.

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 each customer's financial condition and collateral is not required. The Company's largest customer accounted for 20.2%, 18.7% and 20.7% of accounts receivable as of September 30, 2016, December 31, 2015 and September 30, 2015, respectively. The Company's largest customer accounted for 11.0% and 12.5% of net revenues for the nine months ended September 30, 2016 and 2015, respectively.

Allowance for Doubtful Accounts

As of September 30, 2016, December 31, 2015 and September 30, 2015, the allowance for doubtful accounts was \$33.6 million, \$5.9 million and \$6.3 million, respectively.



## Table of Contents

### 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 \$25.7 million and \$14.3 million for the three months ended September 30, 2016 and 2015, respectively, and \$65.1 million and \$40.1 million for the nine months ended September 30, 2016 and 2015, 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 Accounting Standards Update ("ASU") 2014-09, which supersedes the most current revenue recognition requirements. This ASU 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. In 2016, the FASB issued ASUs 2016-08, 2016-10, 2016-11 and 2016-12, which provide supplemental adoption guidance and clarification to ASU 2014-09. These ASUs will be effective for annual and interim periods beginning after December 15, 2017 with early adoption for annual and interim periods beginning after December 15, 2016 permitted and should be applied retrospectively to each prior reporting period presented or as a cumulative effect adjustment as of the date of adoption. The Company is currently evaluating this pronouncement to determine the impact of its adoption on its consolidated financial statements.

In February 2016, the FASB issued ASU 2016-02, which amends the existing guidance for leases and will require recognition of operating leases with lease terms of more than twelve months and all financing leases on the balance sheet. For these leases, companies will record assets for the rights and liabilities for the obligations that are created by the leases. This ASU will require disclosures that provide qualitative and quantitative information for the lease assets and liabilities recorded in the financial statements. This ASU is effective for fiscal years beginning after December 15, 2018. The Company is currently evaluating this ASU to determine the impact of its adoption on its consolidated financial statements.

In March 2016, the FASB issued ASU 2016-09, which effects all entities that issue share-based payment awards to their employees. The amendments in this ASU cover such areas as the recognition of excess tax benefits and deficiencies, the classification of those excess tax benefits on the statement of cash flows, an accounting policy election for forfeitures, the amount an employer can withhold to cover income taxes and still qualify for equity classification and the classification of those taxes paid on the statement of cash flows. This ASU is effective for annual and interim periods beginning after December 15, 2016. This guidance can be applied either prospectively, retrospectively or using a modified retrospective transition method. Early adoption is permitted. The Company has not yet selected a transition date and is currently evaluating this ASU to determine the impact of its adoption on its consolidated financial statements.

In August 2016, the FASB issued ASU 2016-15, which eliminates the diversity in practice related to the classification of certain cash receipts and payments in the statement of cash flows, by adding or clarifying guidance on eight specific cash flow issues. This ASU is effective for fiscal years beginning after December 15, 2017, and interim periods within those fiscal years. The Company is currently evaluating this ASU to determine the impact of its adoption on its consolidated financial statements.

### Recently Adopted Accounting Standards

In November 2015, the FASB issued an Accounting Standards Update which requires deferred tax liabilities and assets to be classified as non-current in a classified statement of financial position. The guidance is effective for financial statements issued for annual periods beginning after December 15, 2017, and interim periods within annual periods beginning after December 15, 2018. Earlier adoption is permitted for all entities as of the beginning

Table of Contents

of an interim or annual reporting period. This amendment may be applied either prospectively or retrospectively to all periods presented. The Company adopted the provisions of this guidance prospectively in the fourth quarter of 2015, and did not retrospectively adjust the prior periods. Had the Company adopted this guidance retrospectively, \$60.7 million would have been reclassified from deferred income taxes-current to deferred income taxes-long term for the nine months ended September 30, 2015. The adoption of this guidance will simplify the presentation of deferred income taxes and reduce complexity without decreasing the usefulness of information provided to users of financial statements. The adoption of this pronouncement did not have a significant impact on the Company's financial position, results of operations and cash flows.

In April 2015, the FASB issued ASU 2015-03, which requires costs incurred to issue debt to be presented in the balance sheet as a direct deduction from the carrying value of the debt. This ASU is effective for annual and interim reporting periods beginning after December 15, 2015, with early adoption permitted. The Company adopted the provisions of this ASU in the first quarter of 2016, and reclassified approximately \$2.9 million and \$3.1 million from "Other long term assets" to "Long term debt, net of current maturities" as of December 31, 2015 and September 30, 2015.

### 3. Long Term Debt

#### Credit Facility

In January 2016, the Company amended its credit agreement to increase revolving credit facility commitments from \$800.0 million to \$1.25 billion. This amendment also extended the term of the revolving credit facility and the remaining outstanding term loans under the credit agreement, which as of September 30, 2016 totaled \$192.5 million, from May 2019 to January 2021. As of September 30, 2016, the Company had \$250.0 million outstanding under the revolving credit facility.

The borrowings under the revolving credit facility have maturities of less than one year. Up to \$50.0 million of the facility may be used for the issuance of letters of credit. There were \$1.5 million of letters of credit outstanding as of September 30, 2016.

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, 2016, 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 rate under the outstanding term loans and revolving credit facility borrowings was 1.62% and 1.58% during the three and nine months ended September 30, 2016, respectively. 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, 2016, the commitment fee was 15.0 basis points. Since inception, the Company incurred and deferred \$3.9 million in financing costs in connection with the credit agreement.

