

Under Armour, Inc.  
Form 10-K/A  
February 26, 2013  
Table of Contents

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

---

Form 10-K/A  
(Amendment No. 1)

---

(Mark One)

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

For the fiscal year ended December 31, 2012

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)

1020 Hull Street  
Baltimore, Maryland 21230  
(Address of principal executive offices) (Zip  
Code)

Securities registered pursuant to Section 12(b) of the Act:

Class A Common Stock  
(Title of each class)

Securities registered pursuant to Section 12(g) of the Act:

None

Indicate by check mark if the registrant is a well-known seasoned issuer, as defined in Rule 405 of the Securities Act. Yes  No

Indicate by check mark if the registrant is not required to file reports pursuant to Section 13 or Section 15(d) of the Act. Yes  No

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 (§229.405 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

52-1990078  
(I.R.S. Employer  
Identification No.)

(410) 454-6428

(Registrant's Telephone Number, Including Area  
Code)

New York Stock Exchange  
(Name of each exchange on which registered)

Edgar Filing: Under Armour, Inc. - Form 10-K/A

Indicate by check mark if the disclosure of delinquent filers pursuant to Item 405 or Regulation S-K (§229.405 of this chapter) is not contained herein, and will not be contained, to the best of registrant's knowledge, in definitive proxy or information statements incorporated by reference in Part III of this Form 10-K or any amendment to this Form 10-K.

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  (Do not check if a smaller reporting company)

Smaller reporting company

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

As of June 30, 2012, the last business day of our most recently completed second fiscal quarter, the aggregate market value of the registrant's Class A Common Stock held by non-affiliates was \$3,682,610,640.

As of January 31, 2013, there were 83,469,813 shares of Class A Common Stock and 21,300,000 shares of Class B Convertible Common Stock outstanding.

**DOCUMENTS INCORPORATED BY REFERENCE**

Portions of Under Armour, Inc.'s Proxy Statement for the Annual Meeting of Stockholders to be held on April 30, 2013 are incorporated by reference in Part III of this Form 10-K.

---

Table of Contents

EXPLANATORY NOTE

The Company is filing this Amendment No. 1 to its Annual Report on Form 10-K for the fiscal year ended December 31, 2012 (the "Original Filing") solely to correct typographical errors in the certifications contained in Exhibits 31.01, 31.02, 32.01 and 32.02 to the Original Filing. The corrected certifications are filed as Exhibits 31.01, 31.02, 32.01 and 32.02 to this Amendment.

Except as described above, the Amendment does not modify or update the disclosures presented in, or exhibits to, the Original Filing. The Original Filing as corrected is hereby refiled in its entirety.

---

Table of Contents

UNDER ARMOUR, INC.  
 ANNUAL REPORT ON FORM 10-K  
 TABLE OF CONTENTS

PART I.

Item 1.	<u>Business</u>	
	<u>General</u>	1
	<u>Products</u>	1
	<u>Marketing and Promotion</u>	2
	<u>Sales and Distribution</u>	3
	<u>Seasonality</u>	4
	<u>Product Design and Development</u>	4
	<u>Sourcing, Manufacturing and Quality Assurance</u>	5
	<u>Inventory Management</u>	5
	<u>Intellectual Property</u>	6
	<u>Competition</u>	6
	<u>Employees</u>	6
	<u>Available Information</u>	7
Item 1A.	<u>Risk Factors</u>	7
Item 1B.	<u>Unresolved Staff Comments</u>	15
Item 2.	<u>Properties</u>	16
Item 3.	<u>Legal Proceedings</u>	16
	<u>Executive Officers of the Registrant</u>	17
Item 4.	<u>Mine Safety Disclosures</u>	18

PART II.

Item 5.	<u>Market for Registrant's Common Equity, Related Stockholder Matters and Issuer Purchases of Equity Securities</u>	19
Item 6.	<u>Selected Financial Data</u>	21
Item 7.	<u>Management's Discussion and Analysis of Financial Condition and Results of Operations</u>	21
Item 7A.	<u>Quantitative and Qualitative Disclosures About Market Risk</u>	35
Item 8.	<u>Financial Statements and Supplementary Data</u>	37
Item 9.	<u>Changes in and Disagreements With Accountants on Accounting and Financial Disclosure</u>	62
Item 9A.	<u>Controls and Procedures</u>	62
Item 9B.	<u>Other Information</u>	62

PART III.

Item 10.	<u>Directors, Executive Officers and Corporate Governance</u>	63
Item 11.	<u>Executive Compensation</u>	63
Item 12.	<u>Security Ownership of Certain Beneficial Owners and Management and Related Stockholder Matters</u>	63
Item 13.	<u>Certain Relationships and Related Transactions, and Director Independence</u>	63
Item 14.	<u>Principal Accountant Fees and Services</u>	63

PART IV.

Item 15.	<u>Exhibits and Financial Statement Schedules</u>	64
----------	---	----

SIGNATURES

Table of Contents

PART I

ITEM 1. BUSINESS

General

Our principal business activities are the development, marketing and distribution of branded performance apparel, footwear and accessories for men, women and youth. The brand's moisture-wicking fabrications are engineered in many designs and styles for wear in nearly every climate to provide a performance alternative to traditional products. Our products are sold worldwide and are 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 are generated primarily from the wholesale distribution of our products to national, regional, independent and specialty retailers. We also generate net revenue from product licensing and from the sale of our products through our direct to consumer sales channel, which includes sales through our factory house and specialty stores and websites. A large majority of our products are sold in North America; however we believe that our products appeal to athletes and consumers with active lifestyles around the globe. Internationally, we sell our products in China and certain countries in Europe. A third party licensee sells our products in Japan and distributors sell our products in other foreign countries. We plan to continue to grow our business over the long term through increased sales of our apparel, footwear and accessories, expansion of our wholesale distribution, growth in our direct to consumer sales channel and expansion in international markets. Virtually all of our products are manufactured by unaffiliated manufacturers operating in 14 countries outside of the United States.

We were incorporated as a Maryland corporation in 1996. As used in this report, the terms "we," "our," "us," "Under Armour" and the "Company" refer to Under Armour, Inc. and its subsidiaries unless the context indicates otherwise. We have registered trademarks around the globe, including UNDER ARMOUR®, HEATGEAR®, COLDGEAR®, ALLSEASONGEAR® and the Under Armour UA Logo, and we have applied to register many other trademarks. This Annual Report on Form 10-K also contains additional trademarks and tradenames of our Company. All trademarks and tradenames appearing in this Annual Report on Form 10-K are the property of their respective holders.

Products

Our product offerings consist of apparel, footwear and accessories for men, women and youth. We market our products at multiple price levels and provide consumers with products that we believe are a superior alternative to traditional athletic products. In 2012, sales of apparel, footwear and accessories represented 76%, 13% and 9% of net revenues, respectively. Licensing arrangements for the sale of our products represented the remaining 2% of net revenues. Refer to Note 16 to the Consolidated Financial Statements for net revenues by product.

Apparel

Our apparel is offered in a variety of styles and fits intended to enhance comfort and mobility, regulate body temperature and improve performance regardless of weather conditions. Our apparel is engineered to replace traditional non-performance fabrics in the world of athletics and fitness with performance alternatives designed and merchandised along gearlines. Our three gearlines are marketed to tell a very simple story about our highly technical products and extend across the sporting goods, outdoor and active lifestyle markets. We market our apparel for consumers to choose HEATGEAR® when it is hot, COLDGEAR® when it is cold and ALLSEASONGEAR® between the extremes. Within each gearline our apparel comes in three primary fit types: compression (tight fit), fitted (athletic fit) and loose (relaxed).

HEATGEAR® is designed to be worn in warm to hot temperatures under equipment or as a single layer. Our first compression T-shirt was the original HEATGEAR® product and remains one of our signature styles. While a sweat-soaked traditional non-performance T-shirt can weigh two to three pounds, HEATGEAR® is engineered with a microfiber blend designed to wick moisture from the body which helps the body stay cool, dry and light. We offer HEATGEAR® in a variety of tops and bottoms in a broad array of colors and styles for wear in the gym or outside in warm weather.

Because athletes sweat in cold weather as well as in the heat, COLDGEAR® is designed to wick moisture from the body while circulating body heat from hot spots to help maintain core body temperature. Our COLDGEAR® apparel

provides both dryness and warmth in a single light layer that can be worn beneath a jersey, uniform, protective gear or ski-vest, and our COLDGEAR® outerwear products protect the athlete, as well as the coach and the fan from the outside in. Our COLDGEAR® products generally sell at higher prices than our other gearlines.

ALLSEASONGEAR® is designed to be worn in between extreme temperatures and uses technical fabrics to keep the wearer cool and dry in warmer temperatures while preventing a chill in cooler temperatures.

## Table of Contents

### Footwear

We began offering footwear for men, women and youth in 2006, and each year we have expanded our footwear offerings. Our footwear offerings include football, baseball, lacrosse, softball and soccer cleats, slides, performance training footwear, running footwear, basketball footwear and hunting boots. Our footwear is light, breathable and built with performance attributes for athletes. Our footwear is designed with innovative technologies which provide stabilization, directional cushioning and moisture management engineered to maximize the athlete's comfort and control.

### Accessories

Accessories includes the sale of headwear, bags and gloves. Our accessories include HEATGEAR® and COLDGEAR® technologies and are designed with advanced fabrications to provide the same level of performance as our other products.

We also have agreements with our licensees to develop Under Armour accessories. Our product, marketing and sales teams are actively involved in all steps of the design process in order to maintain brand standards and consistency. During 2012, our licensees offered socks, team uniforms, baby and kids' apparel, eyewear and inflatable footballs and basketballs that feature performance advantages and functionality similar to our other product offerings. License revenues generated from the sale of these accessories are included in our net revenues.

### Marketing and Promotion

We currently focus on marketing and selling our products to consumers primarily for use in athletics, fitness, training and outdoor activities. We seek to drive consumer demand by building brand equity and awareness that our products deliver advantages that help athletes perform better.

### Sports Marketing

Our marketing and promotion strategy begins with providing and selling our products to high-performing athletes and teams on the high school, collegiate and professional levels. We execute this strategy through outfitting agreements, professional and collegiate sponsorships, individual athlete agreements and by providing and selling our products directly to team equipment managers and to individual athletes. As a result, our products are seen on the field, giving them exposure to various consumer audiences through the internet, television, magazines and live at sporting events. This exposure to consumers helps us establish on-field authenticity as consumers can see our products being worn by high-performing athletes.

We are the official outfitter of athletic teams in several high-profile collegiate conferences, and since 2006 we have been an official supplier of footwear to the National Football League ("NFL"). In 2010, we signed an agreement to become an official supplier of gloves to the NFL beginning in 2011 and we are the official combine scouting partner to the NFL with the right to sell combine training apparel beginning in 2012. In addition, in 2011 we became the Official Performance Footwear Supplier of Major League Baseball, as well as becoming a partner with the National Basketball Association ("NBA") which allows us to market our NBA athletes in game uniforms in connection with our basketball footwear starting with the 2011/2012 season.

Internationally, we are providing and selling our products to European soccer and rugby teams. Beginning with the 2012 season, we provide the Tottenham Hotspur Football Club with performance apparel, including training wear and playing kit for the Club's First and Academy teams, together with replica product for the Club's supporters around the world. We're the official technical kit supplier to the Welsh Rugby Union and have exclusive retail rights on the replica products.

We also seek to sponsor events to drive awareness and brand authenticity from a grassroots level. We host combines, camps and clinics for many sports at regional sites across the country for male and female athletes. These events, along with the products we make, are designed to help young athletes improve their training methods and their overall performance. We are also the title sponsor of a collection of high school All-America Games that create significant on-field product and brand exposure that contributes to our on-field authenticity.

### Media

We feature our products in a variety of national digital, broadcast, out-of-home and print media outlets. We also utilize social marketing to engage consumers and promote conversation around our brand and our products.

### Retail Presentation



The primary component of our retail marketing strategy is to increase and brand floor space dedicated to our products within our major retail accounts. The design and funding of Under Armour concept shops within our major retail accounts has

2

---

Table of Contents

been a key initiative for securing prime floor space, educating the consumer and creating an exciting environment for the consumer to experience our brand. Under Armour concept shops enhance our brand's presentation within our major retail accounts with a shop-in-shop approach, using dedicated floor space exclusively for our products, including flooring, lighting, walls, displays and images.

**Sales and Distribution**

The majority of our sales are generated through wholesale channels which include national and regional sporting goods chains, independent and specialty retailers, department store chains, institutional athletic departments and leagues and teams. In addition, we sell our products to independent distributors in various countries where we generally do not have direct sales operations and through licensees.

We also sell our products directly to consumers through our own network of specialty and factory house stores in our North American Operating Segment, and through our website operations in the United States, Canada and certain countries in Europe. These factory house stores serve an important role in our overall inventory management by allowing us to sell a significant portion of excess, discontinued and out-of-season products while maintaining the pricing integrity of our brand in our other distribution channels. Through our specialty stores, consumers experience our brand first-hand and have broader access to our performance products. In 2012, sales through our wholesale, direct to consumer and licensing channels represented 69%, 29% and 2% of net revenues, respectively.

We operate in four geographic segments: (1) North America, (2) Europe, the Middle East and Africa ("EMEA"), (3) Asia, and (4) Latin America. Each geographic segment operates predominantly in one industry: the design, development, marketing and distribution of performance apparel, footwear and accessories. While our international operating segments are currently not material and we combine them into other foreign countries for reporting purposes, we believe that the trend toward performance products is global. We plan to continue to introduce our products and simple merchandising story to athletes throughout the world. We are introducing our performance apparel, footwear and accessories in a manner consistent with our past brand-building strategy, including selling our products directly to teams and individual athletes in these markets, thereby providing us with product exposure to broad audiences of potential consumers. The following table presents net revenues by geographic distribution for each of the years ending December 31, 2012, 2011 and 2010:

(In thousands)	Year ended December 31,		2011		2010	
	2012	% of	2011	% of	2010	% of
	Net Revenues	Net Revenues	Net Revenues	Net Revenues	Net Revenues	Net Revenues
North America	\$1,726,733	94.1	\$1,383,346	93.9	\$997,816	93.8
Other foreign countries	108,188	5.9	89,338	6.1	66,111	6.2
Total net revenues	\$1,834,921	100.0	\$1,472,684	100.0	\$1,063,927	100.0

**North America**

North America accounted for 94% of our net revenues for 2012. We sell our branded apparel, footwear and accessories in North America through our wholesale and our own direct to consumer channels. In 2012, our two largest customers were, in alphabetical order, Dick's Sporting Goods and The Sports Authority. These two customers accounted for a total of 22% of our total net revenues in 2012, and one of these customers individually accounted for at least 10% of our net revenues in 2012.

Our direct to consumer sales are generated primarily through our specialty and factory house stores and websites. As of December 31, 2012, we had 102 factory house stores in North America, of which the majority is located at outlet centers on the East Coast of the United States. In 2012, we opened our first factory house store in Canada. As of December 31, 2012, we had 5 specialty stores in North America, located near Annapolis, Maryland, Chicago, Illinois, Boston, Massachusetts, Washington, D.C., and Vail, Colorado. Consumers can purchase our products directly from our e-commerce website, [www.underarmour.com](http://www.underarmour.com).

In addition, we earn licensing income in North America based on our licensees' sale of socks, team uniforms, baby and kids' apparel, eyewear and inflatable footballs and basketballs, as well as the distribution of our products to college bookstores and golf pro shops. In order to maintain consistent quality and performance, we pre-approve all products manufactured and sold by our licensees, and our quality assurance team strives to ensure that the products meet the

same quality and compliance standards as the products that we sell directly.

We distribute the majority of our products sold to our North American wholesale customers and our own retail stores from distribution centers of approximately 703.6 thousand square feet that we lease and operate approximately 15 miles from our corporate headquarters in Baltimore, Maryland. In addition, we distribute our products in North America through a third-

3

---

## Table of Contents

party logistics provider with primary locations in California and in Florida. In late 2011, we began leasing a new distribution facility in California of approximately 1,197.0 thousand square feet which is also operated by this provider. The agreement with this provider continues until May 2023. In some instances, we arrange to have products shipped from the independent factories that manufacture our products directly to customer-designated facilities.

### Other Foreign Countries

Only 6% of our net revenues were generated outside of North America in 2012. We believe the future success of our brand is dependent on developing our business outside of North America.

### EMEA

We sell our apparel, footwear and accessories to approximately four thousand retail stores and through our websites in certain European countries. We also sell our apparel, footwear and accessories to independent distributors in various European countries where we do not have direct sales operations. In addition, we sell our branded products to soccer, running and golf clubs in the United Kingdom, soccer teams in France, Germany, Greece, Ireland, Italy, Spain and Sweden, as well as First Division Rugby clubs in France, Ireland, Italy and the United Kingdom. In 2012, we began selling the Tottenham Hotspur Football Club replica product for the Club's supporters around the world.

We generally distribute our products to our retail customers and e-commerce consumers in EMEA through a third-party logistics provider based out of Venlo, The Netherlands. This agreement continues until April 2014.

### Asia

Since 2002 we have had a license agreement with Dome Corporation, which produces, markets and sells our branded apparel, footwear and accessories in Japan. We are actively involved with this licensee to develop variations of our products for the different sizes, sports interests and preferences of the Japanese consumer. Our branded products are now sold in Japan to professional sports teams, including Omiya Ardija, a professional soccer club in Saitama, Japan, as well as baseball and other soccer teams, and to independent specialty stores and large sporting goods retailers. We made a cost-based minority investment in Dome Corporation in January 2011.

We also sell our apparel, footwear and accessories to independent distributors in Australia and New Zealand where we do not have direct sales operations.

As of December 31, 2012, we had 2 specialty stores located in Shanghai, China. We generally distribute our products to our retail customers in Asia through a third-party logistics provider based out of Hong Kong.

### Latin America

We sell to Latin American consumers through independent distributors in Latin American countries where we do not have direct sales operations. We generally distribute our products to these independent distributors through our distribution facilities in the United States.

### Seasonality

Historically, we have recognized 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, reflecting our historical strength in fall sports, and the seasonality of our higher priced COLDGEAR® line. The majority of our net revenues were generated during the last two quarters in each of 2012, 2011 and 2010, respectively. The level of our working capital generally reflects the seasonality and growth in our business. We generally expect inventory, accounts payable and certain accrued expenses to be higher in the second and third quarters in preparation for the fall selling season.

### Product Design and Development

Our products are manufactured with technical fabrications produced by third parties and developed in collaboration with our product development team. This approach enables us to select and create superior, technically advanced fabrics, produced to our specifications, while focusing our product development efforts on design, fit, climate and product end use.

We seek to regularly upgrade and improve our products with the latest in innovative technology while broadening our product offerings. Our goal, to deliver superior performance in all our products, provides our developers and licensees with a clear, overarching direction for the brand and helps them identify new opportunities to create performance products that meet



## Table of Contents

the changing needs of athletes. We design products with “visible technology,” utilizing color, texture and fabrication to enhance our customers’ perception and understanding of product use and benefits.

Our product development team works closely with our sports marketing and sales teams as well as professional and collegiate athletes to identify product trends and determine market needs. For example, these teams worked closely to identify the opportunity and market for our CHARGED COTTON® products, which are made from natural cotton but perform like our synthetic products, drying faster and wicking away moisture from the body, and our Storm Fleece products with a unique, water-resistant finish that repels water, without stifling airflow. In 2012, in partnership with Swiss Company, Schoeller, we launched coldblack® technology which repels heat created from the sun to keep the wearer cooler outside.

### Sourcing, Manufacturing and Quality Assurance

Many of the specialty fabrics and other raw materials used in our products are technically advanced products developed by third parties and may be available, in the short term, from a limited number of sources. The fabric and other raw materials used to manufacture our products are sourced by our manufacturers from a limited number of suppliers pre-approved by us. In 2012, approximately 50% to 55% of the fabric used in our products came from five suppliers. These fabric suppliers have locations in China, Malaysia, Mexico, Taiwan and Vietnam. We continue to seek new suppliers and believe, although there can be no assurance, that this concentration will decrease over time. The fabrics used by our suppliers and manufacturers are primarily synthetic fabrics and involve raw materials, including petroleum based products, that may be subject to price fluctuations and shortages. In 2011, we introduced CHARGED COTTON® products which primarily use cotton fabrics that also may be subject to price fluctuations and shortages.

Substantially all of our products are manufactured by unaffiliated manufacturers and, in 2012, ten manufacturers produced approximately 49% of our products. In 2012, our products were manufactured by 27 primary manufacturers, operating in 14 countries, with approximately 53% of our products manufactured in Asia, 19% in Central and South America, 18% in the Middle East and 8% in Mexico. All manufacturers are evaluated for quality systems, social compliance and financial strength by our quality assurance team prior to being selected and on an ongoing basis. Where appropriate, we strive to qualify multiple manufacturers for particular product types and fabrications. We also seek out vendors that can perform multiple manufacturing stages, such as procuring raw materials and providing finished products, which helps us to control our cost of goods sold. We enter into a variety of agreements with our manufacturers, including non-disclosure and confidentiality agreements, and we require that all of our manufacturers adhere to a code of conduct regarding quality of manufacturing and working conditions and other social concerns. We do not, however, have any long term agreements requiring us to utilize any manufacturer, and no manufacturer is required to produce our products in the long term. We have a subsidiary in Hong Kong to support our manufacturing, quality assurance and sourcing efforts for apparel and a subsidiary in Guangzhou, China to support our manufacturing, quality assurance and sourcing efforts for footwear and accessories.

We also manufacture a limited number of apparel products on-premises in our quick turn, Special Make-Up Shop located at one of our distribution facilities in Maryland. Through this 17,000 square-foot shop, we are able to build and ship apparel products on tight deadlines for high-profile athletes, leagues and teams. While the apparel products manufactured in the quick turn, Special Make-Up Shop represent an immaterial portion of our total net revenues, we believe the facility helps us to provide superior service to select customers.

### Inventory Management

Inventory management is important to the financial condition and operating results of our business. We manage our inventory levels based on any existing orders, anticipated sales and the rapid-delivery requirements of our customers. 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 SKU rationalization, 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.

Our practice, and the general practice in the apparel, footwear and accessory industries, is to offer retail customers the right to return defective or improperly shipped merchandise. As it relates to new product introductions, which can often require large initial launch shipments, we commence production before receiving orders for those products from time to time. This can affect our inventory levels as we build pre-launch quantities.

## Table of Contents

### Intellectual Property

We believe we own the internally developed material trademarks used in connection with the marketing, distribution and sale of all our products, both domestically and internationally, where our products are currently sold or manufactured. Our major trademarks include the UA Logo and UNDER ARMOUR<sup>®</sup>, both of which are registered in the United States, Canada, Mexico, the European Union, Japan, China and several other foreign countries in which we sell or plan to sell our products. We also own trademark registrations for UA<sup>®</sup>, ARMOUR<sup>®</sup>, HEATGEAR<sup>®</sup>, COLDGEAR<sup>®</sup>, ALLSEASONGEAR<sup>®</sup>, PROTECT THIS HOUSE<sup>®</sup>, I WILL<sup>®</sup>, THE ADVANTAGE IS UNDENIABLE<sup>®</sup>, ARMOUR BRA<sup>®</sup>, MPZ<sup>®</sup>, BOXERJOCK<sup>®</sup>, RECHARGE<sup>®</sup>, COMBINE<sup>®</sup>, CHARGED COTTON<sup>®</sup>, MICRO G<sup>®</sup> and several other trademarks, including numerous trademarks that incorporate the term ARMOUR such as ARMOURBITE<sup>®</sup>, ARMOURLOFT<sup>®</sup>, ARMOURSTORM<sup>®</sup>, ARMOUR FLEECE<sup>®</sup>, BABY ARMOUR<sup>®</sup>, and several others. In addition, we have applied to register numerous other trademarks including ARE YOU FROM HERE?<sup>™</sup>, ARMOUR39<sup>™</sup> and COLDGEAR INFRARED<sup>™</sup>. We also own domain names for our primary trademarks (most notably underarmour.com and ua.com) and hold copyright registrations for several commercials, as well as for certain artwork. We intend to continue to strategically register, both domestically and internationally, trademarks and copyrights we utilize today and those we develop in the future. We will continue to aggressively police our trademarks and pursue those who infringe, both domestically and internationally.

