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

Form 10-Q

(Mark One)

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

For the quarterly period ended September 30, 2019

or

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

For the transition period from to

Commission File No. 001-33202

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

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

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

Class A Common Stock	**UAA**	**New York Stock Exchange**
Class C Common Stock	**UA**	**New York Stock Exchange**
(Title of each class)	(Trading Symbols)	(Name of each exchange on which registered)

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 every Interactive Data File required to be submitted and posted pursuant to Rule 405 of Regulation S-T (§232.405 of this chapter) during the preceding 12 months (or for such shorter period that the registrant was required to submit such files). Yes ☑ No ☐

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

Large accelerated filer	☑	Accelerated filer	☐
Non-accelerated filer	☐	Smaller reporting company	☐
		Emerging growth company	☐

If an emerging growth company, indicate by check mark if the registrant has elected not to use the extended transition period for complying with any new or revised financial accounting standards provided pursuant to Section 13(a) of the Exchange Act. ☐

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

As of October 31, 2019 there were 188,201,612 shares of Class A Common Stock, 34,450,000 shares of Class B Convertible Common Stock and 228,913,746 Class C Common Stock outstanding.

UNDER ARMOUR, INC.
September 30, 2019
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PART I. FINANCIAL INFORMATION

ITEM 1. FINANCIAL STATEMENTS

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

	September 30, 2019	December 31, 2018	September 30, 2018
Assets			
Current assets			
Cash and cash equivalents	$ 416,603	$ 557,403	$ 168,682
Accounts receivable, net	843,495	652,546	867,074
Inventories	906,544	1,019,496	1,173,115
Prepaid expenses and other current assets	292,447	364,183	378,159
Total current assets	2,459,089	2,593,628	2,587,030
Property and equipment, net	778,894	826,868	821,078
Operating lease right-of-use assets	595,832	—	—
Goodwill	541,798	546,494	551,208
Intangible assets, net	37,811	41,793	43,792
Deferred income taxes	90,860	112,420	86,436
Other long term assets	129,481	123,819	137,625
Total assets	$ 4,633,765	$ 4,245,022	$ 4,227,169
Liabilities and Stockholders' Equity			
Current liabilities			
Revolving credit facility, current	$ —	$ —	$ 75,000
Accounts payable	483,627	560,884	499,467
Accrued expenses	309,305	340,415	303,399
Customer refund liabilities	209,785	301,421	303,457
Operating lease liabilities	119,446	—	—
Current maturities of long term debt	—	25,000	25,000
Other current liabilities	77,498	88,257	93,416
Total current liabilities	1,199,661	1,315,977	1,299,739
Long term debt, net of current maturities	591,995	703,834	703,455
Operating lease liabilities, non-current	588,490	—	—
Other long term liabilities	99,953	208,340	218,054
Total liabilities	2,480,099	2,228,151	2,221,248
Commitments and contingencies (See Note 6)			
Stockholders' equity			
Class A Common Stock, $0.0003 1/3 par value; 400,000,000 shares authorized as of September 30, 2019, December 31, 2018 and September 30, 2018; 188,201,145 shares issued and outstanding as of September 30, 2019, 187,710,319 shares issued and outstanding as of December 31, 2018, and 187,611,121 shares issued and outstanding as of September 30, 2018.	62	62	62
Class B Convertible Common Stock, $0.0003 1/3 par value; 34,450,000 shares authorized, issued and outstanding as of September 30, 2019, December 31, 2018 and September 30, 2018.	11	11	11
Class C Common Stock, $0.0003 1/3 par value; 400,000,000 shares authorized as of September 30, 2019, December 31, 2018 and September 30, 2018; 228,881,215 shares issued and outstanding as of September 30, 2019, 226,421,963 shares issued and outstanding as of December 31, 2018, and 226,263,389 shares issued and outstanding as of September 30, 2018.	76	75	75
Additional paid-in capital	960,451	916,628	915,449
Retained earnings	1,242,437	1,139,082	1,134,684
Accumulated other comprehensive loss	(49,371)	(38,987)	(44,360)
Total stockholders' equity	2,153,666	2,016,871	2,005,921
Total liabilities and stockholders' equity	$ 4,633,765	$ 4,245,022	$ 4,227,169

See accompanying notes.

