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

Form 10-Q

(Mark One)

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

For the quarterly period ended September 30, 2015
or

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

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

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

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

Indicate by check mark whether the registrant (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days. Yes þ No ¨

Indicate by check mark whether the registrant has submitted electronically and posted on its corporate Web site, if any, every Interactive Data File required to be submitted and posted pursuant to Rule 405 of Regulation S-T (§232.405 of this chapter) during the preceding 12 months (or for such shorter period that the registrant was required to submit and post such files). Yes þ No ¨

Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, a non-accelerated filer, or a smaller reporting company. See definitions of “large accelerated filer,” “accelerated filer” and “smaller reporting company” in Rule 12b-2 of the Exchange Act.

Large accelerated filer	þ	Accelerated filer	¨
Non-accelerated filer	¨	Smaller reporting company	¨

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

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

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September 30, 2015
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PART I. FINANCIAL INFORMATION

ITEM 1. FINANCIAL STATEMENTS

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

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

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

See accompanying notes.

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

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

See accompanying notes.

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

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

See accompanying notes.

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

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

Non-cash acquisition of business	—	11,233

See accompanying notes.

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Under Armour, Inc. and Subsidiaries
Notes to the Unaudited Consolidated Financial Statements

1. Description of the Business

Under Armour, Inc. is a developer, marketer and distributor of branded performance apparel, footwear and accessories. These products are sold worldwide and worn by athletes at all levels, from youth to professional on playing fields around the globe, as well as by consumers with active lifestyles. The Under Armour Connected Fitness™ platform powers the world's largest digital health and fitness community. The Company uses this platform to engage its consumers and increase awareness and sales of its products.

2. Summary of Significant Accounting Policies

Basis of Presentation

The accompanying consolidated financial statements include the accounts of Under Armour, Inc. and its wholly owned subsidiaries (the "Company"). Certain information in footnote disclosures normally included in annual financial statements was condensed or omitted for the interim periods presented in accordance with the rules and regulations of the Securities and Exchange Commission (the "SEC") and accounting principles generally accepted in the United States of America for interim consolidated financial statements. In the opinion of management, all adjustments consisting of normal, recurring adjustments considered necessary for a fair statement of the financial position and results of operations were included. All intercompany balances and transactions were eliminated. The consolidated balance sheet as of December 31, 2014 is derived from the audited financial statements included in the Company's Annual Report on Form 10-K filed with the SEC for the year ended December 31, 2014 (the "2014 Form 10-K"), which should be read in conjunction with these consolidated financial statements. The results for the nine months ended September 30, 2015 are not necessarily indicative of the results to be expected for the year ending December 31, 2015 or any other portions thereof.

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

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

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

Concentration of Credit Risk

Financial instruments that subject the Company to significant concentration of credit risk consist primarily of accounts receivable. The majority of the Company's accounts receivable is due from large sporting goods retailers. Credit is extended based on an evaluation of the customer's financial condition and collateral is not required. The Company's largest customer in North America accounted for 20.7%, 23.4% and 24.7% of accounts receivable as of September 30, 2015, December 31, 2014 and September 30, 2014, respectively. The Company's largest customer accounted for

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

Allowance for Doubtful Accounts

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

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Shipping and Handling Costs
The Company charges certain customers shipping and handling fees. These fees are recorded in net revenues. The Company includes the majority of outbound handling costs as a component of selling, general and administrative expenses. Outbound handling costs include costs associated with preparing goods to ship to customers and certain costs to operate the Company’s distribution facilities. These costs, included within selling, general and administrative expenses, were $14.3 million and $16.7 million for the three months ended September 30, 2015 and 2014, respectively, and $40.1 million and $39.7 million for the nine months ended September 30, 2015 and 2014, respectively. The Company includes outbound freight costs associated with shipping goods to customers as a component of cost of goods sold.