We believe the distinctive trademarks we use in connection with our products are important in building our brand image and distinguishing our products from those of others. These trademarks are among our most valuable assets. In addition to our distinctive trademarks, we also place significant value on our trade dress, which is the overall image and appearance of our products, and we believe our trade dress helps to distinguish our products in the marketplace. The intellectual property rights in much of the technology, materials and processes used to manufacture our products are often owned or controlled by our suppliers. However, we seek to protect certain innovative products and features that we believe to be new, strategic and important to our business. In 2012, we filed several patent applications in connection with certain of our products and designs that we believe offer a unique utility or function. We will continue to file patent applications where we deem appropriate to protect our inventions and designs, and we expect the number of applications to grow as our business grows and as we continue to innovate.

### Competition

The market for performance apparel, footwear and accessories is highly competitive and includes many new competitors as well as increased competition from established companies expanding their production and marketing of performance products. The fabrics and technology used in manufacturing our products are generally not unique to us, and we do not currently own any fabric or process patents. Many of our competitors are large apparel, footwear and sporting goods companies with strong worldwide brand recognition and significantly greater resources than us, such as Nike and adidas. We also compete with other manufacturers, including those specializing in outdoor apparel, and private label offerings of certain retailers, including some of our customers.

In addition, we must compete with others for purchasing decisions, as well as limited floor space at retailers. We believe we have been successful in this area because of the relationships we have developed and as a result of the strong sales of our products. However, if retailers earn higher margins from our competitors' products, they may favor the display and sale of those products.

We believe we have been able to compete successfully because of our brand image and recognition, the performance and quality of our products and our selective distribution policies. We also believe our focused gearline merchandising story differentiates us from our competition. In the future we expect to compete for consumer preferences and expect that we may face greater competition on pricing. This may favor larger competitors with lower production costs per unit that can spread the effect of price discounts across a larger array of products and across a larger customer base than ours. The purchasing decisions of consumers for our products often reflect highly subjective preferences that can be influenced by many factors, including advertising, media, product sponsorships, product improvements and changing styles.

### Employees



As of December 31, 2012, we had approximately fifty nine hundred employees, including approximately thirty two hundred in our factory house and specialty stores and nine hundred at our distribution facilities. Approximately nineteen hundred of our employees were full-time. Most of our employees are located in the United States and none of our employees are currently covered by a collective bargaining agreement. We have had no labor-related work stoppages, and we believe our relations with our employees are good.

Table of Contents

Available Information

We will make available free of charge on or through our website at [www.underarmour.com](http://www.underarmour.com) our annual reports on Form 10-K, quarterly reports on Form 10-Q, current reports on Form 8-K and amendments to these reports filed or furnished pursuant to Section 13(a) or 15(d) of the Exchange Act as soon as reasonably practicable after we file these materials with the Securities and Exchange Commission. We also post on this website our key corporate governance documents, including our board committee charters, our corporate governance guidelines and our ethics policy.

ITEM 1A. RISK FACTORS

Forward-Looking Statements

Some of the statements contained in this Form 10-K and the documents incorporated herein by reference 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 comparative terminology.

The forward-looking statements contained in this Form 10-K and the documents incorporated herein by reference 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 “Risk Factors” 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 and the financial health of our retail customers;
- our ability to effectively manage our growth and a more complex business, including new and expanded domestic and international distribution channels;
- 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 reduce the prices of our products or to increase significantly our marketing efforts in order to avoid losing market share;
- 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;
- the availability, integration and effective operation of management information systems and other technology; 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-K reflect our views and assumptions only as of the date of this Form 10-K. 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.



Table of Contents

Our results of operations and financial condition could be adversely affected by numerous risks. You should carefully consider the risk factors detailed below in conjunction with the other information contained in this Form 10-K. Should any of these risks actually materialize, our business, financial condition and future prospects could be negatively impacted.

During a downturn in the economy, consumer purchases of discretionary items are affected, which could materially harm our sales, profitability and financial condition.

Many of our products may be considered discretionary items for consumers. Factors affecting the level of consumer spending for such discretionary items include general economic conditions, the availability of consumer credit and consumer confidence in future economic conditions. Consumer purchases of discretionary items tend to decline during recessionary periods when disposable income is lower or during other periods of economic instability or uncertainty.

We have limited experience operating a business during a recessionary period or during periods of slow economic growth and high unemployment and can therefore not predict the full impact of a downturn in the economy on our sales and profitability, including how our business responds when the economy is recovering from a recession or periods of slow growth. A downturn in the economy in markets in which we sell our products may materially harm our sales, profitability and financial condition.

If the financial condition of our retail customers declines, our financial condition and results of operations could be adversely impacted.

We extend credit to our customers based on an assessment of a customer's financial condition, generally without requiring collateral. We face increased risk of order reduction or cancellation when dealing with financially ailing customers or customers struggling with economic uncertainty. A slowing economy in our key markets or a continued decline in consumer purchases of sporting goods generally could have an adverse effect on the financial health of our retail customers, which could in turn have an adverse effect on our sales, our ability to collect on receivables and our financial condition.

A decline in sales to, or the loss of, one or more of our key customers could result in a material loss of net revenues and negatively impact our prospects for growth.

In 2012, approximately 22% of our net revenues were generated from sales to our two largest customers. We currently do not enter into long term sales contracts with these or our other key customers, relying instead on our relationships with these customers and on our position in the marketplace. As a result, we face the risk that one or more of these key customers may not increase their business with us as we expect, or may significantly decrease their business with us or terminate their relationship with us. The failure to increase our sales to these customers as much as we anticipate would have a negative impact on our growth prospects and any decrease or loss of these key customers' business could result in a material decrease in our net revenues and net income.

If we continue to grow at a rapid pace, we may not be able to effectively manage our growth and the increased complexity of a global business and as a result our brand image, net revenues and profitability may decline.

We have expanded our operations rapidly since our inception and our net revenues have increased to \$1,834.9 million in 2012 from \$725.2 million in 2008. If our operations continue to grow at a rapid pace, we may experience difficulties in obtaining sufficient raw materials and manufacturing capacity to produce our products, as well as delays in production and shipments, as our products are subject to risks associated with overseas sourcing and manufacturing. We could be required to continue to expand our sales and marketing, product development and distribution functions, to upgrade our management information systems and other processes and technology, and to obtain more space to support our expanding workforce. This expansion could increase the strain on these and other resources, and we could experience serious operating difficulties, including difficulties in hiring, training and managing an increasing number of employees. In addition, as our business becomes more complex through the introduction of more new products and the expansion of our distribution channels, including additional specialty and factory house stores and expanded distribution in malls and department stores, and expanded international distribution, these operational strains and other difficulties could increase. These difficulties could result in the erosion of our brand image and a decrease in net revenues and net income.

If we are unable to anticipate consumer preferences and successfully develop and introduce new, innovative and updated products, we may not be able to maintain or increase our net revenues and profitability. Our success depends on our ability to identify and originate product trends as well as to anticipate and react to changing consumer demands in a timely manner. All of our products are subject to changing consumer preferences that cannot be predicted with certainty. Our new products may not receive consumer acceptance as consumer preferences could shift rapidly to different types of performance or other sports products or away from these types of products altogether, and our future success

## Table of Contents

depends in part on our ability to anticipate and respond to these changes. Failure to anticipate and respond in a timely manner to changing consumer preferences could lead to, among other things, lower sales and excess inventory levels. Even if we are successful in anticipating consumer preferences, our ability to adequately react to and address those preferences will in part depend upon our continued ability to develop and introduce innovative, high-quality products. In addition, if we fail to introduce technical innovation in our products, consumer demand for our products could decline, and if we experience problems with the quality of our products, we may incur substantial expense to remedy the problems. The failure to effectively introduce new products and enter into new product categories that are accepted by consumers could result in a decrease in net revenues and excess inventory levels, which could have a material adverse effect on our financial condition.

Our results of operations could be materially harmed if we are unable to accurately forecast demand for our products. To ensure adequate inventory supply, we must forecast inventory needs and place orders with our manufacturers before firm orders are placed by our customers. In addition, a significant portion of our net revenues are generated by at-once orders for immediate delivery to customers, particularly during our historical peak season from August through November. If we fail to accurately forecast customer demand we may experience excess inventory levels or a shortage of product to deliver to our customers.

Factors that could affect our ability to accurately forecast demand for our products include:

- an increase or decrease in consumer demand for our products;
- our failure to accurately forecast consumer acceptance for our new products;
- product introductions by competitors;
- unanticipated changes in general market conditions or other factors, which may result in cancellations of advance orders or a reduction or increase in the rate of reorders placed by retailers;
- the impact on consumer demand due to unseasonable weather conditions;
- weakening of economic conditions or consumer confidence in future economic conditions, which could reduce demand for discretionary items, such as our products; and
- terrorism or acts of war, or the threat thereof, or political instability or unrest which could adversely affect consumer confidence and spending or interrupt production and distribution of product and raw materials.

Inventory levels in excess of customer demand may result in inventory write-downs or write-offs and the sale of excess inventory at discounted prices, which would have an adverse effect on gross margin. In addition, if we underestimate the demand for our products, our manufacturers may not be able to produce products to meet our customer requirements, and this could result in delays in the shipment of our products and our ability to recognize revenue, as well as damage to our reputation and customer relationships.

The difficulty in forecasting demand also makes it difficult to estimate our future results of operations and financial condition from period to period. A failure to accurately predict the level of demand for our products could adversely impact our profitability.

We operate in a highly competitive market and the size and resources of some of our competitors may allow them to compete more effectively than we can, resulting in a loss of our market share and a decrease in our net revenues and gross profit.

The market for performance apparel, footwear and accessories is highly competitive and includes many new competitors as well as increased competition from established companies expanding their production and marketing of performance products. Because we currently do not own any fabric or process patents, our current and future competitors are able to manufacture and sell products with performance characteristics and fabrications similar to our products. Many of our competitors are large apparel and footwear companies with strong worldwide brand recognition. Due to the fragmented nature of the industry, we also compete with other manufacturers, including those specializing in outdoor apparel and private label offerings of certain retailers, including some of our retail customers. Many of our competitors have significant competitive advantages, including greater financial, distribution, marketing and other resources, longer operating histories, better brand recognition among consumers, more experience in global markets and greater economies of scale. In addition, our competitors have long term relationships with our key retail customers that are potentially more important to those customers because of the significantly larger volume and product mix that our competitors sell to them. As a result, these competitors may be better equipped than we are to

influence consumer preferences or otherwise increase their market share by:  
• quickly adapting to changes in customer requirements;

9

---

Table of Contents

readily taking advantage of acquisition and other opportunities;  
discounting excess inventory that has been written down or written off;  
devoting resources to the marketing and sale of their products, including significant advertising, media placement, partnerships and product endorsement;  
adopting aggressive pricing policies; and  
engaging in lengthy and costly intellectual property and other disputes.

In addition, while one of our growth strategies is to increase floor space for our products in retail stores and generally expand our distribution to other retailers, retailers have limited resources and floor space, and we must compete with others to develop relationships with them. Increased competition by existing and future competitors could result in reductions in floor space in retail locations, reductions in sales or reductions in the prices of our products, and if retailers earn greater margins from our competitors' products, they may favor the display and sale of those products. Our inability to compete successfully against our competitors and maintain our gross margin could have a material adverse effect on our business, financial condition and results of operations.

Our profitability may decline as a result of increasing pressure on margins.

Our industry is subject to significant pricing pressure caused by many factors, including intense competition, consolidation in the retail industry, pressure from retailers to reduce the costs of products and changes in consumer demand. These factors may cause us to reduce our prices to retailers and consumers, which could cause our profitability to decline if we are unable to offset price reductions with comparable reductions in our operating costs. This could have a material adverse effect on our results of operations and financial condition.

Fluctuations in the cost of products could negatively affect our operating results.

The fabrics used by our suppliers and manufacturers are made of raw materials including petroleum-based products and cotton. Significant price fluctuations or shortages in petroleum or other raw materials can materially adversely affect our cost of goods sold, results of operations and financial condition.

We rely on third-party suppliers and manufacturers to provide fabrics for and to produce our products, and we have limited control over these suppliers and manufacturers and may not be able to obtain quality products on a timely basis or in sufficient quantity.

Many of the specialty fabrics used in our products are technically advanced textile products developed by third parties and may be available, in the short-term, from a very limited number of sources. Substantially all of our products are manufactured by unaffiliated manufacturers, and, in 2012, ten manufacturers produced approximately 49% of our products. We have no long term contracts with our suppliers or manufacturing sources, and we compete with other companies for fabrics, raw materials, production and import quota capacity.

We may experience a significant disruption in the supply of fabrics or raw materials from current sources or, in the event of a disruption, we may be unable to locate alternative materials suppliers of comparable quality at an acceptable price, or at all. In addition, our unaffiliated manufacturers may not be able to fill our orders in a timely manner. If we experience significant increased demand, or we lose or need to replace an existing manufacturer or supplier as a result of adverse economic conditions or other reasons, additional supplies of fabrics or raw materials or additional manufacturing capacity may not be available when required on terms that are acceptable to us, or at all, or suppliers or manufacturers may not be able to allocate sufficient capacity to us in order to meet our requirements. In addition, even if we are able to expand existing or find new manufacturing or fabric sources, we may encounter delays in production and added costs as a result of the time it takes to train our suppliers and manufacturers on our methods, products and quality control standards. Any delays, interruption or increased costs in the supply of fabric or manufacture of our products could have an adverse effect on our ability to meet retail customer and consumer demand for our products and result in lower net revenues and net income both in the short and long term.

We have occasionally received, and may in the future continue to receive, shipments of product that fail to conform to our quality control standards. In that event, unless we are able to obtain replacement products in a timely manner, we risk the loss of net revenues resulting from the inability to sell those products and related increased administrative and shipping costs. In addition, because we do not control our manufacturers, products that fail to meet our standards or other unauthorized products could end up in the marketplace without our knowledge, which could harm our brand and our reputation in the marketplace.





## Table of Contents

Labor disruptions at ports or our suppliers or manufacturers may adversely affect our business.

Our business depends on our ability to source and distribute products in a timely manner. As a result, we rely on the free flow of goods through open and operational ports worldwide and on a consistent basis from our suppliers and manufacturers. Labor disputes at various ports or at our suppliers or manufacturers create significant risks for our business, particularly if these disputes result in work slowdowns, lockouts, strikes or other disruptions during our peak importing or manufacturing seasons, and could have an adverse effect on our business, potentially resulting in canceled orders by customers, unanticipated inventory accumulation or shortages and reduced net revenues and net income.

Our limited operating experience and limited brand recognition in new markets may limit our expansion strategy and cause our business and growth to suffer.

Our future growth depends in part on our expansion efforts outside of the North America. During the year ended December 31, 2012, 94% of our net revenues were earned in North America. We have limited experience with regulatory environments and market practices outside of North America, and may face difficulties in expanding to and successfully operating in markets outside of North America. In connection with expansion efforts outside of North America, we may face cultural and linguistic differences, differences in regulatory environments, labor practices and market practices and difficulties in keeping abreast of market, business and technical developments and customers' tastes and preferences. We may also encounter difficulty expanding into new markets because of limited brand recognition leading to delayed acceptance of our products. Failure to develop new markets outside of North America will limit our opportunities for growth.

The operations of many of our manufacturers are subject to additional risks that are beyond our control and that could harm our business.

In 2012, our products were manufactured by 27 primary manufacturers, operating in 14 countries. Of these, ten manufactured approximately 49% of our products, at locations in Cambodia, China, El Salvador, Honduras, Jordan, Mexico, Nicaragua and the Philippines. During 2012, approximately 53% of our products were manufactured in Asia, 19% in Central and South America, 18% in the Middle East and 8% in Mexico. As a result of our international manufacturing, we are subject to risks associated with doing business abroad, including:

- political or labor unrest, terrorism and economic instability resulting in the disruption of trade from foreign countries in which our products are manufactured;
- currency exchange fluctuations;
- the imposition of new laws and regulations, including those relating to labor conditions, quality and safety standards, imports, duties, taxes and other charges on imports, trade restrictions and restrictions on the transfer of funds, as well as rules and regulations regarding climate change;
- reduced protection for intellectual property rights in some countries;
- disruptions or delays in shipments; and
- changes in local economic conditions in countries where our manufacturers and suppliers are located.

Sales of performance products may not continue to grow and this could adversely impact our ability to grow our business.

We believe continued growth in industry-wide sales of performance apparel, footwear and accessories will be largely dependent on consumers continuing to transition from traditional alternatives to performance products. If consumers are not convinced these products are a better choice than traditional alternatives, growth in the industry and our business could be adversely affected. In addition, because performance products are often more expensive than traditional alternatives, consumers who are convinced these products provide a better alternative may still not be convinced they are worth the extra cost. If industry-wide sales of performance products do not grow, our ability to continue to grow our business and our financial condition and results of operations could be materially adversely impacted.

Our revolving credit facility provides our lenders with a first-priority lien against substantially all of our assets and contains financial covenants and other restrictions on our actions, and it could therefore limit our operational flexibility or otherwise adversely affect our financial condition.

We have, from time to time, financed our liquidity needs in part from borrowings made under a revolving credit facility. Our revolving credit facility provides for a committed revolving credit line of up to \$300.0 million. The agreement for our revolving credit facility contains a number of restrictions that limit our ability, among other things, to:

11

---

Table of Contents

- use our accounts receivable, inventory, trademarks and most of our other assets as security in other borrowings or transactions;
- incur additional indebtedness;
- sell certain assets;
- make certain investments;
- guarantee certain obligations of third parties;
- undergo a merger or consolidation; and
- materially change our line of business.

Our revolving credit facility also provides the lenders with the ability to reduce the borrowing base, even if we are in compliance with all conditions of the revolving credit facility, upon a material adverse change to our business, properties, assets, financial condition or results of operations. In addition, we must maintain a certain leverage ratio and interest coverage ratio as defined in the credit agreement. Failure to comply with these operating or financial covenants could result from, among other things, changes in our results of operations or general economic conditions. These covenants may restrict our ability to engage in transactions that would otherwise be in our best interests. Failure to comply with any of the covenants under the credit agreement could result in a default. In addition, the credit agreement includes a cross default provision whereby an event of default under certain other debt obligations will be considered an event of default under the credit agreement. A default under the credit agreement could cause the lenders to accelerate the timing of payments and exercise their lien on essentially all of our assets, which would have a material adverse effect on our business, operations, financial condition and liquidity. In addition, because borrowings under the revolving credit facility bear interest at variable interest rates, which we do not anticipate hedging against, increases in interest rates would increase our cost of borrowing, resulting in a decline in our net income and cash flow. There were no amounts outstanding under our revolving credit facility as of December 31, 2012.

We may need to raise additional capital required to grow our business, and we may not be able to raise capital on terms acceptable to us or at all.

Growing and operating our business will require significant cash outlays and capital expenditures and commitments. If cash on hand and cash generated from operations are not sufficient to meet our cash requirements, we will need to seek additional capital, potentially through debt or equity financing, to fund our growth. We may not be able to raise needed cash on terms acceptable to us or at all. Financing may be on terms that are dilutive or potentially dilutive to our stockholders, and the prices at which new investors would be willing to purchase our securities may be lower than the current price per share of our common stock. The holders of new securities may also have rights, preferences or privileges which are senior to those of existing holders of common stock. If new sources of financing are required, but are insufficient or unavailable, we will be required to modify our growth and operating plans based on available funding, if any, which would harm our ability to grow our business.

Our operating results are subject to seasonal and quarterly variations in our net revenues and net income, which could adversely affect the price of our Class A Common Stock.

We have experienced, and expect to continue to experience, seasonal and quarterly variations in our net revenues and net income. These variations are primarily related to increased sales of our products during the fall season, reflecting our historical strength in fall sports, and the seasonality of sales of our higher priced COLDGEAR® line. The majority of our net revenues were generated during the last two quarters in each of 2012, 2011 and 2010, respectively.

Our quarterly results of operations may also fluctuate significantly as a result of a variety of other factors, including, among other things, the timing and introduction of advertising for new products and changes in our product mix. Variations in weather conditions may also have an adverse effect on our quarterly results of operations. For example, warmer than normal weather conditions throughout the fall or winter may reduce sales of our COLDGEAR® line, leaving us with excess inventory and operating results below our expectations.

As a result of these seasonal and quarterly fluctuations, we believe that comparisons of our operating results between different quarters within a single year are not necessarily meaningful and that these comparisons cannot be relied upon as indicators of our future performance. Any seasonal or quarterly fluctuations that we report in the future may not match the expectations of market analysts and investors. This could cause the price of our Class A Common Stock to

fluctuate significantly.

12

---

## Table of Contents

The value of our brand and sales of our products could be diminished if we are associated with negative publicity. We require our suppliers, independent manufacturers and licensees of our products to operate their businesses in compliance with the laws and regulations that apply to them as well as the social and other standards and policies we impose on them. We do not control these suppliers, manufacturers or licensees or their labor practices. A violation of our policies, labor laws or other laws by our suppliers, manufacturers or licensees could interrupt or otherwise disrupt our sourcing or damage our brand image. Negative publicity regarding the production methods of any of our suppliers, manufacturers or licensees could adversely affect our reputation and sales and force us to locate alternative suppliers, manufacturing sources or licensees.

In addition, we have sponsorship contracts with a variety of athletes and feature those athletes in our advertising and marketing efforts, and many athletes and teams use our products, including those teams or leagues for which we are an official supplier. Actions taken by athletes, teams or leagues associated with our products could harm the reputations of those athletes, teams or leagues. As a result, our brand image, net revenues and profitability could be adversely affected.

Sponsorships and designations as an official supplier may become more expensive and this could impact the value of our brand image.

A key element of our marketing strategy has been to create a link in the consumer market between our products and professional and collegiate athletes. We have developed licensing agreements to be the official supplier of performance apparel and footwear to a variety of sports teams and leagues at the collegiate and professional level and sponsorship agreements with athletes. However, as competition in the performance apparel and footwear industry has increased, the costs associated with athlete sponsorships and official supplier licensing agreements have increased, including the costs associated with obtaining and retaining these sponsorships and agreements. If we are unable to maintain our current association with professional and collegiate athletes, teams and leagues, or to do so at a reasonable cost, we could lose the on-field authenticity associated with our products, and we may be required to modify and substantially increase our marketing investments. As a result, our brand image, net revenues, expenses and profitability could be materially adversely affected.

If we encounter problems with our distribution system, our ability to deliver our products to the market could be adversely affected.

We rely on a limited number of distribution facilities for our product distribution. Our distribution facilities utilize computer controlled and automated equipment, which means the operations are complicated and may be subject to a number of risks related to security or computer viruses, the proper operation of software and hardware, power interruptions or other system failures. In addition, because many of our products are distributed from two nearby locations in Maryland, our operations could also be interrupted by floods, fires or other natural disasters near our distribution facilities, as well as labor difficulties. We maintain business interruption insurance, but it may not adequately protect us from the adverse effects that could be caused by significant disruptions in our distribution facilities, such as the long term loss of customers or an erosion of our brand image. In addition, our distribution capacity is dependent on the timely performance of services by third parties, including the shipping of product to and from our distribution facilities. If we encounter problems with our distribution facilities, our ability to meet customer expectations, manage inventory, complete sales and achieve objectives for operating efficiencies could be materially adversely affected.

We rely significantly on information technology and any failure, inadequacy, interruption or security lapse of that technology could harm our ability to effectively operate our business.

Our ability to effectively manage and maintain our inventory and internal reports, and to ship products to customers and invoice them on a timely basis depends significantly on our enterprise resource planning, warehouse management, and other information systems. The failure of these systems to operate effectively or to integrate with other systems, or a breach in security of these systems could cause delays in product fulfillment and reduced efficiency of our operations, and it could require significant capital investments to remediate any such failure, problem or breach. Hackers and data thieves are increasingly sophisticated and operate large scale and complex automated attacks. Any breach of our network may result in the loss of valuable business data, our customers' or employees' personal information or a disruption of our business, which could give rise to unwanted media attention, damage our customer

relationships and reputation and result in lost sales, fines or lawsuits. In addition, we must comply with increasingly complex regulatory standards enacted to protect this business and personal data. An inability to maintain compliance with these regulatory standards could subject us to legal risks.

Table of Contents

Changes in tax laws and unanticipated tax liabilities could adversely affect our effective income tax rate and profitability.

We are subject to income taxes in the United States and numerous foreign jurisdictions. Our effective income tax rate could be adversely affected in the future by a number of factors, including: changes in the mix of earnings in countries with differing statutory tax rates, changes in the valuation of deferred tax assets and liabilities, changes in tax laws, the outcome of income tax audits in various jurisdictions around the world, and any repatriation of non-US earnings for which we have not previously provided for U.S. taxes. We regularly assess all of these matters to determine the adequacy of our tax provision, which is subject to significant discretion.

Our financial results may be adversely affected if substantial investments in businesses and operations fail to produce expected returns.