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

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2019	2018	2019	2018
Net revenues	$ 1,429,456	$ 1,442,976	$ 3,825,907	$ 3,803,205
Cost of goods sold	739,558	777,769	2,036,901	2,087,961
Gross profit	689,898	665,207	1,789,006	1,715,244
Selling, general and administrative expenses	550,978	527,640	1,626,309	1,594,893
Restructuring and impairment charges	—	18,601	—	134,920
Income (loss) from operations	138,920	118,966	162,697	(14,569)
Interest expense, net	(5,655)	(9,151)	(15,881)	(26,266)
Other expense, net	(429)	(4,294)	(2,224)	(9,475)
Income (loss) before income taxes	132,836	105,521	144,592	(50,310)
Income tax expense	29,344	30,874	31,735	691
Income (loss) from equity method investment	(1,177)	619	(5,414)	481
Net income (loss)	$ 102,315	$ 75,266	$ 107,443	$ (50,520)
Basic net income (loss) per share of Class A, B and C common stock	$ 0.23	$ 0.17	$ 0.24	$ (0.11)
Diluted net income (loss) per share of Class A, B and C common stock	$ 0.23	$ 0.17	$ 0.24	$ (0.11)
Weighted average common shares outstanding Class A, B and C common stock				
Basic	451,385	447,070	450,739	444,931
Diluted	454,695	451,035	454,047	444,931

See accompanying notes.

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

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2019	2018	2019	2018
Net income (loss)	$ 102,315	$ 75,266	$ 107,443	$ (50,520)
Other comprehensive loss:				
Foreign currency translation adjustment	(12,111)	(1,042)	(4,713)	(16,861)
Unrealized gain (loss) on cash flow hedge, net of tax benefit (expense) of ($2,520) and $731 for the three months ended September 30, 2019 and 2018, respectively, and $632 and ($5,362) for the nine months ended September 30, 2019 and 2018, respectively.	7,372	(1,658)	(1,338)	15,677
Loss on intra-entity foreign currency transactions	(5,140)	(3,171)	(4,333)	(4,965)
Total other comprehensive loss	(9,879)	(5,871)	(10,384)	(6,149)
Comprehensive income (loss)	$ 92,436	$ 69,395	$ 97,059	$ (56,669)

See accompanying notes.

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

	Class A Common Stock		Class B Convertible Common Stock		Class C Common Stock					
	Shares	Amount	Shares	Amount	Shares	Amount	Additional Paid-in-Capital	Retained Earnings	Accumulated Other Comprehensive Income (Loss)	Total Equity
Balance as of June 30, 2018	186,051	$ 62	34,450	$ 11	224,382	$ 75	$ 901,851	$ 1,060,402	$ (38,489)	$ 1,923,912
Exercise of stock options	34	—	—	—	143	—	406	—	—	406
Shares withheld in consideration of employee tax obligations relative to stock-based compensation arrangements	—	—	—		(50)	—	—	(984)	—	(984)
Issuance of Class A Common Stock, net of forfeitures	1,526	—	—	—	—	—	—	—	—	—
Issuance of Class C Common Stock, net of forfeitures	—	—	—	—	1,788	—	1,420	—	—	1,420
Stock-based compensation expense	—	—	—	—	—	—	11,772	—	—	11,772
Comprehensive loss	—	—	—	—	—	—	—	75,266	(5,871)	69,395
Balance as of September 30, 2018	187,611	$ 62	34,450	$ 11	226,263	$ 75	$ 915,449	$ 1,134,684	$ (44,360)	$ 2,005,921
Balance as of December 31, 2017	185,257	$ 61	34,450	$ 11	222,375	$ 74	$ 872,266	$ 1,184,441	$ (38,211)	$ 2,018,642
Exercise of stock options	481	1	—	—	601	—	6,317	—	—	6,318
Shares withheld in consideration of employee tax obligations relative to stock-based compensation arrangements	(23)	—	—	—	(134)	—	—	(2,744)	—	(2,744)
Issuance of Class A Common Stock, net of forfeitures	1,896	—	—	—	—	—	—	—	—	—
Issuance of Class C Common Stock, net of forfeitures	—	—	—	—	3,421	1	4,419	—	—	4,420
Impact of adoption of accounting standard updates	—	—	—	—	—	—	—	3,507	—	3,507
Stock-based compensation expense	—	—	—	—	—	—	32,447	—	—	32,447
Comprehensive loss	—	—	—	—	—	—	—	(50,520)	(6,149)	(56,669)
Balance as of September 30, 2018	187,611	$ 62	34,450	$ 11	226,263	$ 75	$ 915,449	$ 1,134,684	$ (44,360)	$ 2,005,921

See accompanying notes.