#### 3.250% Senior Notes

In June 2016, the Company issued \$600.0 million aggregate principal amount of 3.250% senior unsecured notes due June 15, 2026 (the "Notes"). The proceeds were used to pay down amounts outstanding under the revolving credit facility. Interest is payable semi-annually on June 15 and December 15 beginning December 15, 2016. Prior to March

15, 2026 (three months prior to the maturity date of the Notes), the Company may redeem some or all of the Notes at any time or from time to time at a redemption price equal to the greater of 100% of the principal amount of the Notes to be redeemed or a “make-whole” amount applicable to such Notes as described in the indenture governing the Notes, plus accrued and unpaid interest to, but excluding, the redemption date. On or

7

---

## Table of Contents

after March 15, 2026 (three months prior to the maturity date of the Notes), the Company may redeem some or all of the Notes at any time or from time to time at a redemption price equal to 100% of the principal amount of the Notes to be redeemed, plus accrued and unpaid interest to, but excluding, the redemption date.

The indenture governing the Notes contains covenants, including limitations that restrict the Company's ability and the ability of certain of its subsidiaries to create or incur secured indebtedness and enter into sale and leaseback transactions and the Company's ability to consolidate, merge or transfer all or substantially all of its properties or assets to another person, in each case subject to material exceptions described in the indenture. The Company incurred and deferred \$5.3 million in financing costs in connection with the Notes.

### Other Long Term Debt

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, 2016, December 31, 2015 and September 30, 2015, the outstanding balance on the loan was \$42.5 million, \$44.0 million and \$44.5 million, respectively. The weighted average interest rate on the loan was 2.00% and 1.94% for the three and nine months ended September 30, 2016, respectively.

Interest expense, net was \$8.2 million and \$4.1 million for the three months ended September 30, 2016 and 2015, respectively, and \$18.5 million and \$10.6 million for the nine months ended September 30, 2016 and 2015, 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.

### 4. Commitments and Contingencies

Other than the borrowings and repayments disclosed in Note 3 and changes which occur in the normal course of business, there were no significant changes to the contractual obligations reported in the 2015 Form 10-K as updated in the Form 10-Q for the quarter ended June 30, 2016.

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. 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.

### 5. 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

Table of Contents

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:

| (In thousands)                                     | September 30, 2016 |         |         | December 31, 2015 |         |         | September 30, 2015 |         |         |
|--|--------------------|---------|---------|-------------------|---------|---------|--------------------|---------|---------|
|  | Level 1            | Level 2 | Level 3 | Level 1           | Level 2 | Level 3 | Level 1            | Level 2 | Level 3 |
| Available-for-sale securities                      | \$ —               | \$ —    | \$ —    | —\$6,534          | \$ —    | \$ —    | —\$11,958          | \$ —    | \$ —    |
| Derivative foreign currency contracts (see Note 7) | —                  | 1,577   | —       | —                 | 3,811   | —       | —                  | 1,371   | —       |
| Interest rate swap contracts (see Note 7)          | —                  | 3,953   | —       | —                 | (1,486) | —       | —                  | (3,391) | —       |
| TOLI policies held by the Rabbi Trust              | —                  | 4,819   | —       | —                 | 4,456   | —       | —                  | 4,384   | —       |
| Deferred Compensation Plan obligations             | —                  | (6,486) | —       | —                 | (5,072) | —       | —                  | (4,741) | —       |

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, 2016 and 2015. The fair value of the Company's long term debt was estimated based upon quoted prices for similar instruments (Level 2 input).

## 6. Stock-Based Compensation

During the nine months ended September 30, 2016, 2.4 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, as amended. These performance-based restricted stock units and options have weighted average grant date fair values of \$36.16 and \$36.18, respectively, and have vesting conditions tied to the achievement of certain combined annual operating income targets for 2016 and 2017. Upon the achievement of the targets, one third of the restricted stock units and options will vest each in February 2018, February 2019 and February 2020. If certain lower levels of combined annual operating income for 2016 and 2017 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 2016 and 2017 probable during the nine months ended September 30, 2016. 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 and options will be achieved, a cumulative adjustment will be recorded as if ratable stock-based compensation

9

---

Table of Contents

expense had been recorded since the grant date. Additional stock based compensation of up to \$5.3 million would have been recorded during the nine months ended September 30, 2016, for these performance-based restricted stock units and options had the achievement of the remaining operating income targets been deemed probable.

## 7. 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, 2016, the aggregate notional value of the Company's outstanding foreign currency contracts was \$680.4 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. The Company also enters 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 months ended September 30, 2016, the Company reclassified \$1.0 million 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 \$1.6 million, \$3.8 million and \$1.4 million as of September 30, 2016, December 31, 2015 and September 30, 2015, respectively, and were included in prepaid expenses and other current assets on the consolidated balance sheet. Refer to Note 5 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<br>Ended<br>September 30, |           | Nine Months<br>Ended September<br>30, |            |
|--|--|-----------|---------------------------------------|------------|
| (In thousands)   | 2016                                   | 2015      | 2016                                  | 2015       |
| Unrealized foreign currency exchange rate gains (losses) | \$985                                  | \$(5,454) | \$4,846                               | \$(24,677) |
| Realized foreign currency exchange rate gains (losses)   | (2,635)                                | (1,858)   | (3,094)                               | 6,999      |
| Unrealized derivative gains (losses)                     | 516                                    | (112)     | (401)                                 | (182)      |
| Realized derivative gains (losses)                       | 426                                    | 3,559     | (2,415)                               | 12,196     |

## 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 fixed and 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 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 3 for a discussion of long term debt.

As of September 30, 2016, the notional value of the Company's outstanding interest rate swap contracts was \$157.5 million. During the three months ended September 30, 2016 and 2015, the Company recorded a \$0.5 million and \$0.7 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, 2016 and 2015, the Company recorded a \$1.6 million and \$2.1 million increase in interest expense, respectively, representing the effective portion of the contract reclassified from accumulated other comprehensive income. The fair values of the interest rate swap contracts were assets of \$4.0 million as of September 30, 2016, and were included in other long term assets on the consolidated balance sheet. The fair values of the interest rate swap

Table of Contents

contracts were liabilities of \$1.5 million and \$3.4 million as of December 31, 2015 and September 30, 2015, respectively, and were included in other long term liabilities 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.

