

Under Armour, Inc.
Form 10-Q
May 07, 2014
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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 March 31, 2014
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	<input checked="" type="checkbox"/>	Accelerated filer	<input type="checkbox"/>
Non-accelerated filer	<input type="checkbox"/>	Smaller reporting company	<input type="checkbox"/>

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 April 30, 2014, there were 173,959,046 shares of Class A Common Stock and 39,155,000 shares of Class B Convertible Common Stock outstanding.

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PART I. FINANCIAL INFORMATION

ITEM 1. FINANCIAL STATEMENTS

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

	March 31, 2014	December 31, 2013	March 31, 2013
Assets			
Current assets			
Cash and cash equivalents	\$ 179,926	\$ 347,489	\$ 255,722
Accounts receivable, net	331,299	209,952	246,218
Inventories	472,244	469,006	323,509
Prepaid expenses and other current assets	100,857	63,987	37,227
Deferred income taxes	40,831	38,377	24,765
Total current assets	1,125,157	1,128,811	887,441
Property and equipment, net	240,721	223,952	180,591
Goodwill	123,388	122,244	—
Intangible assets, net	31,571	24,097	3,842
Deferred income taxes	35,538	31,094	26,281
Other long term assets	42,641	47,543	42,333
Total assets	\$ 1,599,016	\$ 1,577,741	\$ 1,140,488
Liabilities and Stockholders' Equity			
Current liabilities			
Revolving credit facility	\$ 100,000	\$ 100,000	\$—
Accounts payable	166,920	165,456	127,327
Accrued expenses	103,844	133,729	66,969
Current maturities of long term debt	4,812	4,972	8,787
Other current liabilities	11,676	22,473	3,246
Total current liabilities	387,252	426,630	206,329
Long term debt, net of current maturities	46,846	47,951	51,658
Other long term liabilities	56,341	49,806	39,343
Total liabilities	490,439	524,387	297,330
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 March 31, 2014, December 31, 2013 and March 31, 2013; 173,730,570 shares issued and outstanding as of March 31, 2014,	58	57	56
171,628,708 shares issued and outstanding as of December 31, 2013 and 168,185,546 shares issued and outstanding as of March 31, 2013			
Class B Convertible Common Stock, \$0.0003 1/3 par value; 39,375,000 shares authorized, issued and outstanding as of March 31, 2014,			
40,000,000 shares authorized, issued and outstanding as of December 31, 2013 and 41,950,000 shares authorized, issued and outstanding as of March 31, 2013	13	13	14
Additional paid-in capital	443,132	397,248	342,118
Retained earnings	664,870	653,842	500,946
Accumulated other comprehensive income	504	2,194	24

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Total stockholders' equity	1,108,577	1,053,354	843,158
Total liabilities and stockholders' equity	\$1,599,016	\$ 1,577,741	\$1,140,488
See accompanying notes.			

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

	Three Months Ended March 31,	
	2014	2013
Net revenues	\$641,607	\$471,608
Cost of goods sold	340,917	255,057
Gross profit	300,690	216,551
Selling, general and administrative expenses	273,834	203,059
Income from operations	26,856	13,492
Interest expense, net	(846	) (725
Other income (expense), net	(874	) 240
Income before income taxes	25,136	13,007
Provision for income taxes	11,598	5,193
Net income	\$13,538	\$7,814
Net income available per common share		
Basic	\$0.06	\$0.04
Diluted	\$0.06	\$0.04
Weighted average common shares outstanding		
Basic	212,383	209,796
Diluted	216,912	214,192
See accompanying notes.		

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

	Three Months Ended March 31,	
	2014	2013
Net income	\$ 13,538	\$ 7,814
Other comprehensive income (loss):		
Foreign currency translation adjustment	(1,577	) (2,440
Unrealized gain (loss) on cash flow hedge, net of tax of (\$78) and \$68 for the three months ended March 31, 2014 and 2013, respectively	(113	) 96
Total other comprehensive loss	(1,690) (2,344
Comprehensive income	\$ 11,848	\$ 5,470
See accompanying notes.		