From time to time, we may invest in business infrastructure, new businesses, and expansion of existing businesses, such as recent investments in our direct to consumer sales channel or our recent minority investment in our Japanese licensee. These investments require substantial cash investments and management attention. We believe cost effective investments are essential to business growth and profitability. However, significant investments are subject to typical risks and uncertainties inherent in acquiring or expanding a business. The failure of any significant investment to provide the returns or profitability we expect could have a material adverse effect on our financial results and divert management attention from more profitable business operations.

Our future success is substantially dependent on the continued service of our senior management and other key employees.

Our future success is substantially dependent on the continued service of our senior management and other key employees, particularly Kevin A. Plank, our founder, Chairman, Chief Executive Officer and President. The loss of the services of our senior management or other key employees could make it more difficult to successfully operate our business and achieve our business goals.

We also may be unable to retain existing management, product creation, sales, marketing, operational and other support personnel that are critical to our success, which could result in harm to key customer relationships, loss of key information, expertise or know-how and unanticipated recruitment and training costs.

If we are unable to attract and retain new team members, including senior management, we may not be able to achieve our business objectives.

Our growth has largely been the result of significant contributions by our current senior management, product design teams and other key employees. However, to be successful in continuing to grow our business, we will need to continue to attract, retain and motivate highly talented management and other employees with a range of skills and experience. Competition for employees in our industry is intense and we have experienced difficulty from time to time in attracting the personnel necessary to support the growth of our business, and we may experience similar difficulties in the future. If we are unable to attract, assimilate and retain management and other employees with the necessary skills, we may not be able to grow or successfully operate our business.

Our failure to comply with trade and other regulations could lead to investigations or actions by government regulators and negative publicity.

The labeling, distribution, importation, marketing and sale of our products are subject to extensive regulation by various federal agencies, including the Federal Trade Commission, Consumer Product Safety Commission and state attorneys general in the U.S., as well as by various other federal, state, provincial, local and international regulatory authorities in the locations in which our products are distributed or sold. If we fail to comply with those regulations, we could become subject to significant penalties or claims, which could harm our results of operations or our ability to conduct our business. In addition, the adoption of new regulations or changes in the interpretation of existing regulations may result in significant compliance costs or discontinuation of product sales and may impair the marketing of our products, resulting in significant loss of net revenues.

Kevin Plank, our Chairman, Chief Executive Officer and President controls the majority of the voting power of our common stock.

Our Class A Common Stock, or Class A Stock, has one vote per share and our Class B Convertible Common Stock, or Class B Stock, has 10 votes per share. Our Chairman, Chief Executive Officer and President, Kevin A. Plank,



beneficially owns all outstanding shares of Class B Stock. As a result, Mr. Plank has the majority voting control and is able to direct the election of all of the members of our Board of Directors and other matters we submit to a vote of our stockholders. This concentration

Table of Contents

of voting control may have various effects including, but not limited to, delaying or preventing a change of control. The Class B Stock automatically converts to Class A Stock when Mr. Plank beneficially owns less than 15.0% of the total number of shares of Class A and Class B Stock outstanding. Otherwise the Class B Stock does not convert to Class A Stock until Mr. Plank's death or disability. As a result, Mr. Plank can retain his voting control even after he is no longer affiliated with the Company.

Our fabrics and manufacturing technology are not patented and can be imitated by our competitors.

The intellectual property rights in the technology, fabrics and processes used to manufacture our products are generally owned or controlled by our suppliers and are generally not unique to us. Our ability to obtain patent protection for our products is limited and we currently own no fabric or process patents. As a result, our current and future competitors are able to manufacture and sell products with performance characteristics and fabrications similar to our products. Because many of our competitors have significantly greater financial, distribution, marketing and other resources than we do, they may be able to manufacture and sell products based on our fabrics and manufacturing technology at lower prices than we can. If our competitors do sell similar products to ours at lower prices, our net revenues and profitability could be materially adversely affected.

Our trademark and other proprietary rights could potentially conflict with the rights of others and we may be prevented from selling some of our products.

Our success depends in large part on our brand image. We believe our registered and common law trademarks have significant value and are important to identifying and differentiating our products from those of our competitors and creating and sustaining demand for our products. There may be obstacles that arise as we expand our product line and geographic scope of our marketing. From time to time, we have received or brought claims relating to intellectual property rights of others, and we expect such claims will continue or increase, particularly as we expand our business and the number of products we offer. Any such claim, regardless of its merit, could be expensive and time consuming to defend or prosecute. Successful infringement claims against us could result in significant monetary liability or prevent us from selling some of our products. In addition, resolution of claims may require us to redesign our products, license rights belonging to third parties or cease using those rights altogether. Any of these events could harm our business and have a material adverse effect on our results of operations and financial condition.

Our failure to protect our intellectual property rights could diminish the value of our brand, weaken our competitive position and reduce our net revenues.

We currently rely on a combination of copyright, trademark and trade dress laws, patent laws, unfair competition laws, confidentiality procedures and licensing arrangements to establish and protect our intellectual property rights. The steps taken by us to protect our proprietary rights may not be adequate to prevent infringement of our trademarks and proprietary rights by others, including imitation of our products and misappropriation of our brand. In addition, intellectual property protection may be unavailable or limited in some foreign countries where laws or law enforcement practices may not protect our proprietary rights as fully as in the United States, and it may be more difficult for us to successfully challenge the use of our proprietary rights by other parties in these countries. If we fail to protect and maintain our intellectual property rights, the value of our brand could be diminished and our competitive position may suffer.

From time to time, we discover unauthorized products in the marketplace that are either counterfeit reproductions of our products or unauthorized irregulars that do not meet our quality control standards. If we are unsuccessful in challenging a third party's products on the basis of trademark infringement, continued sales of their products could adversely impact our brand, result in the shift of consumer preferences away from our products and adversely affect our business.

We have licensed in the past, and expect to license in the future, certain of our proprietary rights, such as trademarks or copyrighted material, to third parties. These licensees may take actions that diminish the value of our proprietary rights or harm our reputation.

**ITEM 1B. UNRESOLVED STAFF COMMENTS**

Not applicable.



Table of Contents

## ITEM 2. PROPERTIES

Our principal executive and administrative offices are located at an office complex in Baltimore, Maryland. We own part and lease part of this office complex. We believe that our current location will be sufficient for the operation of our business over the next twelve months. Our primary distribution facilities are in Glen Burnie, Maryland and Rialto, California. We believe our distribution facilities and space available through our third-party logistics providers will be adequate to meet our short term needs. We may expand to additional distribution facilities in the future.

The location, general use, approximate size and lease term, if applicable, of our material properties as of December 31, 2012 are set forth below:

Location	Use	Approximate Square Feet	Lease End Date
Baltimore, MD	Corporate headquarters	543,000	(1)
Amsterdam, The Netherlands	European headquarters	11,900	December 2015
Glen Burnie, MD	Distribution facilities, 17,000 square foot quick-turn, Special Make-Up Shop manufacturing facility and 6,000 square foot factory house store	703,600	(2)
Rialto, CA	Distribution facility	1,197,000	May 2023
Denver, CO	Sales office	6,000	August 2013
Ontario, Canada	Sales office	17,100	December 2016
Panama	International management office	4,100	October 2015
Guangzhou, China	Quality assurance & sourcing for footwear	4,600	December 2014
Hong Kong	Quality assurance & sourcing for apparel	20,900	September 2014
Shanghai, China	Sales and marketing office	16,700	December 2014
Various	Retail store space	539,300	(3)

(1) Includes 400.0 thousand square feet of office space that we purchased during 2011 and 143.0 thousand square feet that we are leasing with an option to renew in December 2015. Of the 400.0 thousand square feet of office space we own, 141.4 thousand square feet is leased to third party tenants with remaining lease terms ranging from 1 month to 13.5 years. We intend to occupy additional space as it becomes available.

(2) Includes a 359.0 thousand square foot facility with an option to renew in September 2021 and a 308.0 thousand square foot facility with an option to renew in December 2016. Also includes a lease for 36.0 thousand square feet within a 161.3 thousand square foot facility with a lease term through September 2021, expanding to 161.3 thousand square feet in July 2013.

(3) Includes one hundred eight factory house and specialty stores located in the United States, Canada and China with lease end dates of July 2013 through October 2022. We also have an additional factory house store which is included in the Glen Burnie, Maryland location in the table above. Excluded in the table above are executed lease agreements for factory house stores that we did not yet occupy as of December 31, 2012. We anticipate that we will be able to extend these leases that expire in the near future on satisfactory terms or relocate to other locations.

## ITEM 3. LEGAL PROCEEDINGS

From time to time, we have been involved in various legal proceedings. We believe all such litigation is routine in nature and incidental to the conduct of our business, and we believe no such litigation will have a material adverse effect on our financial condition, cash flows or results of operations.

Table of Contents

## EXECUTIVE OFFICERS OF THE REGISTRANT

Our executive officers are:

Name	Age	Position
Kevin A. Plank	40	Chairman, Chief Executive Officer and President
Byron K. Adams, Jr.	58	Chief Performance Officer, Member of the Board of Directors
Brad Dickerson	48	Chief Financial Officer
Kip J. Fulks	40	Chief Operating Officer
Karl-Heinz Maurath	51	President, International
Matthew C. Mirchin	53	Senior Vice President, Global Brand & Sports Marketing
Adam Peake	44	Senior Vice President of U.S. Sales
Henry B. Stafford	38	Senior Vice President of Apparel

Kevin A. Plank has served as our Chief Executive Officer and Chairman of the Board of Directors since 1996, and as our President from 1996 to July 2008 and since August 2010. Mr. Plank also serves on the Board of Directors of the National Football Foundation and College Hall of Fame, Inc. and is a member of the Board of Trustees of the University of Maryland College Park Foundation.

Byron K. Adams, Jr. has been a member of our Board of Directors since September 2003 and our Chief Performance Officer since October 2011 with primary responsibility for the development of company-wide business strategy, human resources and organizational alignment and processes. Prior to joining our Company, Mr. Adams founded and was a managing director of Rosewood Capital, LLC from 1985 to September 2011. Rosewood Capital was a private equity firm focused on consumer brands that, through its affiliates, was the institutional investor in our Company prior to our initial public offering. At Rosewood Capital, Mr. Adams was primarily responsible for assisting management teams in the development of their business strategies and organizations.

Brad Dickerson has been our Chief Financial Officer since March 2008. Prior to that, he served as Vice President of Accounting and Finance from February 2006 to February 2008 and Corporate Controller from July 2004 to January 2006. Prior to joining our Company, Mr. Dickerson served as Chief Financial Officer of Macquarie Aviation North America from January 2003 to July 2004 and in various capacities for Network Building & Consulting from 1994 to 2003, including Chief Financial Officer from 1998 to 2003.

Kip J. Fulks has been our Chief Operating officer since September 2011. Prior to that, he served as Executive Vice President of Product from January 2011 to August 2011, Senior Vice President of Outdoor and Innovation from March 2008 to December 2010, as Senior Vice President of Outdoor from October 2007 to February 2008, as Senior Vice President of Sourcing, Quality Assurance and Product Development from March 2006 to September 2007, and Vice President of Sourcing and Quality Assurance from 1997 to February 2006.

Karl-Heinz Maurath has been President of International since September 2012. Prior to joining our Company, he served for 22 years in various leadership positions with adidas, including Senior Vice President, adidas Group Latin America, from 2003 to 2012 with overall responsibility for Latin America including the Reebok and Taylor Made businesses and Vice President, adidas Nordic, from 2000 to 2003 responsible for its business in the Nordic region and the Baltic states. Prior thereto, Mr. Maurath served in other management positions for adidas, including Managing Director of its business in Sweden and Thailand and Area Manger of sales and marketing for its distributor and licensee businesses in Scandinavia and Latin America.

Matthew C. Mirchin has been Senior Vice President, Global Brand and Sports Marketing since March 2012. Prior to that, he served as Senior Vice President of Sports Marketing from January 2010 to February 2012, Senior Vice President of North American Sales from March 2008 to December 2009, Vice President of North American Sales from March 2006 to February 2008 and Vice President of U.S. Sales from May 2005 to February 2006. Prior to joining our Company, Mr. Mirchin served as President of Retail and Team Sports from 2002 to 2005 and President of Team Sports from 2001 to 2002 for Russell Athletic. Prior to joining Russell Athletic, Mr. Mirchin served in various capacities at the Champion Division of Sara Lee Corporation from 1994 to 2001 and started his career with the NBA.

Adam Peake has been our Senior Vice President of U.S. Sales since September 2011. Prior to that, he served as Vice President of North American Sales from January 2010 to August 2011, as interim Vice President of Footwear from May 2009 to December 2009 and as Vice President of Sales for Key and Independent Accounts from January 2008 to April 2009, and from 2002 to 2007 he held various senior management positions in Sales.

Table of Contents

Henry B. Stafford has been Senior Vice President of Apparel, Outdoor & Accessories since September 2011. Prior to that, he served as Senior Vice President of Apparel from June 2010 to August 2011. Prior to joining our company, he worked with American Eagle Outfitters as Senior Vice President and Chief Merchandising Officer of The AE Brand from April 2007 to May 2010, General Merchandise Manager and Senior Vice President of Men's and AE Canadian Division from April 2005 to March 2007 and General Merchandise Manager and Vice President of Men's from September 2003 to March 2005. Prior thereto, Mr. Stafford served in a variety of capacities for Old Navy from 1998 to 2003, including Divisional Merchandising Manager for Men's Tops from 2001 to 2003, and served as a buyer for Abercrombie and Fitch from 1996 to 1998.

ITEM 4. MINE SAFETY DISCLOSURES

Not applicable.

Table of Contents

## PART II

## ITEM 5. MARKET FOR REGISTRANT'S COMMON EQUITY, RELATED STOCKHOLDER MATTERS AND ISSUER PURCHASES OF EQUITY SECURITIES

Under Armour's Class A Common Stock is traded on the New York Stock Exchange ("NYSE") under the symbol "UA". As of January 31, 2013, there were 1,158 record holders of our Class A Common Stock and 5 record holders of Class B Convertible Common Stock which are beneficially owned by our President and Chief Executive Officer Kevin A. Plank. The following table sets forth by quarter the high and low sale prices of our Class A Common Stock on the NYSE during 2012 and 2011.

	High	Low
2012		
First Quarter (January 1 – March 31)	\$49.68	\$35.13
Second Quarter (April 1 – June 30)	\$53.93	\$44.30
Third Quarter (July 1 – September 30)	\$60.96	\$44.07
Fourth Quarter (October 1 – December 31)	\$60.20	\$46.11
2011		
First Quarter (January 1 – March 31)	\$35.35	\$25.89
Second Quarter (April 1 – June 30)	\$40.00	\$30.78
Third Quarter (July 1 – September 30)	\$41.48	\$26.31
Fourth Quarter (October 1 – December 31)	\$43.70	\$31.25

## Stock Split

On June 11, 2012 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 July 9, 2012. Stockholders' equity and all references to share and per share amounts herein and in the accompanying consolidated financial statements have been retroactively adjusted to reflect the two-for-one stock split for all periods presented.

## Dividends

No cash dividends were declared or paid during 2012 or 2011 on any class of our common stock. We currently anticipate we will retain any future earnings for use in our business. As a result, we do not anticipate paying any cash dividends in the foreseeable future. In addition, we may be limited in our ability to pay dividends to our stockholders under our credit facility. Refer to "Financial Position, Capital Resources and Liquidity" within Management's Discussion and Analysis and Note 6 to the Consolidated Financial Statements for further discussion of our credit facility.

## Stock Compensation Plans

The following table contains certain information regarding our equity compensation plans.

Plan Category	Number of securities to be issued upon exercise of outstanding options, warrants and rights (a)	Weighted-average exercise price of outstanding options, warrants and rights (b)	Number of securities remaining available for future issuance under equity compensation plans (excluding securities reflected in column (a)) (c)
Equity compensation plans approved by security holders	5,418,292	\$ 15.31	11,701,814
Equity compensation plans not approved by security holders	960,000	\$ 18.50	—

The number of securities to be issued upon exercise of outstanding options, warrants and rights issued under equity compensation plans approved by security holders includes 2.3 million restricted stock units and deferred stock units issued to employees, non-employees and directors of Under Armour; these restricted stock units and deferred stock units are not included in the weighted average exercise price calculation above. The number of securities remaining available for future issuance includes 10.2 million shares of our Class A Common Stock under our Amended and



Restated 2005 Omnibus Long-Term Incentive Plan (“2005 Stock Plan”) and 1.5 million shares of our Class A Common Stock under our Employee Stock Purchase Plan. In addition to securities issued upon the exercise of stock options, warrants and rights, the 2005 Stock Plan authorizes the issuance of restricted and unrestricted shares of our Class A Common Stock and other equity awards. Refer to Note 12 to the Consolidated Financial Statements for information required by this Item regarding the material features of each plan.

Table of Contents

The number of securities issued under equity compensation plans not approved by security holders includes 960.0 thousand fully vested and non-forfeitable warrants granted in 2006 to NFL Properties LLC as partial consideration for footwear promotional rights. Refer to Note 12 to the Consolidated Financial Statements for a further discussion on the warrants.

Recent Sales of Unregistered Equity Securities

From January 31, 2012 through December 27, 2012, we issued 30.0 thousand shares of Class A Common Stock upon the exercise of previously granted stock options to employees at an exercise price of \$0.57 per share, for an aggregate amount of consideration of \$17.2 thousand.

The issuances of securities described above were made in reliance upon Section 4(2) under the Securities Act in that any issuance did not involve a public offering or under Rule 701 promulgated under the Securities Act, in that they were offered and sold either pursuant to written compensatory plans or pursuant to a written contract relating to compensation, as provided by Rule 701.

Stock Performance Graph

The stock performance graph below compares cumulative total return on Under Armour, Inc. Class A Common Stock to the cumulative total return of the NYSE Market Index and S&P 500 Apparel, Accessories and Luxury Goods Index from December 31, 2007 through December 31, 2012. The graph assumes an initial investment of \$100 in Under Armour and each index as of December 31, 2007 and reinvestment of any dividends. The performance shown on the graph below is not intended to forecast or be indicative of possible future performance of our common stock.

	12/31/2007	12/31/2008	12/31/2009	12/31/2010	12/31/2011	12/31/2012
Under Armour, Inc.	\$ 100.00	\$ 54.59	\$ 62.45	\$ 125.58	\$ 164.39	\$ 222.23
NYSE Market Index	\$ 100.00	\$ 60.86	\$ 78.25	\$ 88.89	\$ 85.63	\$ 99.47
S&P 500 Apparel, Accessories & Luxury Goods	\$ 100.00	\$ 66.25	\$ 107.64	\$ 151.98	\$ 189.31	\$ 194.20

Table of Contents

## ITEM 6. SELECTED FINANCIAL DATA

The following selected financial data is qualified by reference to, and should be read in conjunction with, the Consolidated Financial Statements, including the notes thereto, and “Management’s Discussion and Analysis of Financial Condition and Results of Operations” included elsewhere in this Form 10-K.

(In thousands, except per share amounts)	Year Ended December 31,				
	2012	2011	2010	2009	2008
Net revenues	\$1,834,921	\$1,472,684	\$1,063,927	\$856,411	\$725,244
Cost of goods sold	955,624	759,848	533,420	446,286	372,203
Gross profit	879,297	712,836	530,507	410,125	353,041
Selling, general and administrative expenses	670,602	550,069	418,152	324,852	276,116
Income from operations	208,695	162,767	112,355	85,273	76,925
Interest expense, net	(5,183 )	(3,841 )	(2,258 )	(2,344 )	(850 )
Other expense, net	(73 )	(2,064 )	(1,178 )	(511 )	(6,175 )
Income before income taxes	203,439	156,862	108,919	82,418	69,900
Provision for income taxes	74,661	59,943	40,442	35,633	31,671
Net income	\$128,778	\$96,919	\$68,477	\$46,785	\$38,229
Net income available per common share					
Basic	\$1.23	\$0.94	\$0.67	\$0.47	\$0.39
Diluted	\$1.21	\$0.92	\$0.67	\$0.46	\$0.38
Weighted average common shares outstanding					
Basic	104,343	103,140	101,595	99,696	98,171
Diluted	106,380	105,052	102,563	101,301	100,685
Dividends declared	\$—	\$—	\$—	\$—	\$—
	At December 31,				
(In thousands)	2012	2011	2010	2009	2008
Cash and cash equivalents	\$341,841	\$175,384	\$203,870	\$187,297	\$102,042
Working capital (1)	651,370	506,056	406,703	327,838	263,313
Inventories	319,286	324,409	215,355	148,488	182,232
Total assets	1,157,083	919,210	675,378	545,588	487,555
Total debt and capital lease obligations, including current maturities	61,889	77,724	15,942	20,223	45,591
Total stockholders’ equity	\$816,922	\$636,432	\$496,966	\$399,997	\$331,097

(1) Working capital is defined as current assets minus current liabilities.

## ITEM 7. MANAGEMENT’S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS

The information contained in this section should be read in conjunction with our Consolidated Financial Statements and related notes and the information contained elsewhere in this Form 10-K under the captions “Risk Factors,” “Selected Financial Data,” and “Business.”

## Overview

We are a leading developer, marketer and distributor of branded performance apparel, footwear and accessories. The brand’s moisture-wicking fabrications are engineered in many different designs and styles for wear in nearly every climate to provide a performance alternative to traditional products. Our products are sold worldwide and worn by athletes at all levels, from youth to professional, on playing fields around the globe, as well as by consumers with active lifestyles.

Our net revenues grew to \$1,834.9 million in 2012 from \$725.2 million in 2008. 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 factory house and specialty stores and

## Table of Contents

websites. New offerings for 2012 include our new UA Studio line, the Armour Bra, coldblack® technology, Under Armour scent control technology and UA Spine footwear.

A large majority of our products are sold in North America; however, we believe our products appeal to athletes and consumers with active lifestyles around the globe. Internationally, our products are offered primarily in Austria, Germany, Panama, Spain and the United Kingdom. A third party licensee sells our products in Japan and distributors sell our products in other foreign countries. We hold a minority investment in our licensee in Japan.

Our operating segments are geographic and include North America; Latin America; Europe, the Middle East and Africa (“EMEA”); and Asia. Due to the insignificance of the EMEA, Latin America and Asia operating segments, they have been combined into other foreign countries for disclosure purposes.

We believe there is an increasing recognition of the health benefits of an active lifestyle. We believe this trend provides us with an expanding consumer base for our products. We also believe there is a continuing shift in consumer demand from traditional non-performance products to performance products, which are intended to provide better performance by wicking perspiration away from the skin, helping to regulate body temperature and enhancing comfort. We believe that these shifts in consumer preferences and lifestyles are not unique to the United States, but are occurring in a number of markets globally, thereby increasing our opportunities to introduce our performance products to new consumers.

Although we believe these trends will facilitate our growth, we also face potential challenges that could limit our ability to take advantage of these opportunities, including, among others, the risk of general economic or market conditions that could affect consumer spending and the financial health of our retail customers. In addition, we may not be able to effectively manage our growth and a more complex business. We may not consistently be able to anticipate consumer preferences and develop new and innovative products that meet changing preferences in a timely manner. Furthermore, our industry is very competitive, and competition pressures could cause us to reduce the prices of our products or otherwise affect our profitability. We also rely on third-party suppliers and manufacturers outside the U.S. to provide fabrics and to produce our products, and disruptions to our supply chain could harm our business. For a more complete discussion of the risks facing our business, refer to the “Risk Factors” section included in Item 1A. General

Net revenues comprise both net sales and license revenues. Net sales comprise sales from our primary product categories, which are apparel, footwear and accessories. Our license revenues consist of fees paid to us by our licensees in exchange for the use of our trademarks on core products of socks, team uniforms, baby and kids’ apparel, eyewear, inflatable footballs and basketballs, as well as the distribution of our products in Japan. Beginning in 2011, net sales includes the sales and related cost of goods sold of internally developed hats and bags. Prior to 2011, hats and bags were sold by a licensee. Net revenues increased by approximately \$65 million from 2010 to 2011 as a result of developing our own hats and bags, which includes an increase in accessories revenues and a decrease in our license revenues in 2011.

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. No cost of goods sold is associated with license revenues.

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 \$34.8 million, \$26.1 million and \$14.7 million for the years ended December 31, 2012, 2011 and 2010, 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 the employee. 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. In addition, marketing costs include costs associated with our Special Make-Up Shop (“SMU Shop”) located at one of our distribution facilities where we manufacture a limited number of products primarily for our league, team, player and event sponsorships. Selling costs consist

Table of Contents

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 factory house and specialty store leases. Product innovation and supply chain costs include our apparel, footwear and accessories product innovation, sourcing and development costs, distribution facility operating costs, and costs relating to our Hong Kong and Guangzhou, China offices which help support product development, manufacturing, quality assurance and sourcing efforts. Corporate services primarily consist of corporate facility operating costs and company-wide administrative expenses.