#### 8. Provision for Income Taxes

The effective rates for income taxes were 34.3% and 41.0% for the nine months ended September 30, 2016 and 2015, respectively. The effective tax rate for the nine months ended September 30, 2016 was lower than the effective tax rate for the nine months ended September 30, 2015 primarily due to increased international profitability and a tax benefit related to our prior period acquisitions.

#### 9. Earnings per Share

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

| (In thousands, except per share amounts)   | Three Months<br>Ended September<br>30, |           | Nine Months Ended<br>September 30, |           |
|--|--|-----------|------------------------------------|-----------|
|  | 2016                                   | 2015      | 2016                               | 2015      |
| Numerator  |  |           |                                    |           |
| Net income   | \$128,225                              | \$100,477 | \$153,748                          | \$126,971 |
| Adjustment payment to Class C capital stockholders                               | —                                      | —         | 59,000                             | —         |
| Net income (loss) available to all stockholders                                  | 128,225                                | 100,477   | 94,748                             | 126,971   |
| Denominator  |  |           |                                    |           |
| Weighted average common shares outstanding Class A and B                         | 218,074                                | 215,743   | 217,535                            | 215,347   |
| Effect of dilutive securities Class A and B                                      | 4,041                                  | 5,310     | 4,174                              | 5,361     |
| Weighted average common shares and dilutive securities outstanding Class A and B | 222,115                                | 221,053   | 221,709                            | 220,708   |
| Weighted average common shares outstanding Class C                               | 219,756                                | 215,743   | 218,147                            | 215,347   |
| Effect of dilutive securities Class C  | 3,982                                  | 5,310     | 4,154                              | 5,361     |
| Weighted average common shares and dilutive securities outstanding Class C       | 223,738                                | 221,053   | 222,301                            | 220,708   |
| Basic earnings per share Class A and B   | \$0.29                                 | \$0.23    | \$0.22                             | \$0.29    |
| Basic earnings per share Class C   | \$0.29                                 | \$0.23    | \$0.49                             | \$0.29    |
| Dilutive earnings per share Class A and B  | \$0.29                                 | \$0.23    | \$0.21                             | \$0.29    |
| Dilutive earnings per share Class C  | \$0.29                                 | \$0.23    | \$0.48                             | \$0.29    |

Effects of potentially dilutive securities are presented only in periods in which they are dilutive. Stock options and restricted stock units representing 83.7 thousand and 47.1 thousand shares of Class A common stock outstanding for the three months ended September 30, 2016 and 2015, 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 1.1 million and 47.1 thousand shares of Class C common stock outstanding for the three months ended September 30, 2016 and 2015, 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 86.9 thousand and 463.1 thousand shares of Class A common stock outstanding for the nine months ended September 30, 2016 and 2015, 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 444.3 thousand and 463.1 thousand shares of

Class C common stock outstanding for the nine months ended September 30, 2016 and 2015, respectively, were excluded from the computation of diluted earnings per share because their effect would have been anti-dilutive.

Table of Contents

## 10. 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. The CODM also receives discrete financial information for the Company's Connected Fitness business. Intersegment revenue is generated by Connected Fitness which runs advertising campaigns for the Company's e-commerce business in North America. The Company accounts for this intersegment revenue as if the sales were made to third parties making similar purchases. Due to the insignificance of the Latin America, EMEA and Asia-Pacific operating segments, they continue to be combined into International 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. Corporate service costs are primarily included in North America and have not been allocated to International or Connected Fitness.

| (In thousands)             | Three Months Ended |              | Nine Months Ended |              |
|----------------------------|--------------------|--------------|-------------------|--------------|
|                            | September 30,      |              | September 30,     |              |
|                            | 2016               | 2015         | 2016              | 2015         |
| Net revenues               |                    |              |                   |              |
| North America              | \$ 1,225,188       | \$ 1,059,440 | \$ 2,932,915      | \$ 2,440,728 |
| International              | 226,204            | 130,230      | 525,714           | 315,467      |
| Connected Fitness          | 20,181             | 14,439       | 62,179            | 36,432       |
| Intersegment eliminations  | —                  | —            | (750 )            | —            |
| Total net revenues         | \$ 1,471,573       | \$ 1,204,109 | \$ 3,520,058      | \$ 2,792,627 |
|                            |                    |              |                   |              |
| (In thousands)             | Three Months Ended |              | Nine Months Ended |              |
|                            | September 30,      |              | September 30,     |              |
|                            | 2016               | 2015         | 2016              | 2015         |
| Operating income (loss)    |                    |              |                   |              |
| North America              | \$ 182,840         | \$ 181,822   | \$ 251,084        | \$ 272,543   |
| International              | 24,984             | 6,180        | 34,996            | 6,126        |
| Connected Fitness          | (8,514 )           | (16,605 )    | (32,509 )         | (47,704 )    |
| Total operating income     | 199,310            | 171,397      | 253,571           | 230,965      |
| Interest expense, net      | (8,189 )           | (4,100 )     | (18,476 )         | (10,572 )    |
| Other expense, net         | (772 )             | (3,239 )     | (1,025 )          | (5,038 )     |
| Income before income taxes | \$ 190,349         | \$ 164,058   | \$ 234,070        | \$ 215,355   |

Table of Contents

Net revenues by product category are as follows:

| (In thousands)            | Three Months Ended |             | Nine Months Ended |             |
|---------------------------|--------------------|-------------|-------------------|-------------|
|                           | September 30,      |             | September 30,     |             |
|                           | 2016               | 2015        | 2016              | 2015        |
| Apparel                   | \$1,021,185        | \$865,514   | \$2,300,596       | \$1,936,221 |
| Footwear                  | 278,891            | 196,279     | 785,843           | 510,864     |
| Accessories               | 121,832            | 103,564     | 302,266           | 249,755     |
| Total net sales           | 1,421,908          | 1,165,357   | 3,388,705         | 2,696,840   |
| License revenues          | 29,484             | 24,313      | 69,923            | 59,355      |
| Connected Fitness         | 20,181             | 14,439      | 62,180            | 36,432      |
| Intersegment eliminations | —                  | —           | (750)             | —           |
| Total net revenues        | \$1,471,573        | \$1,204,109 | \$3,520,058       | \$2,792,627 |

#### 11. Related Party Transactions

In June 2016, the Company entered into a purchase agreement with Sagamore Development Holdings, LLC, an entity controlled by the Company's CEO, to purchase parcels of land to be utilized to expand the Company's corporate headquarters to accommodate its growth needs. The purchase price for these parcels totaled \$70.3 million. The Company determined that the purchase price for the land represented the fair market value of the parcels and approximated the cost to the seller to purchase and develop the parcels, including costs related to the termination of a lease encumbering the parcels.