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

	Three Months Ended March 31,	
	2014	2013
Cash flows from operating activities		
Net income	\$13,538	\$7,814
Adjustments to reconcile net income to net cash used in operating activities		
Depreciation and amortization	17,320	11,842
Unrealized foreign currency exchange rate losses	655	606
Loss on disposal of property and equipment	52	56
Stock-based compensation	13,220	11,908
Deferred income taxes	(6,913	) (5,668
Changes in reserves and allowances	2,282	3,617
Changes in operating assets and liabilities, net of effects of acquisitions:		
Accounts receivable	(121,091	) (76,018
Inventories	(3,915	) (4,323
Prepaid expenses and other assets	(15,479	) 9,559
Accounts payable	7,141	(10,558
Accrued expenses and other liabilities	(25,841	) (11,780
Income taxes payable and receivable	(28,505	) (11,591
Net cash used in operating activities	(147,536	) (74,536
Cash flows from investing activities		
Purchases of property and equipment	(39,715	) (18,329
Purchase of business	(10,924) —
Purchases of other assets	(261) —
Net cash used in investing activities	(50,900	) (18,329
Cash flows from financing activities		
Payments on long term debt	(1,265	) (1,443
Excess tax benefits from stock-based compensation arrangements	24,038	4,222
Proceeds from exercise of stock options and other stock issuances	8,627	4,670
Net cash provided by financing activities	31,400	7,449
Effect of exchange rate changes on cash and cash equivalents	(527	) (703
Net decrease in cash and cash equivalents	(167,563	) (86,119
Cash and cash equivalents		
Beginning of period	347,489	341,841
End of period	\$179,926	\$255,722
Non-cash investing and financing activities		
Decrease in accrual for property and equipment	\$(8,650) \$(7,380
Non-cash acquisition of business	11,233	—
See accompanying notes.		

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Under Armour, Inc. and Subsidiaries

Notes to the Unaudited Consolidated Financial Statements

1. Description of the Business

Under Armour, Inc. is a developer, marketer and distributor of branded performance apparel, footwear and accessories. These products are sold worldwide and worn by athletes at all levels, from youth to professional on playing fields around the globe, as well as by consumers with active lifestyles.

2. Summary of Significant Accounting Policies

Basis of Presentation

The accompanying consolidated financial statements include the accounts of Under Armour, Inc. and its wholly owned subsidiaries (the "Company"). Certain information in footnote disclosures normally included in annual financial statements was condensed or omitted for the interim periods presented in accordance with the rules and regulations of the Securities and Exchange Commission (the "SEC") and accounting principles generally accepted in the United States of America for interim consolidated financial statements. In the opinion of management, all adjustments consisting of normal, recurring adjustments considered necessary for a fair statement of the financial position and results of operations were included. All intercompany balances and transactions were eliminated. The consolidated balance sheet as of December 31, 2013 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, 2013 (the "2013 Form 10-K"), which should be read in conjunction with these consolidated financial statements. The results for the three months ended March 31, 2014 are not necessarily indicative of the results to be expected for the year ending December 31, 2014 or any other portions thereof.

On December 6, 2013, the Company acquired 100% of the outstanding equity of MapMyFitness, Inc. ("MapMyFitness"), a digital connected fitness platform, for \$150.0 million. During the three months ended March 31, 2014, the Company finalized its valuation of the assets acquired and liabilities assumed as of the acquisition date and no adjustments were made to the preliminary purchase price allocation.

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

Concentration of Credit Risk

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

	Customer A	Customer B	Customer C	
Net revenues				
Three months ended March 31, 2014	16.7	% 5.4	% 5.2	%
Three months ended March 31, 2013	17.6	% 5.8	% 5.4	%
Accounts receivable				
As of March 31, 2014	30.9	% 8.8	% 6.2	%
As of December 31, 2013	27.1	% 9.1	% 5.1	%
As of March 31, 2013	27.4	% 8.5	% 7.5	%

Allowance for Doubtful Accounts

As of March 31, 2014, December 31, 2013 and March 31, 2013, the allowance for doubtful accounts was \$3.4 million, \$2.9 million and \$3.3 million, respectively.