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

	Class A Common Stock		Class B Convertible Common Stock		Class C Common Stock		Additional Paid-in-Capital	Retained Earnings	Accumulated Other Comprehensive Income (Loss)	Total Equity
	Shares	Amount	Shares	Amount	Shares	Amount				
Balance as of June 30, 2019	188,144	$ 62	34,450	$ 11	228,653	$ 76	$ 946,488	$ 1,141,129	$ (39,492)	$ 2,048,274
Exercise of stock options	40	—	—	—	34	—	265	—	—	265
Shares withheld in consideration of employee tax obligations relative to stock-based compensation arrangements	—	—	—	—	(59)	—	—	(1,007)	—	(1,007)
Issuance of Class A Common Stock, net of forfeitures	17	—	—	—	—	—	—	—	—	—
Issuance of Class C Common Stock, net of forfeitures	—	—	—	—	253	—	1,285	—	—	1,285
Stock-based compensation expense	—	—	—	—	—	—	12,413	—	—	12,413
Comprehensive income (loss)	—	—	—	—	—	—	—	102,315	(9,879)	92,436
Balance as of September 30, 2019	188,201	$ 62	34,450	$ 11	228,881	$ 76	$ 960,451	$ 1,242,437	$ (49,371)	$ 2,153,666
Balance as of December 31, 2018	187,710	$ 62	34,450	$ 11	226,422	$ 75	$ 916,628	$ 1,139,082	$ (38,987)	$ 2,016,871
Exercise of stock options	355	—	—	—	271	—	1,638	—	—	1,638
Shares withheld in consideration of employee tax obligations relative to stock-based compensation arrangements	(15)	—	—	—	(217)	—	—	(4,088)	—	(4,088)
Issuance of Class A Common Stock, net of forfeitures	151	—	—	—	—	—	—	—	—	—
Issuance of Class C Common Stock, net of forfeitures	—	—	—	—	2,405	1	4,137	—	—	4,138
Stock-based compensation expense	—	—	—	—	—	—	38,048	—	—	38,048
Comprehensive income (loss)	—	—	—	—	—	—	—	107,443	(10,384)	97,059
Balance as of September 30, 2019	188,201	$ 62	34,450	$ 11	228,881	$ 76	$ 960,451	$ 1,242,437	$ (49,371)	$ 2,153,666

See accompanying notes.

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

	Nine Months Ended September 30,	
	2019	2018
Cash flows from operating activities		
Net income (loss)	$ 107,443	$ (50,520)
Adjustments to reconcile net income (loss) to net cash provided by operating activities		
Depreciation and amortization	140,443	135,029
Unrealized foreign currency exchange rate gain	12,885	9,350
Loss on disposal of property and equipment	2,884	3,378
Impairment charges	—	9,930
Amortization of bond premium	190	190
Stock-based compensation	38,048	32,445
Excess tax benefit (loss) from stock-based compensation arrangements	—	(3)
Deferred income taxes	23,827	(9,965)
Changes in reserves and allowances	(22,778)	(239,073)
Changes in operating assets and liabilities:		
Accounts receivable	(187,585)	(23,846)
Inventories	123,364	(30,390)
Prepaid expenses and other assets	73,753	(97,519)
Other non-current assets	5,939	(1,596)
Accounts payable	(67,336)	(37,353)
Accrued expenses and other liabilities	(52,466)	113,297
Customer refund liability	(88,710)	304,685
Income taxes payable and receivable	(7,433)	778
Net cash provided by operating activities	102,468	118,817
Cash flows from investing activities		
Purchases of property and equipment	(105,767)	(121,439)
Sale of property and equipment	—	11,285
Purchases of other assets	(1,273)	(4,861)
Purchase of equity method investment	—	(39,208)
Net cash used in investing activities	(107,040)	(154,223)
Cash flows from financing activities		
Proceeds from long term debt and revolving credit facility	25,000	465,000
Payments on long term debt and revolving credit facility	(162,817)	(580,000)
Employee taxes paid for shares withheld for income taxes	(4,088)	(2,743)
Proceeds from exercise of stock options and other stock issuances	5,797	10,739
Payments of debt financing costs	(2,661)	(11)
Other financing fees	77	306
Net cash used in financing activities	(138,692)	(106,709)
Effect of exchange rate changes on cash, cash equivalents and restricted cash	4,809	520
Net decrease in cash, cash equivalents and restricted cash	(138,455)	(141,595)
Cash, cash equivalents and restricted cash		
Beginning of period	566,060	318,135
End of period	$ 427,605	$ 176,540
Non-cash investing and financing activities		
Change in accrual for property and equipment	$ (15,620)	$ (26,566)