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:

(In thousands)	Year Ended December 31,			
	2012	2011	2010	
Net revenues	\$1,834,921	\$1,472,684	\$1,063,927	
Cost of goods sold	955,624	759,848	533,420	
Gross profit	879,297	712,836	530,507	
Selling, general and administrative expenses	670,602	550,069	418,152	
Income from operations	208,695	162,767	112,355	
Interest expense, net	(5,183	) (3,841	) (2,258	)
Other expense, net	(73	) (2,064	) (1,178	)
Income before income taxes	203,439	156,862	108,919	
Provision for income taxes	74,661	59,943	40,442	
Net income	\$128,778	\$96,919	\$68,477	

  

(As a percentage of net revenues)	Year Ended December 31,			
	2012	2011	2010	
Net revenues	100.0	% 100.0	% 100.0	%
Cost of goods sold	52.1	51.6	50.1	
Gross profit	47.9	48.4	49.9	
Selling, general and administrative expenses	36.5	37.3	39.3	
Income from operations	11.4	11.1	10.6	
Interest expense, net	(0.3	) (0.3	) (0.3	)
Other expense, net	—	(0.1	) (0.1	)
Income before income taxes	11.1	10.7	10.2	
Provision for income taxes	4.1	4.1	3.8	
Net income	7.0	% 6.6	% 6.4	%

Table of Contents

## Consolidated Results of Operations

Year Ended December 31, 2012 Compared to Year Ended December 31, 2011

Net revenues increased \$362.2 million, or 24.6%, to \$1,834.9 million in 2012 from \$1,472.7 million in 2011. Net revenues by product category are summarized below:

(In thousands)	Year Ended December 31,		\$ Change	%	
	2012	2011			
Apparel	\$1,385,350	\$1,122,031	\$263,319	23.5	%
Footwear	238,955	181,684	57,271	31.5	
Accessories	165,835	132,400	33,435	25.3	
Total net sales	1,790,140	1,436,115	354,025	24.7	
License revenues	44,781	36,569	8,212	22.5	
Total net revenues	\$1,834,921	\$1,472,684	\$362,237	24.6	%

Net sales increased \$354.0 million, or 24.7%, to \$1,790.1 million in 2012 from \$1,436.1 million in 2011 as noted in the table above. The increase in net sales primarily reflects:

- \$134.7 million, or 33.8%, increase in direct to consumer sales, which includes 22 additional factory house stores, or a 27.5% increase, since December 31, 2011; and

- unit growth driven by increased distribution and new offerings in multiple product categories, most significantly in our training, hunting, running, baselayer and studio apparel product categories and running footwear category, including the launch of coldblack apparel, Armour Bra and Under Armour scent control products and our UA Spine footwear; and

- increased average selling prices due to a higher mix in the current year period of direct to consumer sales, along with increasing sales of our higher priced products such as Fleece, our women's UA Studio line and UA Spine footwear. License revenues increased \$8.2 million, or 22.5%, to \$44.8 million in 2012 from \$36.6 million in 2011. This increase in license revenues was a result of increased distribution and continued unit volume growth by our licensees.

Gross profit increased \$166.5 million to \$879.3 million in 2012 from \$712.8 million in 2011. Gross profit as a percentage of net revenues, or gross margin, decreased 50 basis points to 47.9% in 2012 compared to 48.4% in 2011. The decrease in gross margin percentage was primarily driven by the following:

- approximate 35 basis point decrease driven by sales mix. The sales mix impact was partially driven by increased sales of excess inventory through our factory house stores at lower prices, along with a larger proportion of footwear sales, primarily due to new 2012 running styles and growth within our cleated shoe sales. We do not expect the negative sales mix impact from factory house stores to continue as we progress through 2013; and
- approximate 25 basis point decrease driven by higher inbound freight, partially due to supply chain challenges, required to meet customer demand. We expect this year over year negative impact will continue through the first half of 2013.

The above decreases were partially offset by the below increase:

- approximate 20 basis point increase driven primarily by lower North American apparel product input costs, partially offset by higher North American accessories and footwear input costs. We expect the North American apparel product input cost margin favorability will continue through the first half of 2013.

Selling, general and administrative expenses increased \$120.5 million to \$670.6 million in 2012 from \$550.1 million in 2011. As a percentage of net revenues, selling, general and administrative expenses decreased to 36.5% in 2012 from 37.3% in 2011. These changes were primarily attributable to the following:

- Marketing costs increased \$37.5 million to \$205.4 million in 2012 from \$167.9 million in 2011 primarily due to increased marketing campaigns for key apparel and footwear launches in 2012 and sponsorship of collegiate and professional teams and athletes, including Tottenham Hotspur Football Club. As a percentage of net revenues, marketing costs decreased slightly to 11.2% in 2012 from 11.4% in 2011.



Table of Contents

Selling costs increased \$37.2 million to \$176.0 million in 2012 from \$138.8 million in 2011. This increase was primarily due to higher personnel and other costs incurred primarily for the continued expansion of our direct to consumer distribution channel. As a percentage of net revenues, selling costs increased slightly to 9.6% in 2012 from 9.4% in 2011.

Product innovation and supply chain costs increased \$29.4 million to \$158.5 million in 2012 from \$129.1 million in 2011 primarily due to higher distribution facilities operating and personnel costs to support our growth in net revenues and higher personnel costs for the design and sourcing of our expanding apparel, footwear and accessory lines. As a percentage of net revenues, product innovation and supply chain costs decreased slightly to 8.6% in 2012 from 8.8% in 2011.

Corporate services costs increased \$16.4 million to \$130.7 million in 2012 from \$114.3 million in 2011. This increase was primarily attributable to higher corporate personnel cost and information technology initiatives necessary to support our growth. As a percentage of net revenues, corporate services costs decreased to 7.1% in 2012 from 7.7% in 2011 primarily due to decreased corporate personnel costs as a percentage of net revenues in 2012.

Income from operations increased \$45.9 million, or 28.2%, to \$208.7 million in 2012 from \$162.8 million in 2011. Income from operations as a percentage of net revenues increased to 11.4% in 2012 from 11.1% in 2011. This increase was a result of the items discussed above.

Interest expense, net increased \$1.4 million to \$5.2 million in 2012 from \$3.8 million in 2011. This increase was primarily due to a full year of interest on the debt related to the acquisition of our corporate headquarters in 2012 as compared to 2011.

Other expense, net decreased \$2.0 million to \$0.1 million in 2012 from \$2.1 million in 2011. This decrease was due to lower net losses in 2012 on the combined foreign currency exchange rate changes on transactions denominated in foreign currencies and our foreign currency derivative financial instruments as compared to 2011.

Provision for income taxes increased \$14.8 million to \$74.7 million in 2012 from \$59.9 million in 2011. Our effective tax rate was 36.7% in 2012 compared to 38.2% in 2011, primarily due to state tax credits received in 2012.

Year Ended December 31, 2011 Compared to Year Ended December 31, 2010

Net revenues increased \$408.8 million, or 38.4%, to \$1,472.7 million in 2011 from \$1,063.9 million in 2010. Net revenues by product category are summarized below:

(In thousands)	Year Ended December 31,		\$ Change	% Change	
	2011	2010			
Apparel	\$1,122,031	\$853,493	\$268,538	31.5	%
Footwear	181,684	127,175	54,509	42.9	
Accessories	132,400	43,882	88,518	201.7	
Total net sales	1,436,115	1,024,550	411,565	40.2	
License revenues	36,569	39,377	(2,808)	(7.1)	)
Total net revenues	\$1,472,684	\$1,063,927	\$408,757	38.4	%

Net sales increased \$411.5 million, or 40.2%, to \$1,436.1 million in 2011 from \$1,024.6 million in 2010 as noted in the table above. The increase in net sales primarily reflects:

\$152.7 million, or 62.2%, increase in direct to consumer sales, which include 26 additional factory house stores, or a 48% increase, since December 31, 2010, along with the launch of our updated e-commerce website; unit growth driven by increased distribution and new offerings in multiple product categories, most significantly in our training (including Fleece and our new CHARGED COTTON® product), graphics (primarily including Tech-Tees), baselayer, running, hunting and golf apparel categories, along with running and basketball shoes; and \$88.5 million, or 201.7%, increase in wholesale accessories sales primarily due to bringing hats and bags sales in-house effective January 2011.

Table of Contents

License revenues decreased \$2.8 million, or 7.1%, to \$36.6 million for the year ended December 31, 2011 from \$39.4 million during the same period in 2010. This decrease in license revenues was a result of a \$9.7 million reduction in license revenues related to hats and bags, partially offset by increased sales by our licensees due to increased distribution and continued unit volume growth.

Gross profit increased \$182.3 million to \$712.8 million for the year ended December 31, 2011 from \$530.5 million for the same period in 2010. Gross profit as a percentage of net revenues, or gross margin, decreased 150 basis points to 48.4% for the year ended December 31, 2011 compared to 49.9% during the same period in 2010. The decrease in gross margin percentage was primarily driven by the following:

• approximate 110 basis point decrease driven primarily by higher apparel product input costs, now including cotton, in the current year period. A smaller contributor to the decrease was a lower percentage mix of higher margin North American wholesale apparel and factory house product sales in the current year period. A significant driver to the sales mix impact included a lower percentage of higher margin baselayer and underwear product, partially due to the significant expansion of training apparel product offerings, including Fleece and the introduction of CHARGED COTTON®; and

• approximate 45 basis point decrease driven by a lower license revenues due to bringing hats and bags sales in-house effective January 1, 2011.

The above decreases were partially offset by the below increase:

• approximate 10 basis point increase driven by a decreasing negative margin impact of sales apparel discounts and returns.

Selling, general and administrative expenses increased \$131.9 million to \$550.1 million for the year ended December 31, 2011 from \$418.2 million for the same period in 2010. As a percentage of net revenues, selling, general and administrative expenses decreased to 37.3% for the year ended December 31, 2011 from 39.3% for the same period in 2010. These changes were primarily attributable to the following:

• Marketing costs increased \$39.7 million to \$167.9 million for the year ended December 31, 2011 from \$128.2 million for the same period in 2010 primarily due to increased sponsorships of events and collegiate and professional teams and athletes, increased television and digital campaign costs, including media campaigns for specific customers. As a percentage of net revenues, marketing costs decreased to 11.4% for the year ended December 31, 2011 from 12.0% for the same period in 2010 primarily due to decreased marketing costs for specific customers as a percentage of net revenues.

• Selling costs increased \$44.2 million to \$138.8 million for the year ended December 31, 2011 from \$94.6 million for the same period in 2010. This increase was primarily due to higher personnel and other costs incurred for the continued expansion of our direct to consumer distribution channel and higher selling personnel costs. As a percentage of net revenues, selling costs increased to 9.4% for the year ended December 31, 2011 from 8.9% for the same period in 2010 primarily due to higher personnel and other costs incurred for the continued expansion of our direct to consumer distribution channel.

• Product innovation and supply chain costs increased \$32.3 million to \$129.1 million for the year ended December 31, 2011 from \$96.8 million for the same period in 2010 primarily due to higher distribution facilities operating and personnel costs to support our growth in net revenues and higher personnel costs for the design and sourcing of our expanding apparel, footwear and accessories lines. As a percentage of net revenues, product innovation and supply chain costs decreased to 8.8% for the year ended December 31, 2011 from 9.1% for the same period in 2010 primarily due to decreased personnel costs for the design and sourcing of our expanding apparel, footwear and accessories lines as a percentage of net revenues.

• Corporate services costs increased \$15.7 million to \$114.3 million for the year ended December 31, 2011 from \$98.6 million for the same period in 2010. This increase was attributable primarily to increased corporate personnel, facility costs and information technology initiatives necessary to support our growth. As a percentage of net revenues, corporate services costs decreased to 7.7% for the year ended December 31, 2011 from 9.3% for the same period in 2010 primarily due to decreased corporate personnel and facility costs as a percentage of net revenues, as well as the net impact of the acquisition of our corporate headquarters in 2011.

Edgar Filing: Under Armour, Inc. - Form 10-K/A

Income from operations increased \$50.4 million, or 44.9%, to \$162.8 million in 2011 from \$112.4 million in 2010. Income from operations as a percentage of net revenues increased to 11.1% in 2011 from 10.6% in 2010. This increase was a result of the items discussed above.

Table of Contents

Interest expense, net increased \$1.5 million to \$3.8 million in 2011 from \$2.3 million in 2010. This increase was primarily due to the debt related to the acquisition of our corporate headquarters.

Other expense, net increased \$0.9 million to \$2.1 million in 2011 from \$1.2 million in 2010. This increase was due to higher net losses in 2011 on the combined foreign currency exchange rate changes on transactions denominated in foreign currencies and our derivative foreign currency financial instruments as compared to 2010.

Provision for income taxes increased \$19.5 million to \$59.9 million in 2011 from \$40.4 million in 2010. Our effective tax rate was 38.2% in 2011 compared to 37.1% in 2010, primarily due to federal and state tax credits that reduced the effective tax rate in the prior year period, partially offset by the 2011 reversal of a valuation allowance established in 2010 against a portion of our deferred tax assets related to foreign net operating loss carryforwards.

## Segment Results of Operations

Year Ended December 31, 2012 Compared to Year Ended December 31, 2011

Net revenues by geographic region are summarized below:

(In thousands)	Year Ended December 31,		\$ Change	% Change	
	2012	2011			
North America	\$1,726,733	\$1,383,346	\$343,387	24.8	%
Other foreign countries	108,188	89,338	18,850	21.1	
Total net revenues	\$1,834,921	\$1,472,684	\$362,237	24.6	%

Net revenues in our North American operating segment increased \$343.4 million to \$1,726.7 million in 2012 from \$1,383.3 million in 2011 primarily due to the items discussed above in the Consolidated Results of Operations. Net revenues in other foreign countries increased by \$18.9 million to \$108.2 million in 2012 from \$89.3 million in 2011 primarily due to unit sales growth to distributors in our Latin American operating segment and in our EMEA operating segment, as well as increased license revenues from our Japanese licensee.

Operating income by geographic region is summarized below:

(In thousands)	Year Ended December 31,		\$ Change	% Change	
	2012	2011			
North America	\$197,194	\$150,559	\$46,635	31.0	%
Other foreign countries	11,501	12,208	(707)	(5.8)	)
Total operating income	\$208,695	\$162,767	\$45,928	28.2	%

Operating income in our North American operating segment increased \$46.6 million to \$197.2 million in 2012 from \$150.6 million in 2011 primarily due to the items discussed above in the Consolidated Results of Operations.

Operating income in other foreign countries decreased by \$0.7 million to \$11.5 million in 2012 from \$12.2 million in 2011 primarily due to higher costs associated with our continued investment to support our international expansion in our EMEA operating segment, partially offset by unit sales growth and increased license revenues from our Japanese licensee as discussed above.

Year Ended December 31, 2011 Compared to Year Ended December 31, 2010

Net revenues by geographic region are summarized below:

(In thousands)	Year Ended December 31,		\$ Change	% Change	
	2011	2010			
North America	\$1,383,346	\$997,816	\$385,530	38.6	%
Other foreign countries	89,338	66,111	23,227	35.1	
Total net revenues	\$1,472,684	\$1,063,927	\$408,757	38.4	%

Net revenues in our North American operating segment increased \$385.5 million to \$1,383.3 million in 2011 from \$997.8 million in 2010 primarily due to the items discussed above in the Consolidated Results of Operations. Net revenues in other foreign countries increased by \$23.2 million to \$89.3 million in 2011 from \$66.1 million in 2010 primarily due to footwear shipments to our Dome licensee, as well as unit sales growth to our distributors in our Latin American operating segment.



Table of Contents

Operating income by geographic region is summarized below:

(In thousands)	Year Ended December 31,				
	2011	2010	\$ Change	% Change	
North America	\$150,559	\$102,806	\$47,753	46.4	%
Other foreign countries	12,208	9,549	2,659	27.8	
Total operating income	\$162,767	\$112,355	\$50,412	44.9	%

Operating income in our North American operating segment increased \$47.8 million to \$150.6 million in 2011 from \$102.8 million in 2010 primarily due to the items discussed above in the Consolidated Results of Operations.

Operating income in other foreign countries increased by \$2.7 million to \$12.2 million in 2011 from \$9.5 million in 2010 primarily due to increased unit sales growth as discussed above, partially offset by higher costs associated with our continued investment to support our international expansion in our EMEA, Asian and Latin American operating segments.

**Seasonality**

Historically, we have recognized 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, reflecting our historical strength in fall sports, and the seasonality of our higher priced COLDGEAR® line. The majority of our net revenues were generated during the last two quarters in each of 2012, 2011 and 2010, respectively. The level of our working capital generally reflects the seasonality and growth in our business.

The following table sets forth certain financial information for the periods indicated. The data is prepared on the same basis as the audited consolidated financial statements included elsewhere in this Form 10-K. All recurring, necessary adjustments are reflected in the data below.

(In thousands)	Quarter Ended								
	Mar 31, 2012	Jun 30, 2012	Sep 30, 2012	Dec 31, 2012	Mar 31, 2011	Jun 30, 2011	Sep 30, 2011	Dec 31, 2011	
Net revenues	\$384,389	\$369,473	\$575,196	\$505,863	\$312,699	\$291,336	\$465,523	\$403,126	
Gross profit	175,204	169,467	280,391	254,235	145,051	134,779	225,101	207,905	
Marketing SG&A expenses	44,167	46,651	65,629	48,929	41,437	34,136	48,450	43,883	
Other SG&A expenses	106,634	111,096	123,782	123,714	82,472	89,285	101,686	108,720	
Income from operations	24,403	11,720	90,980	81,592	21,142	11,358	74,965	55,302	
(As a percentage of annual totals)									
Net revenues	20.9	% 20.1	% 31.4	% 27.6	% 21.2	% 19.8	% 31.6	% 27.4	%
Gross profit	19.9	% 19.3	% 31.9	% 28.9	% 20.3	% 18.9	% 31.6	% 29.2	%
Marketing SG&A expenses	21.5	% 22.7	% 32.0	% 23.8	% 24.7	% 20.3	% 28.9	% 26.1	%
Other SG&A expenses	22.9	% 23.9	% 26.6	% 26.6	% 21.6	% 23.4	% 26.6	% 28.4	%
Income from operations	11.7	% 5.6	% 43.6	% 39.1	% 13.0	% 7.0	% 46.0	% 34.0	%

**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 back half 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 new factory house and specialty stores, and investment and improvements in information technology systems. Our capital expenditures in 2011 included the acquisition of our corporate headquarters for \$60.5 million. In connection with the acquisition, we assumed a \$38.6 million loan secured by the acquired property. The remaining purchase price was funded through a \$25.0 million term loan. In December 2012, we repaid the remaining balance under the assumed loan of \$37.7 million and the term loan of \$25.0 million and entered into a new \$50.0 million loan secured by the land, buildings and tenant improvements which comprise our corporate headquarters.

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

Table of Contents

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 SKU rationalization, 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 and borrowings available to us under our credit and long term debt facilities will be adequate to meet our liquidity needs and capital expenditure requirements for at least the next twelve months. We may require additional capital to meet our longer term liquidity and future growth needs. Although we believe we have adequate sources of liquidity over the long term, a prolonged economic recession or a slow recovery could adversely affect our business and liquidity (refer to the “Risk Factors” section included in Item 1A). In addition, instability in or tightening of the capital markets could adversely affect our ability to obtain additional capital to grow our business and will affect the cost and terms of such capital.

**Cash Flows**

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

(In thousands)	Year Ended December 31,		
	2012	2011	2010
Net cash provided by (used in):			
Operating activities	\$199,761	\$15,218	\$50,114
Investing activities	(46,931)	(89,436)	(41,785)
Financing activities	12,297	45,807	7,243
Effect of exchange rate changes on cash and cash equivalents	1,330	(75)	1,001
Net increase (decrease) in cash and cash equivalents	\$166,457	\$(28,486)	\$16,573

**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 provided by operating activities increased \$184.6 million to \$199.8 million in 2012 from \$15.2 million in 2011. The increase in cash provided by operating activities was due to increased net cash flows from operating assets and liabilities of \$155.0 million and an increase in net income of \$32.0 million, partially offset by adjustments to net income for non-cash items which decreased \$2.4 million year over year. The increase in net cash flows related to changes in operating assets and liabilities period over period was primarily driven by the following:

- a decrease in inventory investments of \$119.3 million primarily driven by success around our inventory management initiatives, along with delays in product receipts due to certain supplier challenges; and a larger decrease in prepaid expenses and other assets of \$38.6 million in 2012 as compared to 2011, primarily due to income taxes paid during 2011 related to our tax planning strategies currently being recognized in income tax expense and timing of payments for our marketing investments.

Adjustments to net income for non-cash items decreased in 2012 as compared to 2011 primarily due to an increase in deferred taxes in 2012 as compared to a decrease in deferred taxes in 2011.

Cash provided by operating activities decreased \$34.9 million to \$15.2 million in 2011 from \$50.1 million in 2010. The decrease in cash provided by operating activities was due to decreased net cash flows from operating assets and liabilities of \$86.8 million, partially offset by an increase in net income of \$28.4 million and adjustments to net income for non-cash items which increased \$23.5 million year over year. The decrease in net cash flows related to changes in operating assets and liabilities period over period was primarily driven by the following:

- an increase in inventory investments of \$49.4 million due to higher input costs and increased safety stock in core product offerings and seasonal products; and





## Table of Contents

a larger increase in prepaid expenses and other assets of \$38.5 million in 2011 as compared to 2010, primarily due to income taxes paid during 2011 related to our tax planning strategies currently being recognized in income tax expense.

Adjustments to net income for non-cash items increased in 2011 as compared to 2010 primarily due to a decrease in deferred taxes in 2011 as compared to an increase in deferred taxes in 2010.

### Investing Activities

Cash used in investing activities decreased \$42.5 million to \$46.9 million in 2012 from \$89.4 million in 2011. This decrease in cash used in investing activities was primarily due to the acquisition of our corporate headquarters in 2011. In addition, in connection with the assumed loan for the acquisition of our corporate headquarters, we were required to set aside \$5.0 million in restricted cash. This cash became unrestricted upon repayment of the assumed loan in December 2012.

Cash used in investing activities increased \$47.6 million to \$89.4 million in 2011 from \$41.8 million in 2010. This increase in cash used in investing activities was primarily due to the acquisition of our corporate headquarters and increased investments in our direct to consumer sales channel, in-store fixture program and corporate and distribution facilities. In addition, in connection with the assumed loan for the acquisition of our corporate headquarters, we were required to set aside \$5.0 million in restricted cash. Refer to Note 6 of the consolidated financial statements for a discussion of restricted cash.

Total capital expenditures were \$62.8 million, \$115.4 million and \$33.1 million in 2012, 2011 and 2010, respectively, which includes the acquisition of our corporate headquarters and other related expenditures in 2011. Capital expenditures for 2013 are expected to be in the range of \$80 million to \$85 million.

### Financing Activities

Cash provided by financing activities decreased \$33.5 million to \$12.3 million in 2012 from \$45.8 million in 2011. This decrease was primarily due to the repayment of the loan assumed in connection with the acquisition of our corporate headquarters in 2011 and the repayment of the term loan under the credit facility, partially offset by the new \$50.0 million loan borrowed in December 2012.

Cash provided by financing activities increased \$38.6 million to \$45.8 million in 2011 from \$7.2 million in 2010. This increase was primarily due to the term loan borrowed under the credit facility to partially fund the purchase of our corporate headquarters, as well as excess tax benefits and proceeds from stock-based compensation arrangements.

### Credit Facility

In March 2011, we entered into a new \$325.0 million credit facility with certain lending institutions and terminated our prior \$200.0 million revolving credit facility in order to increase our available financing and to expand our lending syndicate. The credit facility has a term of four years and provides for a committed revolving credit line of up to \$300.0 million, in addition to a \$25.0 million term loan facility. 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. We incurred and capitalized \$1.6 million in deferred financing costs in connection with the credit facility.

The credit facility may be used for working capital and general corporate purposes and is collateralized by substantially all of our assets and certain of our domestic subsidiaries (other than trademarks and the land and buildings comprising our corporate headquarters) and by a pledge of 65% of the equity interests of certain of our 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 December 31, 2012. We are required to maintain a certain leverage ratio and interest coverage ratio as set forth in the credit agreement. As of December 31, 2012, we were in compliance with these ratios. The credit agreement also provides the lenders with the ability to reduce the borrowing base, even if we are 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. The credit agreement contains a number of restrictions that limit our ability, among other things, and subject to certain limited exceptions, to incur additional indebtedness, pledge our assets as security, guaranty obligations of third parties, make investments, undergo a merger or consolidation, dispose of assets, or materially change our 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

30

---

## Table of Contents

applicable margin (varying from 0.25% to 0.35%). The applicable margins are calculated quarterly and vary based on our leverage ratio as set forth in the credit agreement.