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Shipping and Handling Costs

The Company charges certain customers shipping and handling fees. These fees are recorded in net revenues. The Company includes the majority of outbound handling costs as a component of selling, general and administrative expenses. Outbound handling costs include costs associated with preparing goods to ship to customers and certain costs to operate the Company's distribution facilities. These costs, included within selling, general and administrative expenses, were \$11.3 million and \$9.0 million for the three months ended March 31, 2014 and 2013, 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 Adopted Accounting Standards

In July 2013, the Financial Accounting Standards Board ("FASB") issued an Accounting Standards Update which requires that an unrecognized tax benefit, or a portion of an unrecognized tax benefit, should be presented in the financial statements as a reduction to a deferred tax asset for a net operating loss carryforward, a similar tax loss, or a tax credit carryforward, with certain exceptions. This guidance is effective for annual and interim reporting periods beginning after December 15, 2013, with early adoption permitted. The adoption of this pronouncement did not have a material impact on the Company's consolidated financial statements.

In February 2013, the FASB issued an Accounting Standards Update which requires companies to present either in a single note or parenthetically on the face of the financial statements, the effect of significant amounts reclassified from each component of accumulated other comprehensive income based on its source and the income statement line items affected by the reclassification. This guidance is effective for annual and interim reporting periods beginning after December 15, 2012. The adoption of this pronouncement did not have a material impact on the Company's consolidated financial statements.

3. Credit Facility and Long Term Debt

Credit Facility

The Company has a credit facility with certain lending institutions. The credit facility has a term of four years through March 2015 and provides for a committed revolving credit line of up to \$300.0 million. The commitment amount under the revolving credit facility may be increased by an additional \$50.0 million, subject to certain conditions and approvals as set forth in the credit agreement.

The credit facility may be used for working capital and general corporate purposes and is secured by a first priority lien on substantially all of the assets of the Company and the assets of certain of its domestic subsidiaries (other than trademarks and the land and buildings comprising the Company's corporate headquarters) and by a pledge of the equity interests of certain of its domestic subsidiaries and 65% of the equity interests of certain of the Company's foreign subsidiaries. Up to \$5.0 million of the facility may be used to support letters of credit, of which none were outstanding as of March 31, 2014 and 2013. The Company is required to maintain a certain leverage ratio and interest coverage ratio as set forth in the credit agreement. As of March 31, 2014, the Company was in compliance with these ratios. The credit agreement also provides the lenders with the ability to reduce the credit line amount, even if the Company is in compliance with all conditions of the credit agreement, upon a material adverse change to the business, properties, assets, financial condition or results of operations of the Company. The credit agreement contains a number of restrictions that limit the Company's ability, among other things, and subject to certain limited exceptions, to incur additional indebtedness, pledge its assets as security, guaranty obligations of third parties, make investments, undergo a merger or consolidation, dispose of assets, or materially change its line of business. In addition, the credit agreement includes a cross default provision whereby an event of default under other debt obligations, as defined in

the credit agreement, will be considered an event of default under the credit agreement.

Borrowings under the credit facility bear interest based on the daily balance outstanding at LIBOR (with no rate floor) plus an applicable margin (varying from 1.25% to 1.75%) or, in certain cases a base rate (based on a certain lending institution's Prime Rate or as otherwise specified in the credit agreement, with no rate floor) plus an applicable margin (varying from 0.25% to 0.75%). The credit facility also carries a commitment fee equal to the unused borrowings multiplied by an applicable margin (varying from 0.25% to 0.35%). The applicable margins are calculated quarterly and vary based on the Company's leverage ratio as set forth in the credit agreement.

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In December 2013, the Company borrowed \$100.0 million under the revolving credit facility to partially fund the acquisition of MapMyFitness, Inc. The interest rate under the revolving credit facility was 1.5% during the three months ended March 31, 2014. No balance was outstanding under the revolving credit facility as of March 31, 2013.