See accompanying notes.

Under Armour, Inc. and Subsidiaries

Notes to the Unaudited Consolidated Financial Statements

1. Description of the Business

Under Armour, Inc. and its wholly owned subsidiaries (the "Company") is a developer, marketer and distributor of branded athletic performance apparel, footwear, and accessories. Powered by one of the world's largest digitally connected fitness and wellness communities, the Company's innovative products and experiences are designed to help advance human performance, making all athletes better. The Company's products are made, sold and worn worldwide.

2. Summary of Significant Accounting Policies

Basis of Presentation

The accompanying unaudited consolidated financial statements include the accounts of the Company. Certain information in footnote disclosures normally included in annual financial statements was condensed or omitted for the interim periods presented in accordance with the rules and regulations of the Securities and Exchange Commission (the “SEC”) and accounting principles generally accepted in the United States of America ("U.S. GAAP") for interim consolidated financial statements. In the opinion of management, all adjustments consisting of normal, recurring adjustments considered necessary for a fair statement of the financial position and results of operations were included. Intercompany balances and transactions were eliminated. The consolidated balance sheet as of December 31, 2018 is derived from the audited financial statements included in the Company’s Annual Report on Form 10-K filed with the SEC for the year ended December 31, 2018 (the “2018 Form 10-K”), which should be read in conjunction with these consolidated financial statements. The results for the three and nine months ended September 30, 2019, are not necessarily indicative of the results to be expected for the year ending December 31, 2019, or any other portions thereof.

During the second quarter of 2019, the Company recorded an adjustment related to prior periods to correct unrecorded consulting expenses incurred primarily in connection with the 2018 restructuring plan. Selling, general and administrative expenses for the nine months ended September 30, 2019 includes $5.5 million of expense that was understated in prior periods. The Company concluded that the error was not material to any prior or interim periods presented.

Cash, Cash Equivalents and Restricted Cash

The Company considers all highly liquid investments with an original maturity of three months or less at the date of purchase to be cash and cash equivalents. The Company's restricted cash is reserved for payments related to claims for its captive insurance program, which is included in prepaid expenses and other current assets on the Company's unaudited consolidated balance sheets. The following table provides a reconciliation of cash, cash equivalents and restricted cash reported within the unaudited consolidated balance sheets to the unaudited consolidated statements of cash flows.

(In thousands)	September 30, 2019	December 31, 2018	September 30, 2018
Cash and cash equivalents	$ 416,603	$ 557,403	$ 168,682
Restricted cash	11,002	8,657	7,858
Total Cash, cash equivalents and restricted cash	$ 427,605	$ 566,060	$ 176,540

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 retailers. Credit is extended based on an evaluation of each customer’s financial condition. One of the Company's customers accounted for 10% of accounts receivable as of September 30, 2019. None of the Company's customers accounted for more than 10% of accounts receivable as of December 31, 2018 and September 30, 2018, respectively. For the three and nine months ended September 30, 2019 and 2018, no customer accounted for more than 10% of the Company's net revenues.