Upon entering into the credit facility in March 2011, we terminated our prior \$200.0 million revolving credit facility. The prior revolving credit facility was collateralized by substantially all of our assets, other than trademarks, and included covenants, conditions and other terms similar to our new credit facility.

During the three months ended September 30, 2011, we borrowed \$30.0 million under the revolving credit facility to fund seasonal working capital requirements and repaid it during the three months ended December 31, 2011. The interest rate under the revolving credit facility was 1.5% during the year ended December 31, 2011, and no balance was outstanding as of December 31, 2012 and December 31, 2011. In May 2011, we borrowed \$25.0 million under the term loan facility to finance a portion of the acquisition of our corporate headquarters and repaid it during the three months ended December 31, 2012. The interest rate on the term loan was 1.6% and 1.5% during the years ended December 31, 2012 and 2011, respectively, and no balance was outstanding as of December 31, 2012.

### Long Term Debt

We have long term debt agreements with various lenders to finance the acquisition or lease of qualifying capital investments. Loans under these agreements are collateralized by a first lien on the related assets acquired. 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 our credit facility, will be considered an event of default under these agreements. These agreements require a prepayment fee if we pay 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 December 31, 2012. At December 31, 2012 and 2011, the outstanding principal balance under these agreements was \$11.9 million and \$14.5 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%, 3.5% and 5.3% for the years ended December 31, 2012, 2011 and 2010, respectively. We monitor 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.

In July 2011, in connection with the acquisition of our corporate headquarters, we assumed a \$38.6 million nonrecourse loan secured by a mortgage on the acquired property. The assumed loan had an original term of approximately 10 years with a scheduled maturity date of March 2013. The loan included a balloon payment of \$37.3 million due at maturity. The assumed loan was nonrecourse with the lender's remedies for non-performance limited to action against the acquired property and certain required reserves and a cash collateral account, except for nonrecourse carve outs related to fraud, breaches of certain representations, warranties or covenants, including those related to environmental matters, and other standard carve outs for a loan of this type. The loan required certain minimum cash flows and financial results from the property, and if those requirements were not met, additional reserves may have been required. The assumed loan required prior approval of the lender for certain matters related to the property, including material leases, changes to property management, transfers of any part of the property and material alterations to the property. The loan had an interest rate of 6.73%. In connection with the assumed loan, we incurred and capitalized \$0.8 million in deferred financing costs. In addition, we were required to set aside amounts in reserve and cash collateral accounts. As of December 31, 2011, \$2.0 million of restricted cash was included in prepaid expenses and other current assets, and the remaining \$3.0 million of restricted cash was included in other long term assets.

In December 2012, we repaid the remaining balance of the assumed nonrecourse loan of \$37.7 million and entered into a new \$50.0 million recourse loan collateralized by the land, buildings and tenant improvements comprising our corporate headquarters. The new 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. We are required to maintain the same leverage ratio and interest coverage ratio as set forth in our credit facility. As of December 31, 2012, we were in compliance with these ratios. The loan contains a number of restrictions that limit our ability, among other things, and subject to certain limited exceptions, to incur additional indebtedness, pledge our assets as a security,

guaranty obligations of third parties, make investments, undergo a merger or consolidation, dispose of assets, or materially change our 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. We incurred and capitalized \$1.0 million in deferred financing costs in connection with the new \$50.0 million loan and expensed \$0.1 million of unamortized deferred financing costs related to the assumed loan during the three months ended December 31, 2012.

Table of Contents

## Acquisitions

In July 2011, we acquired approximately 400.0 thousand square feet of office space comprising our corporate headquarters for \$60.5 million. The acquisition included land, buildings, tenant improvements and third party lease-related intangible assets. As of December 31, 2012, 141.4 thousand square feet of the 400.0 thousand square feet acquired was leased to third party tenants with remaining lease terms ranging from 1 month to 13.5 years. We intend to occupy additional space as it becomes available.

## Contractual Commitments and Contingencies

We lease warehouse space, office facilities, space for our factory house and specialty stores and certain equipment under non-cancelable operating and capital leases. The leases expire at various dates through 2023, excluding extensions at our option, and contain various provisions for rental adjustments. In addition, this table includes executed lease agreements for factory house stores that we did not yet occupy as of December 31, 2012. The operating leases generally contain renewal provisions for varying periods of time. Our significant contractual obligations and commitments as of December 31, 2012 as well as significant agreements entered into during the period after December 31, 2012 through the date of this report are summarized in the following table:

(in thousands)	Payments Due by Period				
	Total	Less Than 1 Year	1 to 3 Years	3 to 5 Years	More Than 5 Years
Contractual obligations					
Long term debt obligations (1)	\$61,889	\$9,132	\$8,923	\$4,000	\$39,834
Operating lease obligations (2)	202,895	30,610	65,406	45,161	61,718
Product purchase obligations (3)	657,543	657,543	—	—	—
Sponsorships and other (4)	157,677	57,830	81,976	14,697	3,174
Total	\$1,080,004	\$755,115	\$156,305	\$63,858	\$104,726

(1) Excludes a total of \$0.3 million of fixed interest payments on long term debt obligations.

(2) Includes the minimum payments for operating lease obligations. The operating lease obligations do not include any contingent rent expense we may incur at our factory house stores based on future sales above a specified minimum or payments made for maintenance, insurance and real estate taxes. Contingent rent expense was \$6.2 million for the year ended December 31, 2012.

(3) We generally place orders with our manufacturers at least three to four months in advance of expected future sales. The amounts listed for product purchase obligations primarily represent our open production purchase orders with our manufacturers for our apparel, footwear and accessories, including expected inbound freight, duties and other costs. These open purchase orders specify fixed or minimum quantities of products at determinable prices. The product purchase obligations also includes fabric commitments with our suppliers, which secure a portion of our material needs for future seasons. The reported amounts exclude product purchase liabilities included in accounts payable as of December 31, 2012. When compared to the product purchase obligation included in our 2011 Form 10-K, product purchase obligations have increased by 128% primarily due to the timing of product purchases and increased fabric commitments with our suppliers.

(4) Includes sponsorships with professional teams, professional leagues, colleges and universities, individual athletes, high schools, youth organizations, athletic events and other marketing commitments in order to promote our brand. Some of these sponsorship agreements provide for additional performance incentives and product supply obligations. It is not possible to determine how much we will spend on product supply obligations on an annual basis as contracts generally do not stipulate specific cash amounts to be spent on products. The amount of product provided to these sponsorships depends on many factors including general playing conditions, the number of sporting events in which they participate and our decisions regarding product and marketing initiatives. In addition, the costs to design, develop, source and purchase the products furnished to the endorsers are incurred over a period of time and are not necessarily tracked separately from similar costs incurred for products sold to customers. In addition, it is not possible to determine the amounts we may be required to pay under these agreements as they are primarily subject to certain performance based variables. The amounts listed above are the fixed minimum amounts

required to be paid under these agreements.

The table above excludes a liability of \$17.1 million for uncertain tax positions, including the related interest and penalties, recorded in accordance with applicable accounting guidance, as we are unable to reasonably estimate the timing of settlement. Refer to Note 10 to the Consolidated Financial Statements for a further discussion of our uncertain tax positions.

## Table of Contents

### Off-Balance Sheet Arrangements

In connection with various contracts and agreements, we have 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 our counterparties are grossly negligent, engage in willful misconduct, or act in bad faith. Based on our historical experience and the estimated probability of future loss, we have determined the fair value of such indemnifications is not material to our financial position or results of operations.

### 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 discussion addresses the critical accounting policies that are necessary to understand and evaluate our reported financial results.

### Revenue Recognition

Net revenues consist of both net sales and license revenues. Net sales are recognized upon transfer of ownership, including passage of title to the customer and transfer of risk of loss related to those goods. Transfer of title and risk of loss are based upon shipment under free on board shipping point for most goods or upon receipt by the customer depending on the country of the sale and the agreement with the customer. In some instances, transfer of title and risk of loss take place at the point of sale, for example at our retail stores. We may also ship product directly from our supplier to the customer and recognize revenue when the product is delivered to and accepted by the customer.

License revenues are recognized based upon shipment of licensed products sold by our licensees. Sales taxes imposed on our revenues from product sales are presented on a net basis on the consolidated statements of income and therefore do not impact net revenues or costs of goods sold.

We record reductions to revenue for estimated customer returns, allowances, markdowns and discounts. We base our estimates on historical rates of customer returns and allowances as well as the specific identification of outstanding returns, markdowns and allowances that have not yet been received by us. The actual amount of customer returns and allowances, which is inherently uncertain, may differ from our estimates. If we determine that actual or expected returns or allowances are significantly higher or lower than the reserves we established, we would record a reduction or increase, as appropriate, to net sales in the period in which we make such a determination. Provisions for customer specific discounts are based on contractual obligations with certain major customers. Reserves for returns, allowances, markdowns and discounts are recorded as an offset to accounts receivable as settlements are made through offsets to outstanding customer invoices. As of December 31, 2012 and 2011, there were \$40.7 million and \$27.1 million, respectively, in reserves for customer returns, allowances, markdowns and discounts.

### Allowance for Doubtful Accounts

We make ongoing estimates relating to the collectability of accounts receivable and maintain an allowance for estimated losses resulting from the inability of our customers to make required payments. In determining the amount of the reserve, we consider historical levels of credit losses and significant economic developments within the retail environment that could impact the ability of our customers to pay outstanding balances and make judgments about the creditworthiness of significant customers based on ongoing credit evaluations. Because we cannot predict future changes in the financial stability of our customers, actual future losses from uncollectible accounts may differ from estimates. If the financial condition of customers were to deteriorate, resulting in their inability to make payments, a larger reserve might be required. In the event we determine a smaller or larger reserve is appropriate, we would record a benefit or charge to selling, general and administrative expense in the period in which such a determination was made. As of December 31, 2012 and 2011, the allowance for doubtful accounts was \$3.3 million and \$4.1 million, respectively.

### Inventory Valuation and Reserves

We value our inventory at standard cost which approximates landed cost, using the first-in, first-out method of cost determination. Market value is estimated based upon assumptions made about future demand and retail market



conditions. If we determine that the estimated market value of our inventory is less than the carrying value of such inventory, we record a charge to cost of goods sold to reflect the lower of cost or market. If actual market conditions are less favorable than those we projected, further adjustments may be required that would increase the cost of goods sold in the period in which such a determination was made.

## Table of Contents

### Impairment of Long-Lived Assets including Intangible Assets

We continually evaluate whether events and circumstances have occurred that indicate the remaining estimated useful life of long-lived assets may warrant revision or that the remaining balance may not be recoverable. These factors may include a significant deterioration of operating results, changes in business plans, or changes in anticipated cash flows. When factors indicate that an asset should be evaluated for possible impairment, we review long-lived assets to assess recoverability from future operations using undiscounted cash flows. If future undiscounted cash flows are less than the carrying value, an impairment is recognized in earnings to the extent that the carrying value exceeds fair value. Indefinite lived intangible assets are not amortized and are required to be tested for impairment at least annually or sooner whenever events or changes in circumstances indicate that the assets may be impaired. We perform intangible asset impairment tests in the fourth quarter of each fiscal year. No material impairments were recorded related to long-lived assets or indefinite lived intangible assets during the years ended December 31, 2012, 2011 and 2010.

### Income Taxes

Income taxes are accounted for under the asset and liability method. Deferred income tax assets and liabilities are established for temporary differences between the financial reporting basis and the tax basis of our assets and liabilities at tax rates expected to be in effect when such assets or liabilities are realized or settled. Deferred income tax assets are reduced by valuation allowances when necessary.

Assessing whether deferred tax assets are realizable requires significant judgment. We consider all available positive and negative evidence, including historical operating performance and expectations of future operating performance. The ultimate realization of deferred tax assets is often dependent upon future taxable income and therefore can be uncertain. To the extent we believe it is more likely than not that all or some portion of the asset will not be realized, valuation allowances are established against our deferred tax assets, which increase income tax expense in the period when such a determination is made.

Income taxes include the largest amount of tax benefit for an uncertain tax position that is more likely than not to be sustained upon audit based on the technical merits of the tax position. Settlements with tax authorities, the expiration of statutes of limitations for particular tax positions, or obtaining new information on particular tax positions may cause a change to the effective tax rate. We recognize accrued interest and penalties related to unrecognized tax benefits in the provision for income taxes on the consolidated statements of income.

### Stock-Based Compensation

We account for stock-based compensation in accordance with accounting guidance that requires all stock-based compensation awards granted to employees and directors to be measured at fair value and recognized as an expense in the financial statements. As of December 31, 2012, we had \$24.5 million of unrecognized compensation expense related to time-based awards expected to be recognized over a weighted average period of 2.7 years. As of December 31, 2012, we had an additional \$4.2 million of unrecognized compensation expense related to performance-based stock options expected to be recognized over a weighted average period of 1.1 years. Determining the appropriate fair value model and calculating the fair value of stock-based compensation awards require the input of highly subjective assumptions, including the expected life of the stock-based compensation awards, stock price volatility and estimated forfeiture rates. We use the Black-Scholes option-pricing model to determine the fair value of stock-based compensation awards. The assumptions used in calculating the fair value of stock-based compensation awards represent management's best estimates, but the estimates involve inherent uncertainties and the application of management judgment. In addition, compensation expense for performance-based awards is recorded over the related service period when achievement of the performance target is deemed probable, which requires management judgment. For example, the achievement of the operating income targets related to the performance-based restricted stock units granted in 2012 and a portion of the awards granted in 2011 were not deemed probable as of December 31, 2012. Additional stock-based compensation of up to \$16.6 million would have been recorded in 2012 for these performance-based restricted stock units had the full achievement of all operating targets been deemed probable. As a result, if factors change and we use different assumptions, our stock-based compensation expense could be materially different in the future. Refer to Note 2 and Note 12 to the Consolidated Financial Statements for a further discussion on stock-based compensation.

### Recently Issued Accounting Standards

In February 2013, the Financial Accounting Standards Board (“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

Table of Contents

beginning after December 15, 2012. We believe the adoption of this pronouncement will not have a material impact on our consolidated financial statements.

Recently Adopted Accounting Standards

In July 2012, the FASB issued an Accounting Standards Update which allows companies to assess qualitative factors to determine the likelihood of indefinite-lived intangible asset impairment and whether it is necessary to perform the quantitative impairment test currently required. This guidance is effective for annual and interim impairment tests performed for fiscal years beginning after September 15, 2012, with early adoption permitted. The early adoption of this pronouncement did not have an impact on our consolidated financial statements.

**ITEM 7A. QUANTITATIVE AND QUALITATIVE DISCLOSURE ABOUT MARKET RISK**Foreign Currency Risk

We currently generate a small amount of our consolidated net revenues in Canada and Europe. The reporting currency for our consolidated financial statements is the U.S. dollar. To date, net revenues generated outside of the United States have not been significant. However, as our net revenues generated outside of the United States increase, our results of operations could be adversely impacted by changes in foreign currency exchange rates. For example, if we recognize foreign revenues in local foreign currencies (as we currently do in Canada and Europe) and if the U.S. dollar strengthens, it could have a negative impact on our foreign revenues upon translation of those results into the U.S. dollar upon consolidation of our financial statements. In addition, we are exposed to gains and losses resulting from fluctuations in foreign currency exchange rates on transactions generated by our foreign subsidiaries in currencies other than their local currencies. These gains and losses are primarily driven by intercompany transactions. These exposures are included in other expense, net on the consolidated statements of income.

From time to time, we 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 our European and Canadian subsidiaries. In addition, we may elect to enter into foreign currency forward contracts to reduce the risk associated with foreign currency exchange rate fluctuations on Pound Sterling denominated balance sheet items. We do not enter into derivative financial instruments for speculative or trading purposes.

Based on the foreign currency forward contracts outstanding as of December 31, 2012, we receive U.S. Dollars in exchange for Canadian Dollars at a weighted average contractual forward foreign currency exchange rate of 0.99 CAD per \$1.00, U.S. Dollars in exchange for Euros at a weighted average contractual foreign currency exchange rate of €0.76 per \$1.00 and Euros in exchange for Pounds Sterling at a weighted average contractual foreign currency exchange rate of £0.81 per €1.00. As of December 31, 2012, the notional value of our outstanding foreign currency forward contracts used to mitigate the foreign currency exchange rate fluctuations on our Canadian subsidiary's intercompany transactions was \$1.0 million with contract maturities of 1 month or less. As of December 31, 2012, the notional value of our outstanding foreign currency forward contracts used to mitigate the foreign currency exchange rate fluctuations on our European subsidiary's intercompany transactions was \$25.6 million 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 \$4.8 thousand as of December 31, 2012, 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 \$0.7 million as of December 31, 2011, and were included in accrued expenses on the consolidated balance sheet. Refer to Note 9 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 forward contracts:

(In thousands)	Year Ended December 31,		
	2012	2011	2010
Unrealized foreign currency exchange rate gains (losses)	\$2,464	\$(4,027)	\$(1,280)
Realized foreign currency exchange rate gains (losses)	(182)	) 298	(2,638)
Unrealized derivative gains (losses)	675	(31)	) (809)
Realized derivative gains (losses)	(3,030)	) 1,696	3,549

We enter into foreign currency forward contracts with major financial institutions with investment grade credit ratings and are exposed to credit losses in the event of non-performance by these financial institutions. This credit risk is generally limited to the unrealized gains in the foreign currency forward contracts. However, we monitor the credit quality of these financial institutions and consider the risk of counterparty default to be minimal. Although we have entered into foreign currency forward contracts to minimize some of the impact of foreign currency exchange rate fluctuations on future cash flows,

Table of Contents

we cannot be assured that foreign currency exchange rate fluctuations will not have a material adverse impact on our financial condition and results of operations.

**Interest Rate Risk**

In order to maintain liquidity and fund business operations, we enter into long term debt arrangements with various lenders which bear a range of fixed and variable rates of interest. The nature and amount of our long-term debt can be expected to vary as a result of future business requirements, market conditions and other factors. We may elect to enter into interest rate swap contracts to reduce the impact associated with interest rate fluctuations. In December 2012, we began utilizing an interest rate swap contract to convert a portion of variable rate debt under the new \$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.

As of December 31, 2012, the notional value of our outstanding interest rate swap contract was \$25.0 million. During the year ended December 31, 2012, we recorded a \$21.1 thousand increase in interest expense, representing interest incurred on the arrangement. The fair value of the interest rate swap contract was a liability of \$0.1 million as of December 31, 2012, and was included in other long term liabilities on the consolidated balance sheet.

**Credit Risk**

We are exposed to credit risk primarily on our accounts receivable. We provide credit to customers in the ordinary course of business and perform ongoing credit evaluations. We believe that our exposure to concentrations of credit risk with respect to trade receivables is largely mitigated by our customer base. We believe that our allowance for doubtful accounts is sufficient to cover customer credit risks as of December 31, 2012.

**Inflation**

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

Table of Contents

ITEM 8. FINANCIAL STATEMENTS AND SUPPLEMENTARY DATA

Report of Management on Internal Control Over Financial Reporting

Management is responsible for establishing and maintaining adequate internal control over financial reporting for the Company. We conducted an evaluation of the effectiveness of our internal control over financial reporting based on the framework in Internal Control—Integrated Framework issued by the Committee of Sponsoring Organizations of the Treadway Commission (COSO). This evaluation included review of the documentation of controls, evaluation of the design effectiveness of controls, testing of the operating effectiveness of controls and a conclusion on this evaluation. Based on our evaluation, we have concluded that our internal control over financial reporting was effective as of December 31, 2012.

The effectiveness of our internal control over financial reporting as of December 31, 2012, has been audited by PricewaterhouseCoopers LLP, an independent registered public accounting firm, as stated in their report which appears herein.

/s/ KEVIN A. PLANK

Kevin A. Plank

Chairman of the Board of Directors, Chief Executive  
Officer  
and President

/s/ BRAD DICKERSON

Brad Dickerson

Dated: February 25, 2013

Chief Financial Officer

Table of Contents

Report of Independent Registered Public Accounting Firm

To the Board of Directors and Stockholders of Under Armour, Inc.:

In our opinion, the consolidated financial statements listed in the index appearing under Item 15(a)(1) present fairly, in all material respects, the financial position of Under Armour, Inc. and its subsidiaries (the Company) at December 31, 2012 and 2011, and the results of their operations and their cash flows for each of the three years in the period ended December 31, 2012 in conformity with accounting principles generally accepted in the United States of America. In addition, in our opinion, the financial statement schedule listed in the index appearing under Item 15(a)(2) presents fairly, in all material respects, the information set forth therein when read in conjunction with the related consolidated financial statements. Also in our opinion, the Company maintained, in all material respects, effective internal control over financial reporting as of December 31, 2012, based on criteria established in Internal Control—Integrated Framework issued by the Committee of Sponsoring Organizations of the Treadway Commission (COSO). The Company's management is responsible for these financial statements and financial statement schedule, for maintaining effective internal control over financial reporting and for its assessment of the effectiveness of internal control over financial reporting, included in the accompanying Report of Management on Internal Control over Financial Reporting. Our responsibility is to express opinions on these financial statements, on the financial statement schedule, and on the Company's internal control over financial reporting based on our integrated audits. We conducted our audits in accordance with the standards of the Public Company Accounting Oversight Board (United States). Those standards require that we plan and perform the audits to obtain reasonable assurance about whether the financial statements are free of material misstatement and whether effective internal control over financial reporting was maintained in all material respects. Our audits of the financial statements included examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements, assessing the accounting principles used and significant estimates made by management, and evaluating the overall financial statement presentation. Our audit of internal control over financial reporting included obtaining an understanding of internal control over financial reporting, assessing the risk that a material weakness exists, and testing and evaluating the design and operating effectiveness of internal control based on the assessed risk. Our audits also included performing such other procedures as we considered necessary in the circumstances. We believe that our audits provide a reasonable basis for our opinions.

A company's internal control over financial reporting is a process designed to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles. A company's internal control over financial reporting includes those policies and procedures that (i) pertain to the maintenance of records that, in reasonable detail, accurately and fairly reflect the transactions and dispositions of the assets of the company; (ii) provide reasonable assurance that transactions are recorded as necessary to permit preparation of financial statements in accordance with generally accepted accounting principles, and that receipts and expenditures of the company are being made only in accordance with authorizations of management and directors of the company; and (iii) provide reasonable assurance regarding prevention or timely detection of unauthorized acquisition, use, or disposition of the company's assets that could have a material effect on the financial statements.

Because of its inherent limitations, internal control over financial reporting may not prevent or detect misstatements. Also, projections of any evaluation of effectiveness to future periods are subject to the risk that controls may become inadequate because of changes in conditions, or that the degree of compliance with the policies or procedures may deteriorate.

/s/ PricewaterhouseCoopers LLP

Baltimore, Maryland

February 25, 2013



Table of Contents

## Under Armour, Inc. and Subsidiaries

## Consolidated Balance Sheets

(In thousands, except share data)

	December 31, 2012	December 31, 2011
Assets		
Current assets		
Cash and cash equivalents	\$341,841	\$175,384
Accounts receivable, net	175,524	134,043
Inventories	319,286	324,409
Prepaid expenses and other current assets	43,896	39,643
Deferred income taxes	23,051	16,184
Total current assets	903,598	689,663
Property and equipment, net	180,850	159,135
Intangible assets, net	4,483	5,535
Deferred income taxes	22,606	15,885
Other long term assets	45,546	48,992
Total assets	\$1,157,083	\$919,210
Liabilities and Stockholders' Equity		
Current liabilities		
Accounts payable	\$143,689	\$100,527
Accrued expenses	85,077	69,285
Current maturities of long term debt	9,132	6,882
Other current liabilities	14,330	6,913
Total current liabilities	252,228	183,607
Long term debt, net of current maturities	52,757	70,842
Other long term liabilities	35,176	28,329
Total liabilities	340,161	282,778
Commitments and contingencies (see Note 7)		
Stockholders' equity		
Class A Common Stock, \$0.0003 1/3 par value; 200,000,000 shares authorized as of December 31, 2012 and 2011; 83,461,106 shares issued and outstanding as of December 31, 2012 and 80,992,252 shares issued and outstanding as of December 31, 2011.	28	27
Class B Convertible Common Stock, \$0.0003 1/3 par value; 21,300,000 shares authorized, issued and outstanding as of December 31, 2012 and 22,500,000 shares authorized, issued and outstanding as of December 31, 2011.	7	7
Additional paid-in capital	321,338	268,206
Retained earnings	493,181	366,164
Accumulated other comprehensive income	2,368	2,028
Total stockholders' equity	816,922	636,432
Total liabilities and stockholders' equity	\$1,157,083	\$919,210

See accompanying notes.