Management Estimates
The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the consolidated financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from these estimates.
Recently Issued Accounting Standards
In May 2014, the Financial Accounting Standards Board (“FASB”) issued an Accounting Standards Update which supersedes the most current revenue recognition requirements. The new revenue recognition standard requires entities to recognize revenue in a way that depicts the transfer of goods or services to customers in an amount that reflects the consideration which the entity expects to be entitled to in exchange for those goods or services. This guidance was previously effective for annual and interim reporting periods beginning after December 15, 2016, with early adoption not permitted. In August 2015, the FASB issued a one-year deferral of the effective date of the new revenue recognition standard. The new standard will now be effective for annual and interim periods beginning after December 15, 2017 with early adoption as of the original effective date permitted. The Company is currently evaluating this standard to determine the impact of its adoption on its consolidated financial statements.
In July 2015, the FASB issued an Accounting Standard Update which simplifies the measurement of inventory by requiring certain inventory to be measured at the lower of cost or net realizable value. This guidance is effective for fiscal years beginning after December 15, 2016 and for interim periods therein. The Company does not expect the adoption of this standard to have a significant impact on its consolidated financial statements.
In September 2015, the FASB issued an Accounting Standards Update which requires the acquiring company in a business combination to recognize adjustments to provisional amounts that are identified during the measurement period in the reporting period in which the adjustment amounts are determined. The amendments in this Update require that the acquiring company record, in the same period’s financial statements, the effect on earnings of changes in depreciation, amortization, or other income effects, if any, as a result of a change to the provisional amounts, calculated as if the accounting had been completed at the acquisition date. This guidance is effective for fiscal years beginning after December 15, 2015 and for interim periods therein. The Company does not expect the adoption of this standard to have a significant impact on its consolidated financial statements.
Recently Adopted Accounting Standards
In January 2015, the FASB issued an Accounting Standards Update which eliminates from GAAP the concept of extraordinary items and the need to separately classify, present, and disclose extraordinary events and transactions. This guidance is effective for annual and interim reporting periods beginning after December 15, 2015, with early adoption permitted provided that the guidance is applied from the beginning of the fiscal year of adoption. The adoption of this pronouncement did not have a material impact on the Company's consolidated financial statements.

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

$85.0 million, adjusted for working capital.

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

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MyFitnessPal

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

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

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

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

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

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

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

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

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

purposes.

4. Credit Facility and Other Long Term Debt

Credit Facility

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

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

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

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

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

Other Long Term Debt

The Company has long term debt agreements with various lenders to finance the acquisition or lease of qualifying capital investments. Loans under these agreements are collateralized by a first lien on the related assets acquired. At September 30, 2015, December 31, 2014 and September 30, 2014, the outstanding principal balance under these agreements was $0.1 million, $2.0 million and $2.6 million, respectively. Currently, advances under these agreements bear interest rates which are fixed at the time of each advance. The weighted average interest rates on outstanding borrowings were 3.3% and 3.0% for the three months ended September 30, 2015 and 2014, respectively, and 4.2% and 3.2% for the nine months ended September 30, 2015 and 2014, respectively.

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

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

The Company monitors the financial health and stability of its lenders under the credit and other long term debt facilities, however during any period of significant instability in the credit markets lenders could be negatively impacted in their ability to perform under these facilities.