Sale of Accounts Receivable

In 2018, the Company entered into agreements with two financial institutions to sell selected accounts receivable on a recurring, non-recourse basis. In 2019, the Company amended one agreement to reduce the facility amount. Under each agreement, the Company may sell up to $ 140.0 million and $50.0 million, respectively, provided the accounts receivable of certain customers cannot be outstanding simultaneously with both institutions. Balances may remain outstanding at any point in time. The Company removes the sold accounts receivable from the unaudited consolidated balance sheets at the time of sale. The Company does not retain any interests in the sold accounts receivable. The Company acts as the collection agent for the outstanding accounts receivable on behalf of the financial institutions.

As of September 30, 2019, December 31, 2018 and September 30, 2018, no amounts remained outstanding. The funding fee charged by the financial institutions is included in the other income (expense), net line item in the consolidated statement of operations.

Allowance for Doubtful Accounts

As of September 30, 2019, December 31, 2018, and September 30, 2018, the allowance for doubtful accounts was $ 16.5 million, $22.2 million and $24.0 million, respectively.

Revenue Recognition

Net revenues consist of net sales, license and Connected Fitness revenue. Net sales are recognized upon transfer of control, including passage of title to the customer and transfer of risk of loss related to those goods. Payment is due in full when title is transferred. 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 brand and factory house 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 revenue is primarily 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 included within customer refund liability and the value of inventory associated with reserves for sales returns are included within prepaid expenses and other current assets on the consolidated balance sheet.

Contract Liabilities

Contract liabilities are recorded when a customer pays consideration, or the Company has a right to an amount of consideration that is unconditional, before the transfer of a good or service to the customer, and thus represent the Company's obligation to transfer the good or service to the customer at a future date. The Company's contract liabilities primarily consist of payments received in advance of revenue recognition for subscriptions for the Company's Connected Fitness applications and royalty arrangements, included in other current liabilities, and gift cards, included in accrued expenses, on the Company's unaudited consolidated balance sheets. As of September 30, 2019, December 31, 2018, and September 30, 2018, contract liabilities were $60.6 million, $55.0 million and $31.9 million, respectively.

For the three and nine months ended September 30, 2019, the Company recognized $ 9.2 million and $22.6 million of revenue that was previously included in contract liabilities as of December 31, 2018. For the three and nine months ended September 30, 2018, the Company recognized $4.5 million and $19.7 million of revenue that was previously included in contract liabilities as of December 31, 2017. The change in the contract liabilities balance primarily results from the timing differences between the Company's satisfaction of performance obligations and the customer's payment. Commissions related to subscription revenue are capitalized and recognized over the subscription period.

Practical Expedients and Policy Elections

The Company has made a policy election to account for shipping and handling activities that occur after the customer has obtained control of a good as a fulfillment cost rather than an additional promised service.

Additionally, the Company has elected not to disclose certain information related to unsatisfied performance obligations for subscriptions for its Connected Fitness applications as they have an original expected length of one year or less.

Shipping and Handling Costs

The Company charges certain customers shipping and handling fees. These fees are recorded in net revenues. The Company incurs freight costs associated with shipping goods to customers. These costs are recorded as a component of cost of goods sold.

The Company also incurs outbound handling costs associated with preparing goods to ship to customers and certain costs to operate the Company's distribution facilities. These costs are recorded as a component of selling, general and administrative expenses and were $20.8 million and $24.2 million for the three months ended September 30, 2019 and 2018, respectively, and $ 63.0 million and $70.2 million for the nine months ended September 30, 2019 and 2018, respectively.

Equity Method Investment

In April 2018, the Company invested ¥4.2 billion or $39.2 million in exchange for an additional 10% common stock ownership in Dome Corporation ("Dome"), the Company's Japanese licensee. This additional investment brought the Company's total investment in Dome's common stock to 29.5%, from 19.5%. The Company accounts for its investment in Dome under the equity method, given it has the ability to exercise significant influence, but not control, over Dome.

As of September 30, 2019, the carrying value of the Company's total investment in Dome was $ 47.4 million. The Company's proportionate share of Dome's net assets exceeded its total investment by $63.8 million, which was determined at the time of the investment in April 2018, and is not amortized. For the three and nine months ended September 30, 2019 and 2018, the Company recorded the allocable share of Dome's net income (loss) in its consolidated statements of operations and as an adjustment to the invested balance.