In connection with the purchase of these parcels, in September 2016, the parties entered into an agreement pursuant to which the parties will share the burden of any special taxes arising due to infrastructure projects in the surrounding area. The allocation to the Company is based on the expected benefits to the Company's parcels from these projects. No obligations were owed by either party under this agreement as of September 30, 2016.

Table of Contents

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

Forward-Looking Statements

Some of the statements contained in this Form 10-Q 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, and future benefits and opportunities from acquisitions. 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 of 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, 2015 filed with the Securities and Exchange Commission ("SEC") (our "2015 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." These factors include without limitation:

- changes in general economic or market conditions that could affect consumer spending;
- changes to the financial health of our 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;



## Table of Contents

our potential exposure to litigation and other proceedings; and  
our ability to attract and retain the services of our senior management and key employees.

The forward-looking statements contained in this Form 10-Q reflect our views and assumptions only as of the date of this Form 10-Q. We undertake no obligation to update any forward-looking statement to reflect events or circumstances after the date on which the statement is made or to reflect the occurrence of unanticipated events.

### Overview

We are a leading developer, marketer and distributor of branded performance apparel, footwear and accessories. The brand's 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 \$4.0 billion in 2015 from \$1.5 billion in 2011. We reported net revenues of \$3.5 billion for the first nine months of 2016, which represented a 26% increase from the first nine months of 2015. We believe that the growth in our business has been driven by a growing interest in performance products and the strength of the Under Armour brand in the marketplace. We plan to continue to increase our net revenues over the long term by increased sales of our apparel, footwear and accessories, expansion of our wholesale distribution sales channel, growth in our direct to consumer sales channel and expansion in international markets and engaging with consumers through our Connected Fitness business. Our direct to consumer sales channel includes our brand and factory house stores and websites.

Our primary business operates in four geographic segments: (1) North America, comprising the United States and Canada, (2) EMEA, (3) Asia-Pacific, and (4) Latin America. We also operate our Connected Fitness business as a separate segment. As our international operating segments are currently not material, we combine them and refer to them collectively as International for reporting 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 Connected Fitness revenues, primarily website hosting costs 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 \$25.7 million and \$14.3 million for the three months ended September 30, 2016 and 2015, respectively, and \$65.1 million and \$40.1 million for the nine months ended September 30, 2016 and 2015, respectively.

Table of Contents

Our selling, general and administrative expenses consist of costs related to marketing, selling, product innovation and supply chain and corporate services. We consolidate our selling, general and administrative expenses into two primary categories: marketing and other. The other category is the sum of our 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 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 |             | Nine Months Ended |             |
|--|--------------------|-------------|-------------------|-------------|
|  | September 30,      |             | September 30,     |             |
| (In thousands)                               | 2016               | 2015        | 2016              | 2015        |
| Net revenues                                 | \$1,471,573        | \$1,204,109 | \$3,520,058       | \$2,792,627 |
| Cost of goods sold                           | 772,949            | 616,949     | 1,863,151         | 1,448,750   |
| Gross profit                                 | 698,624            | 587,160     | 1,656,907         | 1,343,877   |
| Selling, general and administrative expenses | 499,314            | 415,763     | 1,403,336         | 1,112,912   |
| Income from operations                       | 199,310            | 171,397     | 253,571           | 230,965     |
| Interest expense, net                        | (8,189)            | (4,100)     | (18,476)          | (10,572)    |
| Other expense, net                           | (772)              | (3,239)     | (1,025)           | (5,038)     |
| Income before income taxes                   | 190,349            | 164,058     | 234,070           | 215,355     |
| Provision for income taxes                   | 62,124             | 63,581      | 80,322            | 88,384      |
| Net income                                   | \$128,225          | \$100,477   | \$153,748         | \$126,971   |

|  | Three Months    |         | Nine Months     |         |
|--|-----------------|---------|-----------------|---------|
|  | Ended September |         | Ended September |         |
| (As a percentage of net revenues)            | 2016            | 2015    | 2016            | 2015    |
| Net revenues                                 | 100.0 %         | 100.0 % | 100.0 %         | 100.0 % |
| Cost of goods sold                           | 52.5 %          | 51.2 %  | 52.9 %          | 51.9 %  |
| Gross profit                                 | 47.5 %          | 48.8 %  | 47.1 %          | 48.1 %  |
| Selling, general and administrative expenses | 34.0 %          | 34.6 %  | 39.9 %          | 39.8 %  |
| Income from operations                       | 13.5 %          | 14.2 %  | 7.2 %           | 8.3 %   |
| Interest expense, net                        | (0.5)%          | (0.3)%  | (0.6)%          | (0.4)%  |
| Other expense, net                           | (0.1)%          | (0.3)%  | —               | (0.2)%  |
| Income before income taxes                   | 12.9 %          | 13.6 %  | 6.6 %           | 7.7 %   |
| Provision for income taxes                   | 4.2 %           | 5.3 %   | 2.2 %           | 3.2 %   |
| Net income                                   | 8.7 %           | 8.3 %   | 4.4 %           | 4.5 %   |

## Consolidated Results of Operations

Three Months Ended September 30, 2016 Compared to Three Months Ended September 30, 2015