Table of Contents

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

	Year Ended December 31,			
	2012	2011	2010	
Net revenues	\$1,834,921	\$1,472,684	\$1,063,927	
Cost of goods sold	955,624	759,848	533,420	
Gross profit	879,297	712,836	530,507	
Selling, general and administrative expenses	670,602	550,069	418,152	
Income from operations	208,695	162,767	112,355	
Interest expense, net	(5,183	) (3,841	) (2,258	)
Other expense, net	(73	) (2,064	) (1,178	)
Income before income taxes	203,439	156,862	108,919	
Provision for income taxes	74,661	59,943	40,442	
Net income	\$128,778	\$96,919	\$68,477	
Net income available per common share				
Basic	\$1.23	\$0.94	\$0.67	
Diluted	\$1.21	\$0.92	\$0.67	
Weighted average common shares outstanding				
Basic	104,343	103,140	101,595	
Diluted	106,380	105,052	102,563	

See accompanying notes.

Table of Contents

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

	Year Ended December 31,		
	2012	2011	2010
Net income	\$ 128,778	\$ 96,919	\$ 68,477
Other comprehensive income:			
Foreign currency translation adjustment	423	(13	) 1,577
Unrealized loss on cash flow hedge, net of tax \$58	(83	) —	—
Total other comprehensive income (loss)	340	(13	) 1,577
Comprehensive income	\$ 129,118	\$ 96,906	\$ 70,054

See accompanying notes.

Table of Contents

Under Armour, Inc. and Subsidiaries  
Consolidated Statements of Stockholders' Equity  
(In thousands)

	Class A Common Stock		Class B Convertible Common Stock		Additional Paid-In Capital	Retained Earnings	Unearned Compen- sation	Accum- ulated Other Compre- hensive Income (Loss)	Total Stockholders' Equity
	Shares	Amount	Shares	Amount					
Balance as of December 31, 2009	75,495	\$ 25	25,000	\$ 8	\$ 197,325	\$ 202,188	\$(14 )	\$ 464	\$ 399,996
Exercise of stock options	1,598	1	—	—	6,104	—	—	—	6,105
Shares withheld in consideration of employee tax obligations relative to stock-based compensation arrangements	(38 )	—	—	—	—	(644 )	—	—	(644 )
Issuance of Class A Common Stock, net of forfeitures	265	—	—	—	1,788	—	—	—	1,788
Stock-based compensation expense	—	—	—	—	16,170	—	14	—	16,184
Net excess tax benefits from stock-based compensation arrangements	—	—	—	—	3,483	—	—	—	3,483
Comprehensive income	—	—	—	—	—	68,477	—	1,577	70,054
Balance as of December 31, 2010	77,320	26	25,000	8	224,870	270,021	—	2,041	496,966
Exercise of stock options	1,126	—	—	—	12,853	—	—	—	12,853
Shares withheld in consideration of employee tax obligations relative to stock-based compensation arrangements	(23 )	—	—	—	—	(776 )	—	—	(776 )
Issuance of Class A Common Stock, net of forfeitures	69	—	—	—	2,041	—	—	—	2,041
Class B Convertible Common Stock converted to Class A Common Stock	2,500	1	(2,500 )	(1 )	—	—	—	—	—
Stock-based compensation expense	—	—	—	—	18,063	—	—	—	18,063
Net excess tax benefits from stock-based compensation arrangements	—	—	—	—	10,379	—	—	—	10,379
Comprehensive income	—	—	—	—	—	96,919	—	(13 )	96,906
	80,992	27	22,500	7	268,206	366,164	—	2,028	636,432

Edgar Filing: Under Armour, Inc. - Form 10-K/A

Balance as of December 31, 2011									
Exercise of stock options	1,218	1	—	—	12,370	—	—	—	12,371
Shares withheld in consideration of employee tax obligations relative to stock-based compensation arrangements	(38 )	—	—	—	—	(1,761 )	—	—	(1,761 )
Issuance of Class A Common Stock, net of forfeitures	89	—	—	—	3,247	—	—	—	3,247
Class B Convertible Common Stock converted to Class A Common Stock	1,200	—	(1,200 )	—	—	—	—	—	—
Stock-based compensation expense	—	—	—	—	19,845	—	—	—	19,845
Net excess tax benefits from stock-based compensation arrangements	—	—	—	—	17,670	—	—	—	17,670
Comprehensive income	—	—	—	—	—	128,778	—	340	129,118
Balance as of December 31, 2012	83,461	\$ 28	21,300	\$ 7	\$ 321,338	\$ 493,181	\$ —	\$ 2,368	\$ 816,922

See accompanying notes.

Table of ContentsUnder Armour, Inc. and Subsidiaries  
Consolidated Statements of Cash Flows  
(In thousands)

	Year Ended December 31,		
	2012	2011	2010
Cash flows from operating activities			
Net income	\$128,778	\$96,919	\$68,477
Adjustments to reconcile net income to net cash used in operating activities			
Depreciation and amortization	43,082	36,301	31,321
Unrealized foreign currency exchange rate (gains) losses	(2,464	) 4,027	1,280
Loss on disposal of property and equipment	524	36	44
Stock-based compensation	19,845	18,063	16,227
Gain on bargain purchase of corporate headquarters (excludes transaction costs of \$1.9 million)	—	(3,300	) —
Deferred income taxes	(12,973	) 3,620	(10,337
Changes in reserves and allowances	13,916	5,536	2,322
Changes in operating assets and liabilities:			
Accounts receivable	(53,433	) (33,923	) (32,320
Inventories	4,699	(114,646	) (65,239
Prepaid expenses and other assets	(4,060	) (42,633	) (4,099
Accounts payable	35,370	17,209	16,158
Accrued expenses and other liabilities	21,966	23,442	21,330
Income taxes payable and receivable	4,511	4,567	4,950
Net cash provided by operating activities	199,761	15,218	50,114
Cash flows from investing activities			
Purchases of property and equipment	(50,650	) (56,228	) (30,182
Purchase of corporate headquarters and related expenditures	—	(23,164	) —
Purchase of long term investment	—	(3,862	) (11,125
Purchases of other assets	(1,310	) (1,153	) (478
Change in restricted cash	5,029	(5,029	) —
Net cash used in investing activities	(46,931	) (89,436	) (41,785
Cash flows from financing activities			
Proceeds from revolving credit facility	—	30,000	—
Payments on revolving credit facility	—	(30,000	) —
Proceeds from term loan	—	25,000	—
Payments on term loan	(25,000	) —	—
Proceeds from long term debt	50,000	5,644	5,262
Payments on long term debt	(44,330	) (7,418	) (9,446
Payments on capital lease obligations	—	—	(97
Excess tax benefits from stock-based compensation arrangements	17,868	10,260	4,189
Proceeds from exercise of stock options and other stock issuances	14,776	14,645	7,335
Payments of debt financing costs	(1,017	) (2,324	) —
Net cash provided by financing activities	12,297	45,807	7,243
Effect of exchange rate changes on cash and cash equivalents	1,330	(75	) 1,001
Net increase (decrease) in cash and cash equivalents	166,457	(28,486	) 16,573
Cash and cash equivalents			
Beginning of period	175,384	203,870	187,297
End of period	\$341,841	\$175,384	\$203,870

Non-cash investing and financing activities

Debt assumed and property and equipment acquired in connection with purchase of corporate headquarters	\$—	\$38,556	\$—
Acquisition of property and equipment through certain obligations	15,216	3,079	2,922
Other supplemental information			
Cash paid for income taxes	57,739	56,940	38,773
Cash paid for interest	3,306	2,305	992
See accompanying notes.			

43

---



Table of Contents

## Under Armour, Inc. and Subsidiaries

## Notes to the Audited 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"). All intercompany balances and transactions have been eliminated. The accompanying consolidated financial statements were prepared in accordance with accounting principles generally accepted in the United States of America.

On June 11, 2012 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 July 9, 2012.

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.

## Cash and Cash Equivalents

The Company considers all highly liquid investments with an original maturity of three months or less at date of inception to be cash and cash equivalents. Included in interest expense, net for the years ended December 31, 2012, 2011 and 2010 was interest income of \$25.2 thousand, \$30.0 thousand and \$48.7 thousand, respectively, related to cash and cash equivalents.

## 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 most significant customers that accounted for a large portion of net revenues and accounts receivable are as follows:

	Customer A	Customer B	Customer C	
Net revenues				
2012	16.6	% 5.8	% 5.2	%
2011	18.2	% 7.4	% 5.6	%
2010	18.5	% 8.7	% 5.0	%
Accounts receivable				
2012	26.4	% 8.8	% 7.0	%
2011	25.4	% 8.6	% 5.5	%
2010	23.3	% 11.0	% 5.4	%

## Allowance for Doubtful Accounts

The Company makes ongoing estimates relating to the collectability of accounts receivable and maintains an allowance for estimated losses resulting from the inability of its customers to make required payments. In determining the amount of the reserve, the Company considers historical levels of credit losses and significant economic developments within the retail environment that could impact the ability of its customers to pay outstanding balances and makes judgments about the creditworthiness of significant customers based on ongoing credit evaluations. Because the Company cannot predict future changes in the financial stability of its customers, actual future losses from uncollectible accounts may differ from estimates. If the financial condition of customers were to deteriorate, resulting in their inability to make payments, a larger reserve might be required. In the event the Company determines a smaller or larger reserve is appropriate, it would record a benefit or charge to selling, general and administrative expense in the period in which such a determination was made. As of December 31, 2012 and 2011, the allowance for doubtful accounts was \$3.3 million and \$4.1 million, respectively.



## Table of Contents

### Inventories

Inventories consist primarily of finished goods. Costs of finished goods inventories include all costs incurred to bring inventory to its current condition, including inbound freight, duties and other costs. The Company values its inventory at standard cost which approximates landed cost, using the first-in, first-out method of cost determination. Market value is estimated based upon assumptions made about future demand and retail market conditions. If the Company determines that the estimated market value of its inventory is less than the carrying value of such inventory, it records a charge to cost of goods sold to reflect the lower of cost or market. If actual market conditions are less favorable than those projected by the Company, further adjustments may be required that would increase the cost of goods sold in the period in which such a determination was made.

### Income Taxes

Income taxes are accounted for under the asset and liability method. Deferred income tax assets and liabilities are established for temporary differences between the financial reporting basis and the tax basis of the Company's assets and liabilities at tax rates expected to be in effect when such assets or liabilities are realized or settled. Deferred income tax assets are reduced by valuation allowances when necessary.

Assessing whether deferred tax assets are realizable requires significant judgment. The Company considers all available positive and negative evidence, including historical operating performance and expectations of future operating performance. The ultimate realization of deferred tax assets is often dependent upon future taxable income and therefore can be uncertain. To the extent the Company believes it is more likely than not that all or some portion of the asset will not be realized, valuation allowances are established against the Company's deferred tax assets, which increase income tax expense in the period when such a determination is made.

Income taxes include the largest amount of tax benefit for an uncertain tax position that is more likely than not to be sustained upon audit based on the technical merits of the tax position. Settlements with tax authorities, the expiration of statutes of limitations for particular tax positions, or obtaining new information on particular tax positions may cause a change to the effective tax rate. The Company recognizes accrued interest and penalties related to unrecognized tax benefits in the provision for income taxes on the consolidated statements of income.

### Property and Equipment

Property and equipment are stated at cost, including the cost of internal labor for software customized for internal use, less accumulated depreciation and amortization. Property and equipment is depreciated using the straight-line method over the estimated useful lives of the assets: 3 to 10 years for furniture, office equipment and software and plant equipment and 10 to 35 years for site improvements, buildings and building equipment. Leasehold and tenant improvements are amortized over the shorter of the lease term or the estimated useful lives of the assets. The cost of in-store apparel and footwear fixtures and displays are capitalized, included in furniture, fixtures and displays, and depreciated over 3 years. The Company periodically reviews assets' estimated useful lives based upon actual experience and expected future utilization. A change in useful life is treated as a change in accounting estimate and is applied prospectively.

The Company capitalizes the cost of interest for long term property and equipment projects based on the Company's weighted average borrowing rates in place while the projects are in progress. Capitalized interest was \$0.5 million and \$0.7 million as of December 31, 2012 and 2011, respectively.

Upon retirement or disposition of property and equipment, the cost and accumulated depreciation are removed from the accounts and any resulting gain or loss is reflected in selling, general and administrative expenses for that period. Major additions and betterments are capitalized to the asset accounts while maintenance and repairs, which do not improve or extend the lives of assets, are expensed as incurred.

### Impairment of Long-Lived Assets including Intangible Assets

The Company continually evaluates whether events and circumstances have occurred that indicate the remaining estimated useful life of long-lived assets may warrant revision or that the remaining balance may not be recoverable. These factors may include a significant deterioration of operating results, changes in business plans, or changes in anticipated cash flows. When factors indicate that an asset should be evaluated for possible impairment, the Company reviews long-lived assets to assess recoverability from future operations using undiscounted cash flows. If future undiscounted cash flows are less than the carrying value, an impairment is recognized in earnings to the extent that the

carrying value exceeds fair value.

Indefinite lived intangible assets are not amortized and are required to be tested for impairment at least annually or sooner whenever events or changes in circumstances indicate that the assets may be impaired. The Company performs its intangible

45

---

## Table of Contents

asset impairment tests in the fourth quarter of each fiscal year. No material impairments were recorded related to long-lived assets or indefinite lived intangible assets during the years ended December 31, 2012, 2011 and 2010.

### Accrued Expenses

At December 31, 2012, accrued expenses primarily included \$37.9 million and \$13.6 million of accrued compensation and benefits and marketing expenses, respectively. At December 31, 2011, accrued expenses primarily included \$31.4 million and \$14.2 million of accrued compensation and benefits and marketing expenses, respectively.

### Foreign Currency Translation and Transactions

The functional currency for each of the Company's wholly owned foreign subsidiaries is generally the applicable local currency. The translation of foreign currencies into U.S. dollars is performed for assets and liabilities using current foreign currency exchange rates in effect at the balance sheet date and for revenue and expense accounts using average foreign currency exchange rates during the period. Capital accounts are translated at historical foreign currency exchange rates. Translation gains and losses are included in stockholders' equity as a component of accumulated other comprehensive income. Adjustments that arise from foreign currency exchange rate changes on transactions, primarily driven by intercompany transactions, denominated in a currency other than the functional currency are included in other expense, net on the consolidated statements of income.

### Derivatives and Hedging Activities

The Company uses derivative financial instruments in the form of foreign currency forward and interest rate swap contracts to minimize the risk associated with foreign currency exchange rate and interest rate fluctuations. The Company accounts for derivative financial instruments pursuant to applicable accounting guidance. This guidance establishes accounting and reporting standards for derivative financial instruments and requires all derivatives to be recognized as either assets or liabilities on the balance sheet and to be measured at fair value. Unrealized derivative gain positions are recorded as other current assets or other long term assets, and unrealized derivative loss positions are recorded as accrued expenses or other long term liabilities, depending on the derivative financial instrument's maturity date.

Currently, the Company's foreign currency forward contracts are not designated as cash flow hedges, and accordingly, changes in their fair value are included in other expense, net on the consolidated statements of income. The Company has designated its interest rate swap contract as a cash flow hedge and accordingly, the effective portion of changes in fair value are recorded in other comprehensive income and reclassified into interest expense over the life of the underlying debt obligation. The Company does not enter into derivative financial instruments for speculative or trading purposes.

### Revenue Recognition

The Company recognizes revenue pursuant to applicable accounting standards. Net revenues consist of both net sales and license revenues. Net sales are recognized upon transfer of ownership, including passage of title to the customer and transfer of risk of loss related to those goods. Transfer of title and risk of loss is based upon shipment under free on board shipping point for most goods or upon receipt by the customer depending on the country of the sale and the agreement with the customer. In some instances, transfer of title and risk of loss takes place at the point of sale, for example, at the Company's retail stores. The Company may also ship product directly from its supplier to the customer and recognize revenue when the product is delivered to and accepted by the customer. License revenues are recognized based upon shipment of licensed products sold by the Company's licensees. Sales taxes imposed on the Company's revenues from product sales are presented on a net basis on the consolidated statements of income and therefore do not impact net revenues or costs of goods sold.

The Company records reductions to revenue for estimated customer returns, allowances, markdowns and discounts. The Company bases its estimates on historical rates of customer returns and allowances as well as the specific identification of outstanding returns, markdowns and allowances that have not yet been received by the Company. The actual amount of customer returns and allowances, which is inherently uncertain, may differ from the Company's estimates. If the Company determines that actual or expected returns or allowances are significantly higher or lower than the reserves it established, it would record a reduction or increase, as appropriate, to net sales in the period in which it makes such a determination. Provisions for customer specific discounts are based on contractual obligations with certain major customers. Reserves for returns, allowances, markdowns and discounts are recorded as an offset to

accounts receivable as settlements are made through offsets to outstanding customer invoices. As of December 31, 2012 and 2011, there were \$40.7 million and \$27.1 million, respectively, in reserves for customer returns, allowances, markdowns and discounts.

## Table of Contents

### Advertising Costs

Advertising costs are charged to selling, general and administrative expenses. Advertising production costs are expensed the first time an advertisement related to such production costs is run. Media (television, print and radio) placement costs are expensed in the month during which the advertisement appears, and costs related to event sponsorships are expensed when the event occurs. In addition, advertising costs include sponsorship expenses. Accounting for sponsorship payments is based upon specific contract provisions and the payments are generally expensed uniformly over the term of the contract after recording expense related to specific performance incentives once they are deemed probable. Advertising expense, including amortization of in-store marketing fixtures and displays, was \$205.4 million, \$167.9 million and \$128.2 million for the years ended December 31, 2012, 2011 and 2010, respectively. At December 31, 2012 and 2011, prepaid advertising costs were \$17.5 million and \$10.4 million, respectively.

### 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 \$34.8 million, \$26.1 million and \$14.7 million for the years ended December 31, 2012, 2011 and 2010, respectively. The Company includes outbound freight costs associated with shipping goods to customers as a component of cost of goods sold.

### Minority Investment

Beginning in January 2011, the Company has held a minority equity investment in Dome Corporation ("Dome"), the Company's Japanese licensee. The Company invested ¥1,140.0 million, or \$15.5 million, in exchange for 19.5% common stock ownership in Dome. As of December 31, 2012 and 2011, the carrying value of the Company's investment was \$14.6 million and \$14.4 million, respectively, and was included in other long term assets on the consolidated balance sheet. The investment is subject to foreign currency translation rate fluctuations as it is held by the Company's European subsidiary.

The Company accounts for its investment in Dome under the cost method given that it does not have the ability to exercise significant influence. Additionally, the Company concluded that no event or change in circumstances occurred during the year ended December 31, 2012 that may have a significant adverse effect on the fair value of the investment.

### Earnings per Share

Basic earnings per common share is computed by dividing net income available to common stockholders for the period by the weighted average number of common shares outstanding during the period. Any stock-based compensation awards that are determined to be participating securities, which are stock-based compensation awards that entitle the holders to receive dividends prior to vesting, are included in the calculation of basic earnings per share using the two class method. Diluted earnings per common share is computed by dividing net income available to common stockholders for the period by the diluted weighted average common shares outstanding during the period. Diluted earnings per share reflects the potential dilution from common shares issuable through stock options, warrants, restricted stock units and other equity awards. Refer to Note 12 for further discussion of earnings per share.

### Stock-Based Compensation

The Company accounts for stock-based compensation in accordance with accounting guidance that requires all stock-based compensation awards granted to employees and directors to be measured at fair value and recognized as an expense in the financial statements. In addition, this guidance requires that excess tax benefits related to stock-based compensation awards be reflected as financing cash flows.

The Company uses the Black-Scholes option-pricing model to estimate the fair market value of stock-based compensation awards. The Company uses the "simplified method" to estimate the expected life of options, as permitted by accounting guidance. The "simplified method" calculates the expected life of a stock option equal to the time from grant to the midpoint between the vesting date and contractual term, taking into account all vesting tranches. The risk free interest rate is based on the yield for the U.S. Treasury bill with a maturity equal to the expected life of the stock

option. Expected volatility is based on an average for a peer group of companies similar in terms of type of business, industry, stage of life cycle and size. Compensation expense is recognized net of forfeitures on a straight-line basis over the total vesting period, which is the implied requisite service period. Compensation expense for performance-based awards is recorded over the implied requisite service period when achievement of the performance target is deemed probable. The forfeiture rate is estimated at the date of grant based on historical rates.



## Table of Contents

In addition, the Company recognized expense for stock-based compensation awards granted prior to the Company's initial filing of its S-1 Registration Statement in accordance with accounting guidance that allows the intrinsic value method. Under the intrinsic value method, stock-based compensation expense of fixed stock options is based on the difference, if any, between the fair value of the company's stock on the grant date and the exercise price of the option. The stock-based compensation expense for these awards was fully amortized in 2010. Had the Company elected to account for all stock-based compensation awards at fair value, the impact to net income and earnings per share for the year ended December 31, 2010 would not have been material to its consolidated financial position or results of operations.

The Company issues new shares of Class A Common Stock upon exercise of stock options, grant of restricted stock or share unit conversion. Refer to Note 12 for further details on stock-based compensation.

### 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.

### Fair Value of Financial Instruments

The carrying amounts shown for the Company's cash and cash equivalents, accounts receivable and accounts payable approximate fair value because of the short term maturity of those instruments. The fair value of the long term debt approximates its carrying value based on the variable nature of interest rates and current market rates available to the Company. The fair value of foreign currency forward contracts is based on the net difference between the U.S. dollars 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 fair value of the interest rate swap contract is based on 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.

### Recently Issued Accounting Standards

In February 2013, the Financial Accounting Standards Board ("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 Company believes the adoption of this pronouncement will not have a material impact on its consolidated financial statements.

### Recently Adopted Accounting Standards

In July 2012, the FASB issued an Accounting Standards Update which allows companies to assess qualitative factors to determine the likelihood of indefinite-lived intangible asset impairment and whether it is necessary to perform the quantitative impairment test currently required. This guidance is effective for annual and interim impairment tests performed for fiscal years beginning after September 15, 2012, with early adoption permitted. The early adoption of this pronouncement did not have an impact on the Company's consolidated financial statements.

### 3. Acquisitions

In July 2011, the Company acquired approximately 400.0 thousand square feet of office space comprising its corporate headquarters for \$60.5 million. The acquisition included land, buildings, tenant improvements and third party lease-related intangible assets. As of December 31, 2012, 141.4 thousand square feet of the 400.0 thousand square feet acquired was leased to third party tenants with remaining lease terms ranging from 1 month to 13.5 years. The Company intends to occupy additional space as it becomes available.

The acquisition included the assumption of a \$38.6 million loan secured by the property and the remaining purchase price was paid in cash funded primarily by a \$25.0 million term loan borrowed in May 2011. The carrying value of the assumed loan approximated its fair value on the date of the acquisition. Refer to Note 6 for a discussion of the assumed loan and term loan. A \$1.0 million deposit was paid upon signing the purchase agreement in November 2010.

The aggregate fair value of the acquisition was \$63.8 million. The fair value was estimated using a combination of market, income and cost approaches. The acquisition was accounted for as a business combination, and as such the Company

48

---

Table of Contents

recognized a bargain purchase gain in the year ended December 31, 2011 of \$3.3 million, as the amount by which the fair value of the net assets acquired exceeded the fair value of the purchase price.

In connection with this acquisition, the Company incurred acquisition related expenses of approximately \$1.9 million. Both the acquisition related expenses and pre-tax bargain purchase gain were included in selling, general and administrative expenses on the consolidated statements of income during the year ended December 31, 2011. This transaction did not have a material impact to the Company's consolidated statements of income during the year ended December 31, 2012.

#### 4. Property and Equipment, Net

Property and equipment consisted of the following:

(In thousands)	December 31,	
	2012	2011
Leasehold and tenant improvements	\$75,058	\$60,217
Furniture, fixtures and displays	59,849	49,445
Buildings	42,533	42,141
Software	40,836	36,796
Office equipment	35,752	30,427
Plant equipment	30,214	27,026
Land	17,628	17,628
Construction in progress	23,005	9,160
Other	1,246	970
Subtotal property and equipment	326,121	273,810
Accumulated depreciation	(145,271 )	(114,675 )
Property and equipment, net	\$180,850	\$159,135

Construction in progress primarily includes costs incurred for software systems, leasehold improvements and in-store fixtures and displays not yet placed in use.