In addition to the investment in Dome, the Company has a license agreement with Dome. The Company recorded license revenues from Dome of $9.2 million and $9.2 million for the three months ended September 30, 2019 and 2018, respectively, and $ 20.9 million and $22.9 million for the nine months ended September 30, 2019 and 2018, respectively. As of September 30, 2019, December 31, 2018, and September 30, 2018, the Company had $9.1 million, $13.1 million, and $9.0 million, respectively, in licensing receivables outstanding, recorded in the prepaid expenses and other current assets line item within the Company's unaudited consolidated balance sheets.

Management Estimates

The preparation of financial statements in conformity with U.S. GAAP requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the consolidated financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from these estimates.

Recently Issued Accounting Standards

In June 2016, the Financial Accounting Standards Boards ("FASB") issued ASU 2016-13 - Financial Instruments – Credit Losses: Measurement of Credit Losses on Financial Instruments. This ASU amends the impairment model to utilize an expected loss methodology in place of the currently used incurred loss methodology, which will result in more timely recognition of losses. The new standard applies to financial assets measured at amortized cost basis, including receivables that result from revenue transactions. The ASU is effective for fiscal years, and interim periods within those fiscal years, beginning after December 15, 2019, and early adoption is permitted for fiscal years beginning after December 15, 2018. The Company is currently evaluating this guidance to determine the impact it may have on its consolidated financial statements.

Recently Adopted Accounting Standards

In August 2017, the FASB issued ASU 2017-12, Derivatives and Hedging (Topic 815): Targeted Improvements to Accounting for Hedging Activities, an update that amends and simplifies certain aspects of hedge accounting rules to increase transparency of the impact of risk management activities in the financial statements. The Company adopted this ASU on January 1, 2019. There was no material impact to the Company's consolidated financial statements.

In February 2016, the FASB issued ASU 2016-02, Leases (Topic 842), which amends the existing guidance for leases and will require recognition of operating leases with lease terms of more than twelve months and all financing leases on the balance sheet. For these leases, companies will record assets for the rights and liabilities for the obligations that are created by the leases. This ASU requires disclosures that provide qualitative and quantitative information for the lease assets and liabilities recorded in the financial statements. The Company adopted this ASU and related amendments on January 1, 2019, and has elected certain practical expedients permitted under the transition guidance. The Company elected the optional transition method that allows for a cumulative-effect adjustment in the period of adoption and did not restate prior periods. As permitted, the Company did not reassess whether existing contracts are or contain leases, the lease classification for any existing leases, initial direct costs for any existing leases and whether existing land easements and rights of way, which were not previously accounted for as leases, are leases. The Company implemented a new lease system in connection with the adoption of this ASU. The Company has operating lease right-of-use assets of $595.8 million and operating lease liabilities of $ 707.9 million on the Company's unaudited consolidated balance sheets as of September 30, 2019. The difference between the operating lease right-of-use assets and operating lease liabilities primarily represents the existing deferred rent and tenant improvement allowance liabilities balance, resulting from historical straight-lining of operating leases, which were effectively reclassified upon adoption to reduce the measurement of the leased assets. There was no material impact to the consolidated statements of operations and no cumulative earnings effect adjustment upon adoption. Refer to Note 4 for a discussion of leases.

3. Restructuring and Impairment

As previously announced, in both 2017 and 2018, the Company's Board of Directors approved restructuring plans (the "2017 restructuring plan" and the "2018 restructuring plan") designed to more closely align its financial resources with the critical priorities of the business and optimize operations. All restructuring charges under the plans were incurred by December 31, 2018.

The summary of the costs incurred during the three and nine months ended September 30, 2018 in connection with the 2018 restructuring plan is as follows:

(In thousands)	Three Months Ended September 30, 2018	Nine Months Ended September 30, 2018
Costs recorded in cost of goods sold:		
Inventory write-offs	$ 5,687	$ 19,101
Total costs recorded in cost of goods sold	5,687	19,101
Costs recorded in restructuring and impairment charges:		
Property and equipment impairment	271	12,235
Employee related costs	8,110	8,110
Other restructuring related costs	6,516	26,238
Contract exit costs	3,704	88,337
Total costs recorded in restructuring and impairment charges	18,601	134,920
Total restructuring, impairment and restructuring related costs	$ 24,288	$ 154,021