Net revenues increased \$267.5 million, or 22.2%, to \$1,471.6 million for the three months ended September 30, 2016 from \$1,204.1 million during the same period in 2015. Net revenues by product category are summarized below:



Table of Contents

| (In thousands)     | Three Months Ended September 30, |           |           |          |
|--------------------|----------------------------------|-----------|-----------|----------|
|                    | 2016                             | 2015      | \$ Change | % Change |
| Apparel            | \$1,021,185                      | \$865,514 | \$155,671 | 18.0 %   |
| Footwear           | 278,891                          | 196,279   | 82,612    | 42.1 %   |
| Accessories        | 121,832                          | 103,564   | 18,268    | 17.6 %   |
| Total net sales    | 1,421,908                        | 1,165,357 | 256,551   | 22.0 %   |
| License revenues   | 29,484                           | 24,313    | 5,171     | 21.3 %   |
| Connected Fitness  | 20,181                           | 14,439    | 5,742     | 39.8 %   |
| Total net revenues | 1,471,573                        | 1,204,109 | 267,464   | 22.2 %   |

The increase in net sales was driven primarily by:

• Apparel unit sales growth and new offerings in multiple lines led by training and golf; and

• Footwear unit sales growth, led by running, basketball and training.

License revenues increased \$5.2 million, or 21.3%, to \$29.5 million for the three months ended September 30, 2016 from \$24.3 million during the same period in 2015 driven primarily by increased revenue from our licensing partners in North America.

Connected Fitness revenue increased \$5.8 million, or 39.8%, to \$20.2 million for the three months ended September 30, 2016 from \$14.4 million during the same period in 2015 primarily driven by increased advertising and subscribers on our fitness applications and higher sales of our licensed products.

Gross profit increased \$111.4 million to \$698.6 million for the three months ended September 30, 2016 from \$587.2 million for the same period in 2015. Gross profit as a percentage of net revenues, or gross margin, decreased 130 basis points to 47.5% for the three months ended September 30, 2016 compared to 48.8% during the same period in 2015.

The decrease in gross margin percentage was primarily driven by the following:

• approximate 80 basis point decrease driven by increased liquidation as a result of our inventory management strategy which we expect to continue for the remainder of the year on a more limited basis;

• approximate 30 basis point decrease related to product margins driven by higher discounts and promotions, partially offset by continued improvement in product input costs, which we do not expect to continue for the remainder of the year; and

• approximate 30 basis point decrease driven by foreign exchange rates, which we expect to continue through the remainder of the year on a more limited basis.

Selling, general and administrative expenses increased \$83.5 million to \$499.3 million for the three months ended September 30, 2016 from \$415.8 million for the same period in 2015. As a percentage of net revenues, selling, general and administrative expenses decreased to 34.0% for the three months ended September 30, 2016 compared to 34.6% for the same period in 2015. These changes were primarily attributable to the following:

• Marketing costs increased \$11.0 million to \$139.5 million for the three months ended September 30, 2016 from \$128.5 million for the same period in 2015. This increase was primarily due to key North American retail marketing campaigns, our investments in sponsorships and increased marketing in connection with the growth of our international business. As a percentage of net revenues, marketing costs decreased to 9.5% for the three months ended September 30, 2016 from 10.7% for the same period in 2015.

• Other costs increased \$72.5 million to \$359.8 million for the three months ended September 30, 2016 from \$287.3 million for the same period in 2015. The increase was driven by higher personnel and other costs incurred for both the continued expansion of our direct to consumer distribution channel, including increased costs related to retail stores, distribution facilities, and our e-commerce business, and strategic initiatives such as product creation, innovation and sport category management. As a percentage of net revenues, other costs increased to 24.4% for the three months ended September 30, 2016 from 23.9% for the same period in 2015.

Income from operations increased \$27.9 million, or 16.3%, to \$199.3 million for the three months ended September 30, 2016 from \$171.4 million for the same period in 2015. Income from operations as a percentage of net revenues decreased to 13.5% for the three months ended September 30, 2016 from 14.2% for the same period in 2015.



Table of Contents

Interest expense, net increased \$4.1 million to \$8.2 million for the three months ended September 30, 2016 from \$4.1 million for the same period in 2015. This increase was primarily due to interest on the net increase of \$172.2 million in total debt outstanding.

Other expense, net decreased \$2.4 million to expense of \$0.8 million for the three months ended September 30, 2016 from expense of \$3.2 million for the same period in 2015. This decrease was due to higher net gains 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 decreased \$1.5 million to \$62.1 million during the three months ended September 30, 2016 from \$63.6 million during the same period in 2015. For the three months ended September 30, 2016, our effective tax rate was 32.6% compared to 38.8% for the same period in 2015. The effective rate for the three months ended September 30, 2016 was lower than the effective tax rate for the three months ended September 30, 2015 primarily due to increased international profitability and a tax benefit related to our prior period acquisitions.

Nine Months Ended September 30, 2016 Compared to Nine Months Ended September 30, 2015

Net revenues increased \$727.5 million, or 26.0%, to \$3,520.1 million for the nine months ended September 30, 2016 from \$2,792.6 million during the same period in 2015. Net revenues by product category are summarized below:

| (In thousands)                   | Nine Months Ended September 30, |             |           |          |
|----------------------------------|---------------------------------|-------------|-----------|----------|
|                                  | 2016                            | 2015        | \$ Change | % Change |
| Apparel                          | \$2,300,596                     | \$1,936,221 | \$364,375 | 18.8 %   |
| Footwear                         | 785,843                         | 510,864     | 274,979   | 53.8 %   |
| Accessories                      | 302,266                         | 249,755     | 52,511    | 21.0 %   |
| Total net sales                  | 3,388,705                       | 2,696,840   | 691,865   | 25.7 %   |
| License revenues                 | 69,923                          | 59,355      | 10,568    | 17.8 %   |
| Connected Fitness                | 62,180                          | 36,432      | 25,748    | 70.7 %   |
| Intersegment eliminations (750 ) | —                               | (750 )      | (100.0 )% |          |
| Total net revenues               | \$3,520,058                     | \$2,792,627 | \$727,431 | 26.0 %   |

The increase in net sales was driven primarily by:

• Apparel unit sales growth and new offerings in multiple lines led by training, golf and running; and

• Footwear unit sales growth, led by running, basketball and training.