Depreciation expense related to property and equipment was \$39.8 million, \$32.7 million and \$28.7 million for the years ended December 31, 2012, 2011 and 2010, respectively.

#### 5. Intangible Assets, Net

The following table summarizes the Company's intangible assets as of the periods indicated:

(In thousands)	December 31, 2012			December 31, 2011		
	Gross Carrying Amount	Accumulated Amortization	Net Carrying Amount	Gross Carrying Amount	Accumulated Amortization	Net Carrying Amount
Intangible assets subject to amortization:						
Footwear promotional rights	\$8,500	\$(8,500 )	\$—	\$8,500	\$(8,125 )	\$375
Lease-related intangible assets	3,896	(1,974 )	1,922	3,896	(743 )	3,153
Other	3,087	(2,215 )	872	2,982	(1,576 )	1,406
Total	\$15,483	\$(12,689 )	2,794	\$15,378	\$(10,444 )	4,934
Indefinite-lived intangible assets			1,689			601
Intangible assets, net			\$4,483			\$5,535

Intangible assets, excluding lease-related intangible assets, are amortized using estimated useful lives of 55 months to 89 months with no residual value. Lease-related intangible assets were acquired with the purchase of the Company's corporate headquarters and are amortized over the remaining third party lease terms, which ranged from 9 months to 15 years on the date of purchase. Amortization expense, which is included in selling, general and administrative expenses, was \$2.2 million, \$2.9 million and \$2.0 million for the years ended December 31, 2012, 2011 and 2010,

respectively. The estimated amortization expense of the Company's intangible assets is \$0.9 million and \$0.4 million for the years ending December 31, 2013 and 2014, respectively, and \$0.3 million for each of the years ending December 31, 2015, 2016 and 2017.

Table of Contents

## 6. Credit Facility and Long Term Debt

## Credit Facility

In March 2011, the Company entered into a new \$325.0 million credit facility with certain lending institutions and terminated its prior \$200.0 million revolving credit facility in order to increase the Company's available financing and to expand its lending syndicate. The credit facility has a term of four years and provides for a committed revolving credit line of up to \$300.0 million, in addition to a \$25.0 million term loan facility. 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 Company incurred and capitalized \$1.6 million in deferred financing costs in connection with the credit facility.

The credit facility may be used for working capital and general corporate purposes and is collateralized by substantially all of the assets of the Company and certain of its domestic subsidiaries (other than trademarks and the land and buildings comprising the Company's corporate headquarters) and by a pledge of 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 December 31, 2012. The Company is required to maintain a certain leverage ratio and interest coverage ratio as set forth in the credit agreement. As of December 31, 2012, the Company was in compliance with these ratios. The credit agreement also provides the lenders with the ability to reduce the borrowing base, 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.

Upon entering into the credit facility in March 2011, the Company terminated its prior \$200.0 million revolving credit facility. The prior revolving credit facility was collateralized by substantially all of the Company's assets, other than trademarks, and included covenants, conditions and other terms similar to the Company's new credit facility.

During the three months ended September 30, 2011, the Company borrowed \$30.0 million under the revolving credit facility to fund seasonal working capital requirements and repaid it during the three months ended December 31, 2011. The interest rate under the revolving credit facility was 1.5% during the year ended December 31, 2011, and no balance was outstanding as of December 31, 2012 and December 31, 2011. In May 2011, the Company borrowed \$25.0 million under the term loan facility to finance a portion of the acquisition of the Company's corporate headquarters and repaid it during the three months ended December 31, 2012. The interest rate on the term loan was 1.6% and 1.5% during the years ended December 31, 2012 and 2011, respectively, and no balance was outstanding as of December 31, 2012.

## 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 December 31, 2012. At December 31, 2012 and 2011, the outstanding

principal balance under these agreements was \$11.9 million and \$14.5 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%, 3.5% and 5.3% for the years ended December 31, 2012, 2011 and 2010, respectively.

Table of Contents

The following are the scheduled maturities of long term debt as of December 31, 2012:

(In thousands)

2013	\$9,132
2014	4,972
2015	3,951
2016	2,000
2017	2,000
2018 and thereafter	39,834
Total scheduled maturities of long term debt	61,889
Less current maturities of long term debt	(9,132 )
Long term debt obligations	\$52,757

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.

In July 2011, in connection with the Company's acquisition of its corporate headquarters, the Company assumed a \$38.6 million nonrecourse loan secured by a mortgage on the acquired property. The assumed loan had an original term of approximately 10 years with a scheduled maturity date of March 2013. The loan includes a balloon payment of \$37.3 million due at maturity. The assumed loan is nonrecourse with the lender's remedies for non-performance limited to action against the acquired property and certain required reserves and a cash collateral account, except for nonrecourse carve outs related to fraud, breaches of certain representations, warranties or covenants, including those related to environmental matters, and other standard carve outs for a loan of this type. The loan requires certain minimum cash flows and financial results from the property, and if those requirements are not met, additional reserves may be required. The assumed loan requires prior approval of the lender for certain matters related to the property, including material leases, changes to property management, transfers of any part of the property and material alterations to the property. The loan has an interest rate of 6.73%. In connection with the assumed loan, the Company incurred and capitalized \$0.8 million in deferred financing costs. In addition, the Company was required to set aside amounts in reserve and cash collateral accounts. As of December 31, 2011, \$2.0 million of restricted cash was included in prepaid expenses and other current assets, and the remaining \$3.0 million of restricted cash was included in other long term assets.

In December 2012, the Company repaid the remaining balance of the assumed loan of \$37.7 million and entered into a new \$50.0 million loan collateralized by the land, buildings and tenant improvements comprising the Company's corporate headquarters. The new loan has a 7 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 December 31, 2012, 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, 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. The Company incurred and capitalized \$1.0 million in deferred financing costs in connection with the new \$50.0 million loan and expensed \$0.1 million of unamortized deferred financing costs related to the assumed loan during the three months ended December 31, 2012.

Interest expense was \$5.2 million, \$3.9 million and \$2.3 million for the years ended December 31, 2012, 2011 and 2010, respectively. Interest expense includes the amortization of deferred financing costs and interest expense under the credit and long term debt facilities, as well as the assumed loan discussed above.

## 7. Commitments and Contingencies

### Obligations Under Operating Leases

The Company leases warehouse space, office facilities, space for its retail stores and certain equipment under non-cancelable operating leases. The leases expire at various dates through 2023, excluding extensions at the Company's option, and include provisions for rental adjustments. The table below includes executed lease agreements for factory house stores that the Company did not yet occupy as of December 31, 2012 and does not include contingent rent the company may incur at its retail stores based on future sales above a specified limit. The following is a schedule of future minimum lease payments for

51

---



Table of Contents

non-cancelable real property operating leases as of December 31, 2012 as well as significant operating lease agreements entered into during the period after December 31, 2012 through the date of this report:

(In thousands)

2013	\$30,610
2014	33,558
2015	31,848
2016	24,980
2017	20,181
2018 and thereafter	61,718
Total future minimum lease payments	\$202,895

Included in selling, general and administrative expense was rent expense of \$31.1 million, \$26.7 million and \$21.3 million for the years ended December 31, 2012, 2011 and 2010, respectively, under non-cancelable operating lease agreements. Included in these amounts was contingent rent expense of \$6.2 million, \$3.6 million and \$2.0 million for the years ended December 31, 2012, 2011 and 2010, respectively. The operating lease obligations included above do not include any contingent rent.

#### Sponsorships and Other Marketing Commitments

Within the normal course of business, the Company enters into contractual commitments in order to promote the Company's brand and products. These commitments include sponsorship agreements with teams and athletes on the collegiate and professional levels, official supplier agreements, athletic event sponsorships and other marketing commitments. The following is a schedule of the Company's future minimum payments under its sponsorship and other marketing agreements as of December 31, 2012, as well as significant sponsorship and other marketing agreements entered into during the period after December 31, 2012 through the date of this report:

(In thousands)

2013	\$57,830
2014	51,429
2015	30,547
2016	9,897
2017	4,800
2018 and thereafter	3,174
Total future minimum sponsorship and other marketing payments	\$157,677

The amounts listed above are the minimum obligations required to be paid under the Company's sponsorship and other marketing agreements. The amounts listed above do not include additional performance incentives and product supply obligations provided under certain agreements. It is not possible to determine how much the Company will spend on product supply obligations on an annual basis as contracts generally do not stipulate specific cash amounts to be spent on products. The amount of product provided to the sponsorships depends on many factors including general playing conditions, the number of sporting events in which they participate and the Company's decisions regarding product and marketing initiatives. In addition, the costs to design, develop, source and purchase the products furnished to the endorsers are incurred over a period of time and are not necessarily tracked separately from similar costs incurred for products sold to customers.

#### Other

The Company is, from time to time, involved in routine legal matters incidental to its business. The Company believes that the ultimate resolution of any such current proceedings and claims will not have a material adverse effect on its consolidated financial position, results of operations or cash flows.

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.



Table of Contents

## 8. Stockholders' Equity

The Company's Class A Common Stock and Class B Convertible Common Stock have an authorized number of shares of 200.0 million shares and 21.3 million shares, respectively, and each have a par value of \$0.0003 1/3 per share. Holders of Class A Common Stock and Class B Convertible Common Stock have identical rights, including liquidation preferences, except that the holders of Class A Common Stock are entitled to one vote per share and holders of Class B Convertible Common Stock are entitled to 10 votes per share on all matters submitted to a stockholder vote. Class B Convertible Common Stock may only be held by Kevin Plank, the Company's founder and Chief Executive Officer, or a related party of Mr. Plank, as defined in the Company's charter. As a result, Mr. Plank has a majority voting control over the Company. Upon the transfer of shares of Class B Convertible Stock to a person other than Mr. Plank or a related party of Mr. Plank, the shares automatically convert into shares of Class A Common Stock on a one-for-one basis. In addition, all of the outstanding shares of Class B Convertible Common Stock will automatically convert into shares of Class A Common Stock on a one-for-one basis upon the death or disability of Mr. Plank or on the record date for any stockholders' meeting upon which the shares of Class A Common Stock and Class B Convertible Common Stock beneficially owned by Mr. Plank is less than 15% of the total shares of Class A Common Stock and Class B Convertible Common Stock outstanding. Holders of the Company's common stock are entitled to receive dividends when and if authorized and declared out of assets legally available for the payment of dividends.

During the year ended December 31, 2012, 1.2 million shares of Class B Convertible Common Stock were converted into shares of Class A Common Stock on a one-for-one basis in connection with stock sales.

## 9. 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)	December 31, 2012			December 31, 2011		
	Level 1	Level 2	Level 3	Level 1	Level 2	Level 3
Derivative foreign currency forward contracts (see Note 14)	\$—	\$5	\$—	\$—	\$(695 )	\$—
Interest rate swap contract (see Note 14)	—	(141 )	—	—	—	—
TOLI policies held by the Rabbi Trust (see Note 13)	—	4,250	—	—	3,943	—
Deferred Compensation Plan obligations (see Note 13)	—	(2,837 )	—	—	(3,485 )	—

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 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 December 31, 2012 and 2011. The fair value of the Company's long term debt was estimated based upon quoted prices for similar instruments (Level 2 input).

Table of Contents

## 10. Provision for Income Taxes

Income before income taxes is as follows:

(In thousands)	Year Ended December 31,		
	2012	2011	2010
Income before income taxes:			
United States	\$155,514	\$122,774	\$96,179
Foreign	47,925	34,088	12,740
Total	\$203,439	\$156,862	\$108,919

The components of the provision for income taxes consisted of the following:

(In thousands)	Year Ended December 31,			
	2012	2011	2010	
Current				
Federal	\$66,533	\$38,209	\$39,139	
State	12,962	10,823	8,020	
Other foreign countries	8,139	7,291	3,620	
	87,634	56,323	50,779	
Deferred				
Federal	(9,606	) 5,604	(6,617	)
State	(3,563	) 548	(3,487	)
Other foreign countries	196	(2,532	) (233	)
	(12,973	) 3,620	(10,337	)
Provision for income taxes	\$74,661	\$59,943	\$40,442	

A reconciliation from the U.S. statutory federal income tax rate to the effective income tax rate is as follows:

	Year Ended December 31,			
	2012	2011	2010	
U.S. federal statutory income tax rate	35.0	% 35.0	% 35.0	%
State taxes, net of federal tax impact	2.1	4.1	1.2	
Unrecognized tax benefits	2.7	3.1	2.3	
Nondeductible expenses	0.6	0.8	1.4	
Foreign rate differential	(4.1	) (4.8	) (1.6	)
Other	0.4	—	(1.2	)
Effective income tax rate	36.7	% 38.2	% 37.1	%

The decrease in the 2012 full year effective income tax rate, as compared to 2011, is primarily attributable to state tax credits reducing the effective tax rate for the period.

Table of Contents

Deferred tax assets and liabilities consisted of the following:

(In thousands)	December 31,	
	2012	2011
Deferred tax asset		
Allowance for doubtful accounts and other reserves	\$14,000	\$9,576
Stock-based compensation	13,157	11,238
Foreign net operating loss carryforward	12,416	11,078
Deferred rent	6,007	4,611
Inventory obsolescence reserves	4,138	3,789
Tax basis inventory adjustment	3,581	4,317
State tax credits, net of federal tax impact	2,856	—
Foreign tax credits	2,210	1,784
Deferred compensation	1,170	1,448
Other	4,918	3,427
Total deferred tax assets	64,453	51,268
Less: valuation allowance	(3,966	) (1,784
Total net deferred tax assets	60,487	49,484
Deferred tax liability		
Intangible asset	(610	) (341
Prepaid expenses	(4,153	) (2,968
Property, plant and equipment	(10,116	) (13,748
Total deferred tax liabilities	(14,879	) (17,057
Total deferred tax assets, net	\$45,608	\$32,427

As of December 31, 2012, the Company had \$12.4 million in deferred tax assets associated with foreign net operating loss carryforwards which will begin to expire in 3 to 9 years. As of December 31, 2012, the Company believes certain deferred tax assets associated with foreign net operating loss carryforwards will expire unused based on the Company's forward-looking financial information for 2012. Therefore, a valuation allowance of \$1.8 million was recorded against the Company's net deferred tax assets as of December 31, 2012.

During 2012, the Company recorded \$0.4 million in deferred tax assets associated with foreign tax credits. As of December 31, 2012 the Company believes that the foreign taxes paid would not be creditable against its future income taxes and therefore, the Company recorded a valuation allowance against these deferred tax assets. The recording of the valuation allowance associated with foreign tax credits resulted in an increase to income tax expense of \$1.0 million which was partially offset by \$0.6 million reversal of valuation allowance related to portion of the 2011 foreign tax credits accrued that were not realized.

As of December 31, 2012, approximately \$57.2 million of cash and cash equivalents was held by the Company's non-U.S. subsidiaries whose cumulative undistributed earnings total \$100.8 million. Withholding and U.S. taxes have not been provided on the undistributed earnings as the Company takes the position that the earnings are permanently reinvested in its non-U.S. subsidiaries. Determining the tax liability that would arise if these earnings were repatriated is not practical.

As of December 31, 2012 and 2011, the total liability for unrecognized tax benefits, including related interest and penalties, was approximately \$17.1 million and \$11.2 million, respectively. The following table represents a reconciliation of the Company's total unrecognized tax benefits balances, excluding interest and penalties, for the years ended December 31, 2012, 2011 and 2010:

(In thousands)	Year Ended December 31,		
	2012	2011	2010
Beginning of year	\$9,783	\$5,165	\$2,598
Increases as a result of tax positions taken in a prior period	—	—	—
Decreases as a result of tax positions taken in a prior period	—	—	—
Increases as a result of tax positions taken during the current period	5,702	4,959	2,632

Edgar Filing: Under Armour, Inc. - Form 10-K/A

Decreases as a result of tax positions taken during the current period	—	—	—
Decreases as a result of settlements during the current period	—	—	—
Reductions as a result of a lapse of statute of limitations during the current period	(188	) (341	) (65
End of year	\$15,297	\$9,783	\$5,165

55

---

Table of Contents

As of December 31, 2012, \$14.1 million of unrecognized tax benefits, excluding interest and penalties, would impact the Company's effective tax rate if recognized.

As of December 31, 2012, 2011 and 2010, the liability for unrecognized tax benefits included \$1.8 million, \$1.4 million and \$1.3 million, respectively, for the accrual of interest and penalties. For each of the years ended December 31, 2012, 2011 and 2010, the Company recorded \$0.7 million, \$0.4 million and \$0.3 million, respectively, for the accrual of interest and penalties in its consolidated statements of income.

The Company files income tax returns in the U.S. federal jurisdiction and various state and foreign jurisdictions. The majority of the Company's returns for years before 2009 are no longer subject to U.S. federal, state and local or foreign income tax examinations by tax authorities. The Company does not expect any material changes to the total unrecognized tax benefits within the next twelve months.

### 11. Earnings per Share

The calculation of earnings per share for common stock shown below excludes the income attributable to outstanding restricted stock awards from the numerator and excludes the impact of these awards from the denominator. The following is a reconciliation of basic earnings per share to diluted earnings per share:

(In thousands, except per share amounts)	Year Ended December 31,		
	2012	2011	2010
Numerator			
Net income	\$ 128,778	\$ 96,919	\$ 68,477
Net income attributable to participating securities	(386 )	(582 )	(548 )
Net income available to common shareholders (1)	\$ 128,392	\$ 96,337	\$ 67,929
Denominator			
Weighted average common shares outstanding	104,055	102,454	100,758
Effect of dilutive securities	2,037	1,912	968
Weighted average common shares and dilutive securities outstanding	106,092	104,366	101,726
Earnings per share—basic	\$ 1.23	\$ 0.94	\$ 0.67
Earnings per share—diluted	\$ 1.21	\$ 0.92	\$ 0.67
(1) Basic weighted average common shares outstanding	104,055	102,454	100,758
Basic weighted average common shares outstanding and participating securities	104,343	103,140	101,595
Percentage allocated to common stockholders	99.7	% 99.4	% 99.2

Effects of potentially dilutive securities are presented only in periods in which they are dilutive. Stock options, restricted stock units and warrants representing 0.1 million, 0.1 million and 1.7 million shares of common stock were outstanding for each of the years ended December 31, 2012, 2011 and 2010, respectively, but were excluded from the computation of diluted earnings per share because their effect would be anti-dilutive.

### 12. Stock-Based Compensation

#### Stock Compensation Plans

The Under Armour, Inc. Amended and Restated 2005 Omnibus Long-Term Incentive Plan (the "2005 Plan") provides for the issuance of stock options, restricted stock, restricted stock units and other equity awards to officers, directors, key employees and other persons. Stock options and restricted stock and restricted stock unit awards under the 2005 Plan generally vest ratably over a three to four year period. The exercise period for stock options is generally ten years from the date of grant. The Company generally receives a tax deduction for any ordinary income recognized by a participant in respect to an award under the 2005 Plan. The 2005 Plan terminates in 2015. As of December 31, 2012, 10.2 million shares are available for future grants of awards under the 2005 Plan.

Total stock-based compensation expense for the years ended December 31, 2012, 2011 and 2010 was \$19.8 million, \$18.1 million and \$16.2 million, respectively. As of December 31, 2012, the Company had \$24.5 million of unrecognized compensation expense expected to be recognized over a weighted average period of 2.7 years. This does



not include any expense related to performance-based stock options or performance-based restricted stock units. Refer to “Stock Options” and “Restricted Stock and Restricted Stock Units” below for further information on these awards.

Table of Contents

## Employee Stock Purchase Plan

The Company's Employee Stock Purchase Plan (the "ESPP") allows for the purchase of Class A Common Stock by all eligible employees at a 15% discount from fair market value subject to certain limits as defined in the ESPP. As of December 31, 2012, 1.5 million shares are available for future purchases under the ESPP. During the years ended December 31, 2012, 2011 and 2010, 56.9 thousand, 59.9 thousand and 79.2 thousand shares were purchased under the ESPP, respectively.

## Non-Employee Director Compensation Plan and Deferred Stock Unit Plan

The Company's Non-Employee Director Compensation Plan (the "Director Compensation Plan") provides for cash compensation and equity awards to non-employee directors of the Company under the 2005 Plan. Non-employee directors have the option to defer the value of their annual cash retainers as deferred stock units in accordance with the Under Armour, Inc. Non-Employee Deferred Stock Unit Plan (the "DSU Plan"). Each new non-employee director receives an award of restricted stock units upon the initial election to the Board of Directors, with the units covering stock valued at \$0.1 million on the grant date and vesting in three equal annual installments. In addition, each non-employee director receives, following each annual stockholders' meeting, a grant under the 2005 Plan of restricted stock units covering stock valued at \$75.0 thousand on the grant date. Each award vests 100% on the date of the next annual stockholders' meeting following the grant date.

The receipt of the shares otherwise deliverable upon vesting of the restricted stock units automatically defers into deferred stock units under the DSU Plan. Under the DSU Plan each deferred stock unit represents the Company's obligation to issue one share of the Company's Class A Common Stock with the shares delivered six months following the termination of the director's service.

## Stock Options

There were no stock options granted during the year ended December 31, 2012. The weighted average fair value of a stock option granted for the years ended December 31, 2011 and 2010 was \$19.28 and \$8.36, respectively. The fair value of each stock option granted is estimated on the date of grant using the Black-Scholes option-pricing model with the following weighted average assumptions:

	Year Ended December 31,	
	2011	2010
Risk-free interest rate	1.2% - 2.6%	1.6% - 3.1%
Average expected life in years	6.25	6.25 - 7.0
Expected volatility	54.4% - 56.1%	55.2% - 55.8%
Expected dividend yield	—	% — %

A summary of the Company's stock options as of December 31, 2012, 2011 and 2010, and changes during the years then ended is presented below:

(In thousands, except per share amounts)	Year Ended December 31,					
	2012		2011		2010	
	Number of Stock Options	Weighted Average Exercise Price	Number of Stock Options	Weighted Average Exercise Price	Number of Stock Options	Weighted Average Exercise Price
Outstanding, beginning of year	4,808	\$13.99	5,948	\$12.66	5,662	\$9.01
Granted, at fair market value	—	—	220	36.05	2,870	14.66
Exercised	(1,218)	) 10.17	(1,126)	) 11.42	(1,598)	) 3.82
Expired	—	—	(26)	) 9.47	(14)	) 20.63
Forfeited	(441)	) 15.19	(208)	) 13.41	(972)	) 11.76
Outstanding, end of year	3,149	\$15.31	4,808	\$13.99	5,948	\$12.66
Options exercisable, end of year	968	\$13.10	846	\$12.71	608	\$16.52

The intrinsic value of stock options exercised during the years ended December 31, 2012, 2011 and 2010 was \$44.5 million, \$27.4 million and \$7.6 million, respectively.



Table of Contents

The following table summarizes information about stock options outstanding and exercisable as of December 31, 2012:

(In thousands, except per share amounts)

Options Outstanding				Options Exercisable			
Number of Underlying Shares	Weighted Average Exercise Price Per Share	Weighted Average Remaining Contractual Life (Years)	Total Intrinsic Value	Number of Underlying Shares	Weighted Average Exercise Price Per Share	Weighted Average Remaining Contractual Life (Years)	Total Intrinsic Value
3,149	\$15.31	6.8	\$104,618	968	\$13.10	5.7	\$34,292

Included in the tables above are 2.3 million and 2.5 million performance-based stock options granted to officers and key employees under the 2005 Plan during the years ended December 31, 2010 and 2009. These performance-based stock options have a weighted average exercise price of \$10.38, and a term of ten years. These performance-based options have vestings that are tied to the achievement of certain combined annual operating income targets. Upon the achievement of each of the combined operating income targets, 50% of the options vest and the remaining 50% vest one year later. If certain lower levels of combined operating income are achieved, fewer or no options vest at that time and one year later, and the remaining stock options are forfeited. As of December 31, 2012, the combined operating income targets related to all performance-based stock options were met. For performance-based stock options granted in 2009, 50% of the options vested on February 15, 2011, and the remaining 50% vested on February 15, 2012. For the stock options granted in 2010, 50% of the options will vest on February 15, 2013 and the remaining 50% will vest on February 15, 2014, subject to continued employment.

The weighted average fair value of these performance-based stock options is \$5.83, and was estimated using the Black-Scholes option-pricing model consistent with the weighted average assumptions included in the table above. During the years ended December 31, 2012 and 2011, the Company recorded \$3.9 million and \$7.5 million, respectively, in stock-based compensation expense for these performance-based stock options. As of December 31, 2012, the Company had \$4.2 million of unrecognized compensation expense expected to be recognized over a weighted average period of 1.1 years.