Long Term Debt

The Company has long term debt agreements with various lenders to finance the acquisition or lease of qualifying capital investments. Loans under these agreements are collateralized by a first lien on the related assets acquired. As these agreements are not committed facilities, each advance is subject to approval by the lenders. Additionally, these agreements include a cross default provision whereby an event of default under other debt obligations, including the Company's credit facility, will be considered an event of default under these agreements. These agreements require a prepayment fee if the Company pays outstanding amounts ahead of the scheduled terms. The terms of the credit facility limit the total amount of additional financing under these agreements to \$40.0 million, of which \$18.0 million was available for additional financing as of March 31, 2014. At March 31, 2014, December 31, 2013 and March 31, 2013, the outstanding principal balance under these agreements was \$4.2 million, \$4.9 million and \$10.9 million, respectively. Currently, advances under these agreements bear interest rates which are fixed at the time of each advance. The weighted average interest rates on outstanding borrowings were 3.2% and 2.3% for the three months ended March 31, 2014 and 2013, respectively.

In December 2012, the Company entered into a \$50.0 million recourse loan collateralized by the land, buildings and tenant improvements comprising the Company's corporate headquarters. The loan has a seven year term and maturity date of December 2019. The loan bears interest at one month LIBOR plus a margin of 1.50%, and allows for prepayment without penalty. The Company is required to maintain the same leverage ratio and interest coverage ratio as set forth in the credit facility. As of March 31, 2014, the Company was in compliance with these ratios. The loan contains a number of restrictions that limit the Company's ability, among other things, and subject to certain limited exceptions, to incur additional indebtedness, pledge its assets as a security, guaranty obligations of third parties, make investments, undergo a merger or consolidation, dispose of assets, or materially change its line of business. The loan requires prior approval of the lender for certain matters related to the property, including transfers of any interest in the property. In addition, the loan includes a cross default provision similar to the cross default provision in the credit facility discussed above. As of March 31, 2014, December 31, 2013 and March 31, 2013, the outstanding balance on the loan was \$47.5 million, \$48.0 million and \$49.5 million, respectively. The weighted average interest rate on the loan was 1.7% for the three months ended March 31, 2014 and 2013.

Interest expense, net was \$0.8 million and \$0.7 million for the three months ended March 31, 2014 and 2013, respectively. Interest expense includes the amortization of deferred financing costs and interest expense under the credit and long term debt facilities.

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

There were no significant changes to the contractual obligations reported in the 2013 Form 10-K other than those which occur in the normal course of business.

From time to time, the Company is involved in litigation and other proceedings, including matters related to commercial disputes and intellectual property, 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 comparability of

fair value measurements and the related disclosures, and prioritizes the inputs used in measuring fair value as follows:

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- 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)	March 31, 2014			March 31, 2013		
	Level 1	Level 2	Level 3	Level 1	Level 2	Level 3
Derivative foreign currency forward contracts (see Note 7)	\$—	\$62	\$—	\$—	\$(16)	\$—
Interest rate swap contract (see Note 7)	—	896	—	—	23	—
TOLI policies held by the Rabbi Trust	—	4,638	—	—	4,375	—
Deferred Compensation Plan obligations	—	(3,995)	—	—	(3,013)	—

Fair values of the financial assets and liabilities listed above are determined using inputs that use as their basis readily observable market data that are actively quoted and are validated through external sources, including third-party pricing services and brokers. The foreign currency forward contracts represent gains and losses on derivative contracts, which is the net difference between the U.S. 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 forward exchange rate. The interest rate swap contract represents gains and losses on the derivative contract, 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 March 31, 2014 and 2013. 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