License revenues increased \$10.5 million, or 17.8%, to \$69.9 million during the nine months ended September 30, 2016 from \$59.4 million during the same period in 2015, driven primarily by increased revenue from our licensing partners in North America.

Connected Fitness revenue increased \$25.8 million, or 70.7%, to \$62.2 million during the nine months ended September 30, 2016 from \$36.4 million during the same period in 2015, primarily driven by a full nine months of operations from our 2015 acquisitions, increased advertising and subscribers on our fitness applications and higher sales of our licensed products.

Gross profit increased \$313.0 million to \$1,656.9 million for the nine months ended September 30, 2016 from \$1,343.9 million for the same period in 2015. Gross profit as a percentage of net revenues, or gross margin, decreased 100 basis points to 47.1% for the nine months ended September 30, 2016 compared to 48.1% for the same period in 2015. The decrease in gross margin percentage was primarily driven by the following:

• approximate 60 basis points decrease driven by increased liquidation as a result of our changing inventory management strategy which we expect to continue the remainder of the year on a more limited basis;

• approximate 50 basis point decrease driven by negative sales mix primarily driven by the continued strength of our accelerated footwear and international growth, which we expect to continue through the remainder of the year on a more limited basis; and

• approximate 30 basis point decrease driven by foreign exchange rates, which we expect to continue through the remainder of the year on a more limited basis.

The decreases above were partially offset by:





Table of Contents

approximate 30 basis point increase driven primarily by lower freight costs, which we do not expect to continue through the remainder of the year.

Selling, general and administrative expenses increased \$290.4 million to \$1,403.3 million for the nine months ended September 30, 2016 from \$1,112.9 million for the same period in 2015. As a percentage of net revenues, selling, general and administrative expenses increased to 39.9% for the nine months ended September 30, 2016 compared to 39.8% for the same period in 2015. These changes were primarily attributable to the following:

Marketing costs increased \$44.3 million to \$369.8 million for the nine months ended September 30, 2016 from \$325.5 million for the same period in 2015. This increase was primarily due to key North American retail marketing campaigns, our investments in sponsorships and increased marketing in connection with the growth of our international business. As a percentage of net revenues, marketing costs decreased to 10.5% for the nine months ended September 30, 2016 from 11.7% for the same period in 2015.

Other costs increased \$246.1 million to \$1,033.5 million for the nine months ended September 30, 2016 from \$787.4 million for the same period in 2015. This increase was primarily due to \$24.5 million in expenses related to the liquidation of The Sports Authority, comprised of \$22.7 million in bad debt expense and \$1.8 million of in-store fixture impairment. In addition, this increase was driven by 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. As a percentage of net revenues, other costs increased to 29.4% for the nine months ended September 30, 2016 from 28.2% for the same period in 2015.

Income from operations increased \$22.6 million, or 9.8%, to \$253.6 million for the nine months ended September 30, 2016 from \$231.0 million for the same period in 2015. Income from operations as a percentage of net revenues decreased to 7.2% for the nine months ended September 30, 2016 from 8.3% for the same period in 2015.

Interest expense, net increased \$7.9 million to \$18.5 million for the nine months ended September 30, 2016 from \$10.6 million for the same period in 2015. This increase was primarily due to interest on the net increase of \$172.2 million in total debt outstanding.

Other expense, net decreased \$4.0 million to \$1.0 million for the nine months ended September 30, 2016 from \$5.0 million for the same period in 2015. This decrease was due to higher net gains 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 decreased \$8.1 million to \$80.3 million during the nine months ended September 30, 2016 from \$88.4 million during the same period in 2015. For the nine months ended September 30, 2016, our effective tax rate was 34.3% compared to 41.0% for the same period in 2015. The effective tax rate for the nine months ended September 30, 2016 was lower than the effective tax rate for the nine months ended September 30, 2015 primarily due to increased international profitability and a tax benefit related to our prior period acquisitions.

**Segment Results of Operations**

The net revenues and operating income (loss) associated with our segments are summarized in the following tables.

Corporate service costs are primarily included in North America and have not been allocated to International or Connected Fitness. Intersegment revenue is generated by Connected Fitness which runs advertising campaigns for our e-commerce business in North America.

Three Months Ended September 30, 2016 Compared to Three Months Ended September 30, 2015

Net revenues by segment are summarized below:

| (In thousands)     | Three Months Ended September 30, |             |           |          |   |
|--------------------|----------------------------------|-------------|-----------|----------|---|
|                    | 2016                             | 2015        | \$ Change | % Change |   |
| North America      | \$1,225,188                      | \$1,059,440 | \$165,748 | 15.6     | % |
| International      | 226,204                          | 130,230     | 95,974    | 73.7     | % |
| Connected Fitness  | 20,181                           | 14,439      | 5,742     | 39.8     | % |
| Total net revenues | 1,471,573                        | 1,204,109   | 267,464   | 22.2     | % |

Net revenues in our North America operating segment increased \$165.8 million to \$1,225.2 million for the three months ended September 30, 2016 from \$1,059.4 million for the same period in 2015 primarily due to the



Table of Contents

items discussed above in the Consolidated Results of Operations. Net revenues in International increased \$96.0 million to \$226.2 million for the three months ended September 30, 2016 from \$130.2 million for the same period in 2015 primarily due to unit sales growth in our EMEA and Asia-Pacific operating segments. Net revenues in our Connected Fitness operating segment increased \$5.8 million to \$20.2 million for the three months ended September 30, 2016 from \$14.4 million for the same period in 2015 primarily due to increased advertising, subscription and licensing revenue.