5. Commitments and Contingencies
There were no significant changes to the contractual obligations reported in the 2014 Form 10-K other than those which occur in the normal course of business.
In connection with various contracts and agreements, the Company has agreed to indemnify counterparties against certain third party claims relating to the infringement of intellectual property rights and other items. Generally, such indemnification obligations do not apply in situations in which the counterparties are grossly negligent, engage in willful misconduct, or act in bad faith. Based on the Company’s historical experience and the estimated probability of future loss, the Company has determined that the fair value of such indemnifications is not material to its consolidated financial position or results of operations.
From time to time, the Company is involved in litigation and other proceedings, including matters related to commercial and intellectual property disputes, as well as trade, regulatory and other claims related to its business. Other than as described below, the Company believes that all current proceedings are routine in nature and incidental to the conduct of its business, and that the ultimate resolution of any such proceedings will not have a material adverse effect on its consolidated financial position, results of operations or cash flows.
Following the Company’s announcement of the creation of a new class of common stock, referred to as the Class C common stock, par value $0.0003 1/3 per share, four purported class action lawsuits were brought against the Company and the members of the Company’s Board of Directors on behalf of the stockholders of the Company, the first of which was filed on June 18, 2015. These lawsuits were filed in the Circuit Court for Baltimore City, Maryland, and were consolidated into one action, In re: Under Armour Shareholder Litigation, Case No. 24-C-15-003240. The lawsuits (the "Court") generally alleged that the individual defendants breached their fiduciary duties in connection with approving the creation of the Class C common stock, as well as in connection with recommending for approval by stockholders certain governance related changes to the Company’s charter.
On October 7, 2015, the Company announced that it had reached an agreement on settlement terms with the lead plaintiff. A stipulation of settlement reflecting those terms has been submitted to the Court for preliminary approval, and the Court is expected to rule on whether to preliminarily approve the settlement after briefing is complete on the lead plaintiff’s motion for preliminary approval. In the event that the Court preliminarily approves the settlement, the Court would then set a hearing date to determine whether to grant final approval to the settlement. Under the terms of the settlement, following the initial distribution of the Class C common stock, the Company has agreed to issue additional consideration to the holders of Class C common stock in the form of a dividend with a value of $59 million, which will be payable in the form of the Company’s Class A common stock, Class C common stock, cash or a combination thereof, to be determined at the sole discretion of the Company’s Board of Directors. This dividend must be authorized by the Board of Directors within approximately 60 days following the initial distribution of the Class C common stock. Additionally, the settlement agreement includes certain non-monetary remedies, including an amendment to the Confidentiality, Non-Competition and Non-Solicitation Agreement between the Company and Kevin A. Plank, the Company’s Chairman and Chief Executive Officer, and an agreement that the Company’s Board of Directors will undertake certain considerations when using more than a specified amount of shares of Class C common stock as consideration in certain acquisition transactions.

6. Fair Value Measurements
Fair value is defined as the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date (an exit price). The fair value accounting guidance outlines a valuation framework, creates a fair value hierarchy in order to increase the consistency and comparability of fair value measurements and the related disclosures, and prioritizes the inputs used in measuring fair value as follows:
Level 1: Observable inputs such as quoted prices in active markets;

Level 2: Inputs, other than quoted prices in active markets, that are observable either directly or indirectly; and

Level 3:

Unobservable inputs for which there is little or no market data, which require the reporting entity to develop its own assumptions.

Financial assets and (liabilities) measured at fair value are set forth in the table below:

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

Fair values of the financial assets and liabilities listed above are determined using inputs that use as their basis readily observable market data that are actively quoted and are validated through external sources, including third-party pricing services and brokers. The Company purchases marketable securities that are designated as available-for-sale. The foreign currency contracts represent gains and losses on derivative contracts, which is the net difference between the U.S. dollar value to be received or paid at the contracts' settlement date and the U.S. dollar value of the foreign currency to be sold or purchased at the current market exchange rate. The interest rate swap contracts represent gains and losses on the derivative contracts, which is the net difference between the fixed interest to be paid and variable interest to be received over the term of the contract based on current market rates. The fair value of the trust owned life insurance ("TOLI") policies held by the Rabbi Trust is based on the cash-surrender value of the life insurance policies, which are invested primarily in mutual funds and a separately managed fixed income fund. These investments are initially made in the same funds and purchased in substantially the same amounts as the selected investments of participants in the Under Armour, Inc. Deferred Compensation Plan (the "Deferred Compensation Plan"), which represent the underlying liabilities to participants in the Deferred Compensation Plan. Liabilities under the Deferred Compensation Plan are recorded at amounts due to participants, based on the fair value of participants' selected investments.

The carrying value of the Company's long term debt approximated its fair value as of September 30, 2015 and 2014. The fair value of the Company's long term debt was estimated based upon quoted prices for similar instruments (Level 2 input).

7. Stock-Based Compensation

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

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

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

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

8. Stockholders' Equity

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

9. Risk Management and Derivatives

Foreign Currency Risk Management

The Company is exposed to gains and losses resulting from fluctuations in foreign currency exchange rates relating to transactions generated by its international subsidiaries in currencies other than their local currencies. These gains and losses are primarily driven by intercompany transactions and inventory purchases denominated in currencies other than the functional currency of the purchasing entity. From time to time, the Company may elect to enter into foreign currency contracts to reduce the risk associated with foreign currency exchange rate fluctuations on intercompany transactions and projected inventory purchases for its international subsidiaries.

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

	Three Months Ended September 30,		Nine Months Ended September 30,	
(In thousands)	2015	2014	2015	2014