In February 2014, 0.4 million performance-based restricted stock units were awarded to certain officers and key employees under the Company's Amended and Restated 2005 Omnibus Long-Term Incentive Plan. The awards have vesting conditions tied to the achievement of certain combined annual operating income targets for 2014 and 2015. Upon the achievement of the targets, one third of the restricted stock units will vest each in February 2016, February 2017 and February 2018. If certain lower levels of combined operating income for 2014 and 2015 are achieved, fewer or no restricted stock units will vest and the remaining restricted stock units will be forfeited. The Company deemed the achievement of certain combined operating income targets for 2014 and 2015 probable during the three months ended March 31, 2014. The Company assesses the probability of the achievement of the remaining operating income targets at the end of each reporting period. If it becomes probable that any remaining performance targets related to these performance-based restricted stock units will be achieved, a cumulative adjustment will be recorded as if ratable stock-based compensation expense had been recorded since the grant date. Additional stock based compensation of up to \$1.1 million would have been recorded during the three months ended March 31, 2014, for these performance-based restricted stock units had the achievement of the remaining operating income targets been deemed probable.

During 2012 and 2013, the Company granted performance-based restricted stock units with vesting conditions tied to the achievement of certain combined annual operating income targets for 2013 and 2014. As of March 31, 2014 and 2013, the Company deemed the achievement of certain combined operating income targets for 2013 and 2014 probable and recorded cumulative adjustments of \$6.6 million and \$4.8 million for a portion of these awards during the three months ended March 31, 2014 and 2013, respectively.

During 2011, the Company granted performance-based restricted stock units with vesting conditions tied to the achievement of certain combined annual operating income targets for 2012 and 2013. As of March 31, 2013, the Company deemed the achievement of certain combined operating income targets for 2012 and 2013 probable and recorded a cumulative adjustment of \$4.6 million for a portion of these awards during the three months ended March 31, 2013.

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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. From time to time, the Company may elect to enter into foreign currency forward contracts to reduce the risk associated with foreign currency exchange rate fluctuations on intercompany transactions and projected inventory purchases for its international subsidiaries. As the Company continues to grow internationally, it may expand the current hedging program to include additional currency pairs and instruments.

As of March 31, 2014, the aggregate notional value of the Company's outstanding foreign currency forward contracts was \$37.8 million, which was comprised of Euro/U.S. Dollar and Pound Sterling/Euro currency pairs with contract maturities of 1 month. The foreign currency forward contracts are not designated as cash flow hedges, and accordingly, changes in their fair value are recorded in earnings. The fair values of the Company's foreign currency forward contracts were assets of \$62.0 thousand and \$12.1 thousand as of March 31, 2014 and December 31, 2013, respectively, and were included in prepaid expenses and other current assets on the consolidated balance sheet. The fair values of the Company's foreign currency forward contracts were liabilities of \$16.3 thousand as of March 31, 2013, and were included in accrued expenses on the consolidated balance sheet. Refer to Note 5 for a discussion of the fair value measurements. Included in other income (expense), net were the following amounts related to changes in foreign currency exchange rates and derivative foreign currency forward contracts:

(In thousands)	Three Months Ended	
	March 31,	
	2014	2013
Unrealized foreign currency exchange rate gains (losses)	\$ (655)	\$ (606)
Realized foreign currency exchange rate gains (losses)	451	(594)
Unrealized derivative gains (losses)	70	(21)
Realized derivative gains (losses)	(740)	1,461

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. In December 2012, the Company began utilizing an interest rate swap contract to convert a portion of variable rate debt under the \$50.0 million loan to fixed rate debt. The contract pays fixed and receives variable rates of interest based on one-month LIBOR and has a maturity date of December 2019. The interest rate swap contract is accounted for as a cash flow hedge and accordingly, the effective portion of the changes in fair value are recorded in other comprehensive income and reclassified into interest expense over the life of the underlying debt obligation.

Refer to Note 3 for a discussion of long term debt.

As of March 31, 2014, the notional value of the Company's outstanding interest rate swap contract was \$25.0 million. During the three months ended March 31, 2014 and 2013, the Company recorded a \$68.9 thousand and \$66.4 thousand increase in interest expense, respectively, representing the effective portion of the contract reclassified from accumulated other comprehensive income. The fair value of the interest rate swap contract was an asset of \$0.9 million, \$1.1 million and \$22.6 thousand as of March 31, 2014, December 31, 2013 and March 31, 2013, respectively, and was included in other long term assets on the consolidated balance sheets.