Operating income (loss) by segment is summarized below:

|                        | Three Months Ended September 30, |           |           |          |
|------------------------|----------------------------------|-----------|-----------|----------|
| (In thousands)         | 2016                             | 2015      | \$ Change | % Change |
| North America          | \$182,840                        | \$181,822 | \$1,018   | 0.6 %    |
| International          | 24,984                           | 6,180     | 18,804    | 304.3 %  |
| Connected Fitness      | (8,514 )                         | (16,605 ) | 8,091     | 48.7 %   |
| Total operating income | \$199,310                        | \$171,397 | \$27,913  | 16.3 %   |

Operating income in our North America operating segment increased \$1.0 million to \$182.8 million for the three months ended September 30, 2016 from \$181.8 million for the same period in 2015 primarily due to increases in revenue discussed above offset by increased liquidations and the movement of \$3.7 million in expenses resulting from a strategic shift in headcount supporting our global business from our Connected Fitness operating segment to North America. Operating income in International increased \$18.8 million to \$25.0 million for the three months ended September 30, 2016 from \$6.2 million for the same period in 2015 primarily due to sales growth in our Asia-Pacific and EMEA operating segments. Operating loss in our Connected Fitness segment decreased \$8.1 million to \$8.5 million for the three months ended September 30, 2016 from \$16.6 million for the same period in 2015 primarily due to increased advertising, subscription and licensing revenue and the \$3.7 million shift in expenses disclosed above.

Nine Months Ended September 30, 2016 Compared to Nine Months Ended September 30, 2015

Net revenues by segment are summarized below:

|                           | Nine Months Ended September 30, |             |           |           |
|---------------------------|---------------------------------|-------------|-----------|-----------|
| (In thousands)            | 2016                            | 2015        | \$ Change | % Change  |
| North America             | \$2,932,915                     | \$2,440,728 | \$492,187 | 20.2 %    |
| International             | 525,714                         | 315,467     | 210,247   | 66.6 %    |
| Connected Fitness         | 62,179                          | 36,432      | 25,747    | 70.7 %    |
| Intersegment eliminations | (750 )                          | —           | (750 )    | (100.0 )% |
| Total net revenues        | \$3,520,058                     | \$2,792,627 | \$727,431 | 26.0 %    |

Net revenues in our North America operating segment increased \$492.2 million to \$2,932.9 million for the nine months ended September 30, 2016 from \$2,440.7 million for the same period in 2015 primarily due to the items discussed above in the Consolidated Results of Operations. Net revenues in International increased \$210.2 million to \$525.7 million for the nine months ended September 30, 2016 from \$315.5 million for the same period in 2015 primarily due to sales growth in our Asia-Pacific and EMEA operating segments. Net revenues in our Connected Fitness operating segment increased \$25.8 million to \$62.2 million for the nine months ended September 30, 2016 from \$36.4 million for the same period in 2015 primarily due to a full nine months of operations from our 2015 acquisitions and increased advertising, subscription and licensing revenue.

Operating income (loss) by segment is summarized below:

|                        | Nine Months Ended September 30, |           |            |          |
|------------------------|---------------------------------|-----------|------------|----------|
| (In thousands)         | 2016                            | 2015      | \$ Change  | % Change |
| North America          | \$251,084                       | \$272,543 | \$(21,459) | (7.9 )%  |
| International          | 34,996                          | 6,126     | 28,870     | 471.3 %  |
| Connected Fitness      | (32,509 )                       | (47,704 ) | 15,195     | 31.9 %   |
| Total operating income | \$253,571                       | \$230,965 | \$22,606   | 9.8 %    |

Operating income in our North America operating segment decreased \$21.4 million to \$251.1 million for the nine months ended September 30, 2016 from \$272.5 million for the same period in 2015 primarily due to \$24.5



Table of Contents

million in expenses related to the liquidation of The Sports Authority, comprised of \$22.7 million in bad debt expense and \$1.8 million of in-store fixture impairment. In addition, this decrease reflects the movement of \$9.1 million in expenses resulting from a strategic shift in headcount supporting our global business from our Connected Fitness operating segment to North America. This decrease is partially offset by the increases in revenue discussed above. Operating income in International increased \$28.9 million to \$35.0 million for the nine months ended September 30, 2016 from \$6.1 million for the same period in 2015 primarily due to sales growth in our Asia-Pacific and EMEA operating segments. Operating loss in our Connected Fitness segment decreased \$15.2 million to \$32.5 million for the nine months ended September 30, 2016 from \$47.7 million for the same period in 2015 primarily due to increased advertising, subscription and licensing revenue, a full nine months of operations from our 2015 acquisitions and the \$9.1 million shift in expenses disclosed above.

**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 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.

We believe our cash and cash equivalents on hand, cash from operations, our ability to access the debt capital markets 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. As of September 30, 2016, we had \$1.0 billion of remaining availability under our revolving credit facility. 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 on terms acceptable to us or at all.

**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,<br>2016 | 2015        |
| (In thousands)                  |                       |             |
| Net cash provided by (used in): |                       |             |
| Operating activities            | \$(94,162)            | \$(313,448) |

Edgar Filing: Under Armour, Inc. - Form 10-Q

|  |           |             |
|--|-----------|-------------|
| Investing activities   | (316,042) | (780,821 )  |
| Financing activities   | 460,402   | 667,821     |
| Effect of exchange rate changes on cash and cash equivalents | (96 )     | (7,329 )    |
| Net increase (decrease) in cash and cash equivalents         | \$50,102  | \$(433,777) |

21

---

## Table of Contents

### 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 decreased \$219.2 million to \$94.2 million for the nine months ended September 30, 2016 from \$313.4 million during the same period in 2015. The decrease in cash used in operating activities was due to a decrease in net cash outflows from operating assets and liabilities of \$185.4 million and an increase in net income adjusted for non-cash items. The decrease in cash outflows related to changes in operating assets and liabilities period over period was primarily driven by:

- a smaller increase in inventory of \$171.4 million in the current period compared to the prior period, primarily due to earlier purchases in the prior period for our peak season; partially offset by
- a larger increase in accounts receivable of \$53.7 million in the current period compared to the prior period, due to the timing of shipments driven by current period sales being more heavily weighted to the end of the period.