#### Restricted Stock and Restricted Stock Units

A summary of the Company's restricted stock and restricted stock units as of December 31, 2012, 2011 and 2010, and changes during the years then ended is presented below:

(In thousands, except per share amounts)	Year Ended December 31,					
	2012		2011		2010	
	Number of Restricted Shares	Weighted Average Fair Value	Number of Restricted Shares	Weighted Average Fair Value	Number of Restricted Shares	Weighted Average Fair Value
Outstanding, beginning of year	1,646	\$29.11	824	\$18.02	976	\$18.70
Granted	1,329	45.84	1,576	33.10	390	16.73
Forfeited	(379)	33.45	(454)	29.76	(204)	19.84
Vested	(339)	23.31	(300)	18.59	(338)	17.41
Outstanding, end of year	2,257	\$39.02	1,646	\$29.11	824	\$18.02

Included in the table above are 1.0 million and 0.8 million performance-based restricted stock units awarded to certain executives and key employees under the 2005 Plan during the years ended December 31, 2012 and 2011, respectively. These performance-based restricted stock units have a weighted average fair value of \$39.73 and have vesting that is tied to the achievement of certain combined annual operating income targets. Upon the achievement of the combined operating income targets, 50% of the restricted stock units will vest and the remaining 50% will vest one year later. If certain lower levels of combined operating income are achieved, fewer or no restricted stock units will vest at that time and one year later, and the remaining restricted stock units will be forfeited.

During the year ended December 31, 2012, the Company deemed the achievement of certain operating income targets probable for the awards granted in 2011, and recorded \$4.1 million for a portion of these awards, including a cumulative adjustment of \$2.4 million during the three months ended March 31, 2012. As of December 31, 2012, the Company had not begun recording stock-based compensation expense for the awards granted in 2012 as the Company determined the achievement of the combined operating income targets was not probable. The Company will assess the probability of the achievement of the operating income targets at the end of each reporting period. If it becomes probable that the 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

## Table of Contents

to \$16.6 million would have been recorded through December 31, 2012 for all performance-based restricted stock units had the full achievement of these operating income targets been deemed probable.

### Warrants

In 2006, the Company issued fully vested and non-forfeitable warrants to purchase 960.0 thousand shares of the Company's Class A Common Stock to NFL Properties as partial consideration for footwear promotional rights which were recorded as an intangible asset. Refer to Note 5 for further information on this intangible asset. With the assistance of an independent third party valuation firm, the Company assessed the fair value of the warrants using various fair value models. Using these measures, the Company concluded that the fair value of the warrants was \$8.5 million. The warrants have a term of 12 years from the date of issuance and an exercise price of \$18.50 per share, which is the adjusted closing price of the Company's Class A Common Stock on the date of issuance. As of December 31, 2012, all outstanding warrants were exercisable, and no warrants were exercised.

### 13. Other Employee Benefits

The Company offers a 401(k) Deferred Compensation Plan for the benefit of eligible employees. Employee contributions are voluntary and subject to Internal Revenue Service limitations. The Company matches a portion of the participant's contribution and recorded expense of \$2.3 million, \$1.8 million and \$1.2 million for the years ended December 31, 2012, 2011 and 2010, respectively. Shares of the Company's Class A Common Stock are not an investment option in this plan.

In addition, the Company offers the Under Armour, Inc. Deferred Compensation Plan which allows a select group of management or highly compensated employees, as approved by the Compensation Committee, to make an annual base salary and/or bonus deferral for each year. As of December 31, 2012 and 2011, the Deferred Compensation Plan obligations were \$2.8 million and \$3.5 million, respectively, and were included in other long term liabilities on the consolidated balance sheets.

The Company established the Rabbi Trust to fund obligations to participants in the Deferred Compensation Plan. As of December 31, 2012 and 2011, the assets held in the Rabbi Trust were TOLI policies with cash-surrender values of \$4.3 million and \$3.9 million, respectively. These assets are consolidated as allowed by accounting guidance, and are included in other long term assets on the consolidated balance sheet. Refer to Note 9 for a discussion of the fair value measurements of the assets held in the Rabbi Trust and the Deferred Compensation Plan obligations.

### 14. 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 European and Canadian subsidiaries. In addition, the Company may elect to enter into foreign currency forward contracts to reduce the risk associated with foreign currency exchange rate fluctuations on Pound Sterling denominated balance sheet items.

As of December 31, 2012, the notional value of the Company's outstanding foreign currency forward contracts used to mitigate the foreign currency exchange rate fluctuations on its Canadian subsidiary's intercompany transactions was \$1.0 million with contract maturities of 1 month or less. As of December 31, 2012, the notional value of the Company's outstanding foreign currency forward contracts used to mitigate the foreign currency exchange rate fluctuations on its European subsidiary's intercompany transactions was \$25.6 million with contract maturities of 1 month. As of December 31, 2012, the notional value of the Company's outstanding foreign currency forward contract used to mitigate the foreign currency exchange rate fluctuations on Pounds Sterling denominated balance sheet items was €11.9 million, or \$15.8 million, with a contract maturity 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 \$4.8 thousand as of December 31, 2012, 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 \$0.7 million as of December 31, 2011, and were included in accrued expenses on the consolidated balance sheet. Refer to Note 9 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 forward contracts:

59

---

Table of Contents

(In thousands)	Year Ended December 31,		
	2012	2011	2010
Unrealized foreign currency exchange rate gains (losses)	\$2,464	\$(4,027 )	\$(1,280 )
Realized foreign currency exchange rate gains (losses)	(182 )	298	(2,638 )
Unrealized derivative gains (losses)	675	(31 )	(809 )
Realized derivative gains (losses)	(3,030 )	1,696	3,549

**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 new \$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.

As of December 31, 2012, the notional value of the Company's outstanding interest rate swap contract was \$25.0 million. During the year ended December 31, 2012, the Company recorded a \$21.1 thousand increase in interest expense, representing interest incurred on the arrangement. The fair value of the interest rate swap contract was a liability of \$0.1 million as of December 31, 2012, and was 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 contracts. However, the Company monitors the credit quality of these financial institutions and considers the risk of counterparty default to be minimal.

**15. Related Party Transactions**

The Company has an agreement to license a software system with a vendor whose Co-CEO is a director of the Company. During the years ended December 31, 2012, 2011 and 2010, the Company paid \$1.9 million, \$1.8 million and \$1.5 million, respectively, in licensing fees and related support services to this vendor. In September 2012, the Company entered into an additional software license agreement with this vendor for \$3.5 million, through a financing arrangement with an unrelated party. The amount was outstanding as of December 31, 2012, and was included in current maturities of long term debt on the consolidated balance sheet. There were no amounts payable to this related party as of December 31, 2012 and 2011.

The Company has operating lease agreements with entities controlled by the Company's CEO to lease aircrafts for business purposes. The Company paid \$0.8 million, \$0.7 million and \$1.0 million in lease payments to the entities for its use of the aircrafts during the years ended December 31, 2012, 2011 and 2010, respectively. No amounts were payable to this related party as of December 31, 2012 and 2011. The Company determined the lease payments charged are at or below fair market lease rates.

**16. 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 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. The Company's operating segments are based on these geographic regions. Each geographic segment operates exclusively in one industry: the development, marketing and distribution of branded performance apparel, footwear and accessories. Due to the insignificance of the EMEA, Latin America and Asia operating segments, they have been combined into other foreign



countries for disclosure purposes.

The geographic distribution of the Company's net revenues, operating income and total assets are summarized in the following tables based on the location of its customers and operations. Net revenues represent sales to external customers for each segment. In addition to net revenues, operating income is a primary financial measure used by the Company to evaluate performance of each segment. Intercompany balances were eliminated for separate disclosure and corporate expenses from North America have not been allocated to other foreign countries.

Table of Contents

(In thousands)	Year Ended December 31,		
	2012	2011	2010
Net revenues			
North America	\$1,726,733	\$1,383,346	\$997,816
Other foreign countries	108,188	89,338	66,111
Total net revenues	\$1,834,921	\$1,472,684	\$1,063,927
(In thousands)	Year Ended December 31,		
	2012	2011	2010
Operating income			
North America	\$197,194	\$150,559	\$102,806
Other foreign countries	11,501	12,208	9,549
Total operating income	208,695	162,767	112,355
Interest expense, net	(5,183)	(3,841)	(2,258)
Other expense, net	(73)	(2,064)	(1,178)
Income before income taxes	\$203,439	\$156,862	\$108,919
Net revenues by product category are as follows:			
(In thousands)	Year Ended December 31,		
	2012	2011	2010
Apparel	\$1,385,350	\$1,122,031	\$853,493
Footwear	238,955	181,684	127,175
Accessories	165,835	132,400	43,882
Total net sales	1,790,140	1,436,115	1,024,550
License revenues	44,781	36,569	39,377
Total net revenues	\$1,834,921	\$1,472,684	\$1,063,927

As of December 31, 2012 and 2011, substantially all of the Company's long-lived assets were located in the United States. Net revenues in the United States were \$1,650.4 million, \$1,325.8 million and \$952.9 million for the years ended December 31, 2012, 2011 and 2010, respectively.

## 17. Unaudited Quarterly Financial Data

(In thousands)	Quarter Ended (unaudited)				Year Ended December 31,
	March 31,	June 30,	September 30,	December 31,	
2012					
Net revenues	\$384,389	\$369,473	\$575,196	\$505,863	\$1,834,921
Gross profit	175,204	169,467	280,391	254,235	879,297
Income from operations	24,403	11,720	90,980	81,592	208,695
Net income	14,661	6,668	57,317	50,132	128,778
Earnings per share-basic	\$0.14	\$0.06	\$0.55	\$0.48	\$1.23
Earnings per share-diluted	\$0.14	\$0.06	\$0.54	\$0.47	\$1.21
2011					
Net revenues	\$312,699	\$291,336	\$465,523	\$403,126	\$1,472,684
Gross profit	145,051	134,779	225,101	207,905	712,836
Income from operations	21,142	11,358	74,965	55,302	162,767
Net income	12,139	6,241	45,987	32,552	96,919
Earnings per share-basic	\$0.12	\$0.06	\$0.45	\$0.31	\$0.94
Earnings per share-diluted	\$0.11	\$0.06	\$0.44	\$0.31	\$0.92



Table of Contents

18. Subsequent Events

Stockholders' Equity

In February 2013, 0.3 million shares of Class B Convertible Common Stock were converted into shares of Class A Common Stock on a one-for-one basis in connection with a stock sale.

Stock-Based Compensation

In February 2013, 0.6 million performance-based restricted stock units were awarded to certain officers and key employees under the 2005 Plan. The performance-based restricted stock units have vesting that is tied to the achievement of certain combined annual operating income targets for 2013 and 2014. Upon the achievement of the combined operating income target, one third of the restricted stock units will vest on February 15, 2015, one third will vest on February 15, 2016 and the remaining one third will vest on February 15, 2017. If certain lower levels of combined operating income for 2013 and 2014 are achieved, fewer or no restricted stock units will vest at each vest date, and the remaining restricted stock units will be forfeited.

ITEM 9. CHANGES IN AND DISAGREEMENTS WITH ACCOUNTANTS ON ACCOUNTING AND FINANCIAL DISCLOSURE

None

ITEM 9A. 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 of December 31, 2012 pursuant to Rule 13a-15(b) under the Securities Exchange Act of 1934 (the "Exchange Act"). Based on that evaluation, our Chief Executive Officer and Chief Financial Officer have concluded that, as of December 31, 2012, 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. Refer to Item 8 of this report for the "Report of Management on Internal Control over Financial Reporting."

There has been no change in our internal control over financial reporting during the most recent fiscal quarter that has materially affected, or that is reasonably likely to materially affect our internal control over financial reporting.

ITEM 9B. OTHER INFORMATION

None

Table of Contents

PART III

ITEM 10. DIRECTORS, EXECUTIVE OFFICERS AND CORPORATE GOVERNANCE

The information required by this Item regarding directors is incorporated herein by reference from the 2013 Proxy Statement, under the headings “NOMINEES FOR ELECTION AT THE ANNUAL MEETING,” “CORPORATE GOVERNANCE AND RELATED MATTERS: Audit Committee” and “SECTION 16(a) BENEFICIAL OWNERSHIP REPORTING COMPLIANCE.” Information required by this Item regarding executive officers is included under “Executive Officers of the Registrant” in Part 1 of this Form 10-K.

Code of Ethics

We have a written code of ethics in place that applies to all our employees, including our principal executive officer, principal financial officer, and principal accounting officer and controller. A copy of our ethics policy is available on our website: [www.underarmour.com](http://www.underarmour.com). We are required to disclose any change to, or waiver from, our code of ethics for our senior financial officers. We intend to use our website as a method of disseminating this disclosure as permitted by applicable SEC rules.

ITEM 11. EXECUTIVE COMPENSATION

The information required by this Item is incorporated by reference herein from the 2013 Proxy Statement under the headings “CORPORATE GOVERNANCE AND RELATED MATTERS: Compensation of Directors,” “EXECUTIVE COMPENSATION,” and “COMPENSATION COMMITTEE INTERLOCKS AND INSIDER PARTICIPATION.”

ITEM 12. SECURITY OWNERSHIP OF CERTAIN BENEFICIAL OWNERS AND MANAGEMENT AND RELATED STOCKHOLDER MATTERS

The information required by this Item is incorporated by reference herein from the 2013 Proxy Statement under the heading “SECURITY OWNERSHIP OF MANAGEMENT AND CERTAIN BENEFICIAL OWNERS OF SHARES.” Also refer to Item 5 “Market for Registrant’s Common Equity, Related Stockholder Matters and Issuer Purchases of Equity Securities.”

ITEM 13. CERTAIN RELATIONSHIPS AND RELATED TRANSACTIONS, AND DIRECTOR INDEPENDENCE

The information required by this Item is incorporated by reference herein from the 2013 Proxy Statement under the heading “TRANSACTIONS WITH RELATED PERSONS” and “CORPORATE GOVERNANCE AND RELATED MATTERS—Independence of Directors.”

ITEM 14. PRINCIPAL ACCOUNTANT FEES AND SERVICES

The information required by this Item is incorporated by reference herein from the 2013 Proxy Statement under the heading “INDEPENDENT AUDITORS.”

Table of Contents

PART IV

ITEM 15. EXHIBITS AND FINANCIAL STATEMENT SCHEDULES

a. The following documents are filed as part of this Form 10-K:

1. Financial Statements:

<u>Report of Independent Registered Public Accounting Firm</u>	<u>38</u>
<u>Consolidated Balance Sheets as of December 31, 2012 and 2011</u>	<u>39</u>
<u>Consolidated Statements of Income for the Years Ended December 31, 2012, 2011 and 2010</u>	<u>40</u>
<u>Consolidated Statements of Comprehensive Income for the Years Ended December 31, 2012, 2011 and 2010</u>	<u>41</u>
<u>Consolidated Statements of Stockholders' Equity for the Years Ended December 31, 2012, 2011 and 2010</u>	<u>42</u>
<u>Consolidated Statements of Cash Flows for the Years Ended December 31, 2012, 2011 and 2010</u>	<u>43</u>
<u>Notes to the Audited Consolidated Financial Statements</u>	<u>44</u>

2. Financial Statement Schedule

<u>Schedule II—Valuation and Qualifying Accounts</u>	<u>68</u>
--	-----------

All other schedules are omitted because they are not applicable or the required information is shown in the consolidated financial statements or notes thereto.

3. Exhibits

The following exhibits are incorporated by reference or filed herewith. References to the Company's 2007 Form 10-K are to the Registrant's Annual Report on Form 10-K for the year ended December 31, 2007. References to the Company's 2010 Form 10-K are to the Registrant's Annual Report on Form 10-K for the year ended December 31, 2010. References to the Company's 2011 Form 10-K are to the Registrant's Annual Report on Form 10-K for the year ended December 31, 2011.

Exhibit  
No.

3.01	Articles of Amendment and Restatement (incorporated by reference to Exhibit 3.01 of the Company's Form 10-Q for the quarterly period ended June 30, 2012).
3.02	Amended and Restated By-Laws (incorporated by reference to Exhibit 3.02 of the Company's Form 8-K filed February 21, 2013).
4.01	Warrant Agreement between the Company and NFL Properties LLC dated as of August 3, 2006 (incorporated by reference to Exhibit 4.1 of the Current Report on Form 8-K filed August 7, 2006).
10.01	Credit Agreement among PNC Bank, National Association, as Administrative Agent, SunTrust Bank, as Syndication Agent, Bank of America, N.A., as Documentation Agent, and the Lenders and the Guarantors

that are party thereto and the Company dated March 29, 2011 (incorporated by reference to Exhibit 10.04 of the Company's Form 10-Q for the quarterly period ended June 30, 2011), as amended by First Amendment to Credit Agreement dated September 16, 2011 (incorporated by reference to Exhibit 10.01 of the Company's Form 10-Q for the quarterly period ended September 30, 2011).

10.02 Office lease by and between Beason Properties LLLP (as successor to 1450 Beason Street LLC) and the Company dated December 14, 2007 (portions of this exhibit have been omitted pursuant to a request for confidential treatment) (incorporated by reference to Exhibit 10.1 of the Current Report on Form 8-K filed on December 20, 2007), as amended by the First Amendment dated June 4, 2008 (incorporated by reference to Exhibit 10.04 of the Company's Form 10-Q for the quarterly period ended June 30, 2008) and the Second Amendment to Office Lease dated October 1, 2009 (portions of this exhibit have been omitted pursuant to a request for confidential treatment) (incorporated by reference to Exhibit 10.01 of the Company's Form 10-Q for the quarterly period ended September 30, 2009).

10.03 Under Armour, Inc. Executive Incentive Plan (incorporated by reference to Exhibit 10.01 of the Company's Form 10-Q for the quarterly period ended March 31, 2008).\*

64

---

Table of Contents

Exhibit  
No.

10.04	Under Armour, Inc. Deferred Compensation Plan (incorporated by reference to Exhibit 10.15 of the Company's 2007 Form 10-K) and Amendment One to this plan (incorporated by reference to Exhibit 10.14 of the Company's 2010 Form 10-K).*
10.05	Form of Change in Control Severance Agreement (incorporated by reference to Exhibit 10.05 of the Company's 2011 Form 10-K).*
10.06	Under Armour, Inc. Amended and Restated 2005 Omnibus Long-Term Incentive Plan and Amendment One to the Plan (incorporated by reference to Exhibit 10.01 of the Company's Form 10-Q for the quarterly period ending June 30, 2012).*
10.07	Form of Restricted Stock Grant Agreement under the Amended and Restated 2005 Omnibus Long-Term Incentive Plan (incorporated by reference to Exhibit 10.07a of the Company's 2011 Form 10-K).*
10.08	Forms of Non-Qualified Stock Option Grant Agreement under the Amended and Restated 2005 Omnibus Long-Term Incentive Plan (incorporated by reference to Exhibit 10.23 of the Company's 2007 Form 10-K and Exhibit 10.08 of the Company's 2011 Form 10-K).*
10.09	Form of Restricted Stock Unit Grant Agreement under the Amended and Restated 2005 Omnibus Long-Term Incentive Plan (incorporated by reference to Exhibit 10.09 of the Company's 2011 Form 10-K).*
10.10	Forms of Performance-Based Stock Option Grant Agreement under the Amended and Restated 2005 Omnibus Long-Term Incentive Plan (incorporated by reference to Exhibits 10.02 of the Company's Form 10-Q for the quarterly period ended March 31, 2009 and Exhibit 10.03 of the Company's Form 10-Q for the quarterly period ended March 31, 2010).*
10.11	Amendment to Stock Option Awards Effective August 3, 2011 (incorporated by reference to Exhibit 10.11 of the Company's 2011 Form 10-K).*
10.12	Forms of Performance-Based Restricted Stock Unit Grant Agreement under the Amended and Restated 2005 Omnibus Long-Term Incentive Plan (filed herewith and incorporated by reference to Exhibit 10.05 of the Company's Form 10-Q for the quarterly period ended June 30, 2011 and Exhibit 10.12 of the Company's 2011 Form 10-K).*
10.13	Employee Confidentiality, Non-Competition and Non-Solicitation Agreement by and between Henry Stafford and the Company dated April 12, 2010 (incorporated by reference to Exhibit 10.03 of the Company's Form 10-Q for the quarterly period ended March 31, 2011).*
10.14	Form of Employee Confidentiality, Non-Competition and Non-Solicitation Agreement by and between certain executives and the Company.*
10.15	Employment Agreement by and between Karl-Heinz Maurath and the Company (portions of this exhibit have been omitted pursuant to a request for confidential treatment).*
10.16	



Edgar Filing: Under Armour, Inc. - Form 10-K/A

Under Armour, Inc. 2010 Non-Employee Director Compensation Plan (incorporated by reference to Exhibit 10.01 of the Company's Form 10-Q for the quarterly period ended March 31, 2010), Amendment One to this plan (incorporated by reference to Exhibit 10.06 of the Company's Form 10-Q for the quarterly period ended June 30, 2011), Form of Initial Restricted Stock Unit Grant (incorporated by reference to Exhibit 10.1 of the Current Report on Form 8-K filed June 6, 2006), Form of Annual Stock Option Award (incorporated by reference to Exhibit 10.3 of the Current Report on Form 8-K filed June 6, 2006) and Form of Annual Restricted Stock Unit Grant (incorporated by reference to Exhibit 10.6 of the Company's Form 10-Q for the quarterly period ended June 30, 2011).\*

- 10.17 Under Armour, Inc. 2006 Non-Employee Director Deferred Stock Unit Plan (incorporated by reference to Exhibit 10.02 of the Company's Form 10-Q for the quarterly period ended March 31, 2010) and Amendment One to this plan (incorporated by reference to Exhibit 10.23 of the Company's 2010 Form 10-K).\*
- 21.01 List of Subsidiaries.
- 23.01 Consent of PricewaterhouseCoopers LLP.
- 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.

Table of Contents

Exhibit  
No.

101.INS	XBRL Instance Document
101.SCH	XBRL Taxonomy Extension Schema Document
101.CAL	XBRL Taxonomy Extension Calculation Linkbase Document
101.DEF	XBRL Taxonomy Extension Definition Linkbase Document
101.LAB	XBRL Taxonomy Extension Label Linkbase Document
101.PRE	XBRL Taxonomy Extension Presentation Linkbase Document

---

\* Management contract or a compensatory plan or arrangement required to be filed as an Exhibit pursuant to Item 15(b) of Form 10-K.

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/ KEVIN A. PLANK  
Kevin A. Plank  
Chairman of the Board of Directors, Chief Executive Officer and  
President

Dated: February 25, 2013

Pursuant to the requirements of the Securities Act of 1934, this report has been signed below by the following persons on behalf of the registrant and in the capacities and on the date indicated.

/S/ KEVIN A. PLANK Kevin A. Plank	Chairman of the Board of Directors, Chief Executive Officer and President (principal executive officer)
/S/ BRAD DICKERSON Brad Dickerson	Chief Financial Officer (principal accounting and financial officer)
/S/ BYRON K. ADAMS, JR. Byron K. Adams, Jr.	Director
/S/ DOUGLAS E. COLTHARP Douglas E. Coltharp	Director
/S/ ANTHONY W. DEERING Anthony W. Deering	Director
/S/ A.B. KRONGARD A.B. Krongard	Director
/S/ WILLIAM R. MCDERMOTT William R. McDermott	Director
/S/ ERIC T. OLSON Eric T. Olson	Director
/S/ BRENDA PIPER Brenda Piper	Director
/S/ HARVEY L. SANDERS Harvey L. Sanders	Director
/S/ THOMAS J. SIPPEL Thomas J. Sippel	Director

Dated: February 25, 2013



Table of Contents

## Schedule II

## Valuation and Qualifying Accounts

(In thousands)

Description	Balance at Beginning of Year	Charged to Costs and Expenses	Write-Offs Net of Recoveries	Balance at End of Year
Allowance for doubtful accounts				
For the year ended December 31, 2012	\$4,070	\$(108	) \$(676	) \$3,286
For the year ended December 31, 2011	4,869	699	(1,498	) 4,070
For the year ended December 31, 2010	5,156	190	(477	) 4,869
Sales returns and allowances				
For the year ended December 31, 2012	\$20,600	\$107,536	\$(95,217	) \$32,919
For the year ended December 31, 2011	16,827	74,245	(70,472	) 20,600
For the year ended December 31, 2010	13,969	48,136	(45,278	) 16,827
Deferred tax asset valuation allowance				
For the year ended December 31, 2012	\$1,784	\$2,855	\$(643	) \$3,996
For the year ended December 31, 2011	1,765	1,784	(1,765	) 1,784
For the year ended December 31, 2010	—	1,765	—	1,765