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 foreign currency forward 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

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The effective rates for income taxes were 46.1% and 39.9% for the three months ended March 31, 2014 and 2013, respectively. The effective tax rate for the three months ended March 31, 2014 was higher than the effective tax rate for the three months ended March 31, 2013 due to a research and development tax credit recorded in the first quarter of 2013, along with increased international investments in 2014 primarily associated with our market entries in Brazil and Chile. The Company's annual 2014 effective tax rate is expected to be approximately 40.0%.

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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 Ended March 31,	
	2014	2013
Numerator		
Net income	\$ 13,538	\$ 7,814
Denominator		
Weighted average common shares outstanding	212,383	209,796
Effect of dilutive securities	4,529	4,396
Weighted average common shares and dilutive securities outstanding	216,912	214,192
Earnings per share - basic	\$0.06	\$0.04
Earnings per share - diluted	\$0.06	\$0.04

Effects of potentially dilutive securities are presented only in periods in which they are dilutive. Stock options and restricted stock units representing 16.8 thousand and 248.1 thousand shares of common stock outstanding for the three months ended March 31, 2014 and 2013, respectively, were excluded from the computation of diluted earnings per share because their effect would have been anti-dilutive.

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. Beginning in the fourth quarter of 2013, the CODM also receives discrete financial information for the Company's acquired MapMyFitness business. Due to the insignificance of the Latin America, EMEA, Asia-Pacific and MapMyFitness operating segments, they have been combined into other foreign countries and businesses for disclosure purposes.

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

(In thousands)	Three Months Ended March 31,	
	2014	2013
Net revenues		
North America	\$ 582,552	\$ 440,868
Other foreign countries and businesses	59,055	30,740
Total net revenues	\$ 641,607	\$ 471,608

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(In thousands)	Three Months Ended	
	March 31, 2014	2013
Operating income (loss)		
North America	\$31,145	\$14,666
Other foreign countries and businesses	(4,289)	(1,174)
Total operating income	26,856	13,492
Interest expense, net	(846)	(725)
Other income (expense), net	(874)	240
Income before income taxes	\$25,136	\$13,007

Net revenues by product category are as follows:

(In thousands)	Three Months Ended	
	March 31, 2014	2013
Apparel	\$459,249	\$345,526
Footwear	114,044	80,783
Accessories	51,553	36,082
Total net sales	624,846	462,391
License and other revenues	16,761	9,217
Total net revenues	\$641,607	\$471,608

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

Forward-Looking Statements

Some of the statements contained in this Form 10-Q constitute forward-looking statements. Forward-looking statements relate to expectations, beliefs, projections, future plans and strategies, anticipated events or trends and similar expressions concerning matters that are not historical facts, such as statements regarding our future financial condition or results of operations, our prospects and strategies for future growth, the development and introduction of new products, and the implementation of our marketing and branding strategies. In many cases, you can identify forward-looking statements by terms such as "may," "will," "should," "expects," "plans," "anticipates," "believes," "estimates," "predicts," "outlook," "potential" or the negative of these terms or other comparable terminology.

The forward-looking statements contained in this Form 10-Q reflect our current views about future events and are subject to risks, uncertainties, assumptions and changes in circumstances that may cause events or our actual activities or results to differ significantly from those expressed in any forward-looking statement. Although we believe that the expectations reflected in the forward-looking statements are reasonable, we cannot guarantee future events, results, actions, levels of activity, performance or achievements. Readers are cautioned not to place undue reliance on these forward-looking statements. A number of important factors could cause actual results to differ materially from those indicated by these forward-looking statements, including, but not limited to, those factors described in our Annual Report on Form 10-K for the year ended December 31, 2013 filed with the Securities and Exchange Commission ("SEC") (our "2013 Form 10-K") or in this Form 10-Q under "Risk Factors", if included herein, and "Management's Discussion and Analysis of Financial Condition and Results of Operations" ("MD&A"). These factors include without limitation:

- changes in general economic or market conditions that could affect consumer spending and the financial health of our retail customers;
- our ability to effectively manage our growth and a more complex global business;
- our ability to 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;
- 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;
- 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 management information systems and other technology;
- our ability to effectively integrate new businesses and investments into our company;
- 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 moisture-wicking fabrications are engineered in many different designs and styles for wear in nearly every

climate to

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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. Our net revenues grew to \$2,332.1 million in 2013 from \$856.4 million in 2009. We reported net revenues of \$641.6 million for the first three months of 2014, which represented a 36.0% increase from the first three months of 2013. We believe that our growth in net revenues has been driven by a growing interest in performance products and the strength of the Under Armour brand in the marketplace. We plan to continue to increase our net revenues over the long term by increased sales of our apparel, footwear and accessories, expansion of our wholesale distribution sales channel, growth in our direct to consumer sales channel and expansion in international markets. Our direct to consumer sales channel includes our brand and factory house stores and websites. New product offerings for 2014 include ArmourVent® apparel and the Speedform™ Apollo running shoe.

Our operating segments include North America; Latin America; Europe, the Middle East and Africa (“EMEA”); Asia-Pacific; and MapMyFitness. We acquired the MapMyFitness business in December 2013. Due to the insignificance of the Latin America, EMEA, Asia-Pacific and MapMyFitness operating segments, they have been combined into other foreign countries and businesses for disclosure purposes.

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

General

Net revenues comprise both net sales and license and other revenues. Net sales comprise sales from our primary product categories, which are apparel, footwear and accessories. Our license and other revenues primarily consist of fees paid to us by our licensees in exchange for the use of our trademarks on core products, such as socks, team uniforms, baby and kids’ apparel, eyewear, inflatable footballs and basketballs, as well as the distribution of our products in Japan. Beginning in December 2013, license and other revenues includes platform license, subscription and digital advertising revenues generated from our MapMyFitness business.

Cost of goods sold consists primarily of product costs, inbound freight and duty costs, outbound freight costs, handling costs to make products floor-ready to customer specifications, royalty payments to endorsers based on a predetermined percentage of sales of selected products and write downs for inventory obsolescence. The fabrics in many of our products are made primarily of petroleum-based synthetic materials. Therefore our product costs, as well as our inbound and outbound freight costs, could be affected by long term pricing trends of oil. In general, as a percentage of net revenues, we expect cost of goods sold associated with our apparel and accessories to be lower than that of our footwear. A limited portion of cost of goods sold is associated with license and other revenues, primarily website hosting and other costs related to our MapMyFitness 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 \$11.3 million and \$9.0 million for the three months ended March 31, 2014 and 2013, respectively.

Our selling, general and administrative expenses consist of costs related to marketing, selling, product innovation and supply chain and corporate services. 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. Selling costs consist primarily of costs relating to sales through our wholesale channel, commissions paid to third parties and the majority of our direct to consumer sales channel costs, including the cost of brand and factory house store leases. Product innovation and supply chain costs include development and innovation costs associated with our apparel, footwear and accessories products and our MapMyFitness business, along with our

sourcing and distribution facility operating costs. Costs relating to our Jakarta, Indonesia and Hong Kong and Guangzhou, China offices which help support product design, manufacturing, quality assurance and sourcing efforts are also included in product innovation and supply chain costs. Corporate services costs primarily consist of company-wide administrative expenses.

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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 March 31,	
(In thousands)	2014	2013
Net revenues	\$641,607	\$471,608
Cost of goods sold	340,917	255,057
Gross profit	300,690	216,551
Selling, general and administrative expenses	273,834	203,059
Income from operations	26,856	13,492
Interest expense, net	(846	) (725
Other income (expense), net	(874	) 240
Income before income taxes	25,136	13,007
Provision for income taxes	11,598	5,193
Net income	\$13,538	\$7,814
	Three Months Ended March 31,	
(As a percentage of net revenues)	2014	2013
Net revenues	100.0	