### Investing Activities

Cash used in investing activities decreased \$464.8 million to \$316.0 million for the nine months ended September 30, 2016 from \$780.8 million for the same period in 2015, primarily due to our acquisitions of MyFitnessPal and Endomondo during the first quarter of 2015.

Capital expenditures for the full year 2016 are expected to be approximately \$450 million, comprised primarily of investments in our global offices around the world including our headquarters in Baltimore, our distribution centers, our SAP platform, and global Direct-to-Consumer.

### Financing Activities

Cash provided by financing activities decreased \$207.4 million to \$460.4 million for the nine months ended September 30, 2016 from \$667.8 million for the same period in 2015. This decrease was primarily due to higher repayments on our revolving credit facility in the current period compared to the prior period, partially offset by the issuance of senior notes in the current period.

## Capital Resources

### Credit Facility

In January 2016, we amended our credit agreement to increase revolving credit facility commitments from \$800.0 million to \$1.25 billion. This amendment also extended the term of the revolving credit facility and the remaining outstanding term loans under the credit agreement, which as of September 30, 2016 totaled \$192.5 million, from May 2019 to January 2021. As of September 30, 2016, we had \$250.0 million outstanding under the revolving credit facility.

The borrowings under the revolving credit facility have maturities of less than one year. Up to \$50.0 million of the facility may be used for the issuance of letters of credit. There were \$1.5 million of letters of credit outstanding as of September 30, 2016.

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 ("consolidated leverage ratio"). As of September 30, 2016, 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.

22

---



Table of Contents

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) 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 rate under the outstanding term loans and revolving credit facility borrowings was 1.62% and 1.58% during the three and nine months ended September 30, 2016, respectively. 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, 2016, the commitment fee was 15.0 basis points.

**3.250% Senior Notes**

In June 2016, we issued \$600.0 million aggregate principal amount of 3.250% senior unsecured notes due June 15, 2026 (the “Notes”). The proceeds were used to pay down amounts outstanding under the revolving credit facility. Interest is payable semi-annually on June 15 and December 15 beginning December 15, 2016. Prior to March 15, 2026 (three months prior to the maturity date of the Notes), we may redeem some or all of the Notes at any time or from time to time at a redemption price equal to the greater of 100% of the principal amount of the Notes to be redeemed or a “make-whole” amount applicable to such Notes as described in the indenture governing the Notes, plus accrued and unpaid interest to, but excluding, the redemption date. On or after March 15, 2026 (three months prior to the maturity date of the Notes), we may redeem some or all of the Notes at any time or from time to time at a redemption price equal to 100% of the principal amount of the Notes to be redeemed, plus accrued and unpaid interest to, but excluding, the redemption date.

The indenture governing the Notes contains covenants, including limitations that restrict our ability and the ability of certain of our subsidiaries to create or incur secured indebtedness and enter into sale and leaseback transactions and our ability to consolidate, merge or transfer all or substantially all of our properties or assets to another person, in each case subject to material exceptions described in the indenture.

**Other Long Term Debt**

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, 2016, December 31, 2015 and September 30, 2015, the outstanding balance on the loan was \$42.5 million, \$44.0 million and \$44.5 million, respectively. The weighted average interest rate on the loan was 2.00% and 1.94% for the three and nine months ended September 30, 2016, respectively.

Interest expense, net was \$8.2 million and \$4.1 million for the three months ended September 30, 2016 and 2015, respectively, and \$18.5 million and \$10.6 million for the nine months ended September 30, 2016 and 2015, 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.

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.

Table of Contents

Contractual Commitments and Contingencies

Other than the borrowings and repayments disclosed above in the "Capital Resources" section and changes which occur in the normal course of business, there were no significant changes to the contractual obligations reported in our 2015 Form 10-K as updated in our Form 10-Q for the quarter ended September 30, 2016.

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 2015 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 2015 Form 10-K. There were no significant changes to our critical accounting policies during the nine months ended September 30, 2016.

Recently Issued Accounting Standards

Refer to Note 2 to the notes to our financial statements included in this Form 10-Q for our assessment of recently issued accounting standards.

Table of Contents

**ITEM 3. QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK**

There have been no significant changes to our market risk since December 31, 2015. For a discussion of our exposure to market risk, refer to our Annual Report on Form 10-K for the year ended December 31, 2015.

**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, as amended (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.

Table of Contents

PART II. OTHER INFORMATION

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, 2015 have not materially changed.

ITEM 5. OTHER INFORMATION

On November 2, 2016, the Company's Chief Revenue Officer, Karl-Heinz Maurath, agreed to accept a one-time transition payment of \$500,000 in exchange for his transition from the Company's offices in Panama to the Company's global headquarters in Baltimore, Maryland. Pursuant to the terms of this arrangement, Mr. Maurath is expected to relocate to the Company's global headquarters by early 2017. If he fails to do so, he will be required to reimburse the Company for the full amount of this payment. In addition, if he resigns or is terminated for cause prior to the second anniversary of the effective date of his relocation, he will be required to reimburse the Company pro-rata based on the number of days worked during such time period.

Table of Contents

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.SCHXBRL Taxonomy Extension Schema Document

101.CALXBRL Taxonomy Extension Calculation Linkbase Document

101.DEF XBRL Taxonomy Extension Definition Linkbase Document

101.LABXBRL Taxonomy Extension Label Linkbase Document

101.PRE XBRL Taxonomy Extension Presentation Linkbase Document

27

---

Table of Contents

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/ LAWRENCE P. MOLLOY  
Lawrence P. Molloy  
Chief Financial Officer

Date: November 2, 2016

28