A summary of the activity in the restructuring reserve related to the Company's 2017 and 2018 restructuring plans is as follows:

(In thousands)	Employee Related Costs	Contract Exit Costs	Other Restructuring Related Costs
Balance at January 1, 2019	$ 8,532	$ 71,356	$ 4,876
Additions charged to expense	—	—	—
Cash payments charged against reserve	(5,727)	(14,889)	(4,794)
Reclassification to operating lease liabilities (1)	—	(30,572)	—
Changes in reserve estimate	(961)	(301)	—
Balance at September 30, 2019	$ 1,844	$ 25,594	$ 82

(1) Certain restructuring reserves have been reclassified to operating lease liabilities on the unaudited consolidated balance sheets in connection with the adoption of ASU 2016-02.

4. Leases

The Company leases warehouse space, office facilities, space for its brand and factory house stores and certain equipment under non-cancelable operating leases. The leases expire at various dates through 2035, excluding extensions at the Company's option, and include provisions for rental adjustments.

Right-of-use assets and lease liabilities are established on the unaudited consolidated balance sheets for leases with an expected term greater than one year. As the rate implicit in the lease is not readily determinable, the Company uses its secured incremental borrowing rate to determine the present value of the lease payments. Leases with an initial term of 12 months or less are not recorded on the unaudited consolidated balance sheets.

The Company recognizes lease expense on a straight-line basis over the lease term. Included in selling, general and administrative expenses were operating lease costs of $37.6 million and $113.4 million for the three and nine months ended September 30, 2019, respectively, under non-cancelable operating lease agreements.

Variable lease payments primarily consist of payments dependent on sales in brand and factory house stores. Short-term and variable lease payments are recorded in selling, general, and administrative expenses and are not material. There are no residual value guarantees that exist, and there are no restrictions or covenants imposed by leases. The Company rents or subleases excess office facilities and warehouse space to third parties. Sublease income is not material.

Supplemental balance sheet information related to leases was as follows:

	September 30, 2019
Weighted average remaining lease term (in years)	6.96
Weighted average discount rate	4.29 %

Supplemental cash flow and other information related to leases was as follows:

(In thousands)	Nine months ended September 30, 2019
Cash paid for amounts included in the measurement of lease liabilities	
Operating cash outflows from operating leases	$ 83,183
Leased assets obtained in exchange for new operating lease liabilities	47,832

Maturities of lease liabilities are as follows:

(In thousands)		
2019	$	44,134
2020		141,983
2021		128,259
2022		116,370
2023		103,477
2024 and thereafter		295,916
Total lease payments	$	830,139
Less: Interest		122,203
Total present value of lease liabilities	$	707,936

As of September 30, 2019, the Company has additional operating lease obligations that have not yet commenced of approximately $ 344.1 million, which are not reflected in the table above. These relate to retail store lease obligations commencing in 2020 with lease terms up to 15 years, and primarily relate to a flagship store.

The following is a schedule of future minimum lease payments for non-cancelable real property and equipment operating leases as of December 31, 2018, as well as significant operating lease agreements entered into during the period after December 31, 2018 through the date of the 2018 Form 10-K:

(In thousands)		
2019	$	142,648
2020		148,171
2021		154,440
2022		141,276
2023		128,027
2024 and thereafter		699,262
Total future minimum lease payments	$	1,413,824

5. Long Term Debt

Credit Facility

On March 8, 2019, the Company entered into an amended and restated credit agreement by and among the Company, as borrower, JPMorgan Chase Bank, N.A., as administrative agent, PNC Bank, National Association, as syndication agent and the other lenders and arrangers party thereto (the "credit agreement"), amending and restating the Company's prior credit agreement. The credit agreement has a term of five years, maturing in March 2024, with permitted extensions under certain circumstances, and provides revolving credit commitments of up to $1.25 billion of borrowings, but no term loan borrowings, which were provided for under the prior credit agreement. As of September 30, 2019, there were no amounts outstanding under the revolving credit facility. As of December 31, 2018, there were no amounts outstanding under the revolving credit facility and $136.3 million of term loan borrowings outstanding. In January 2019, the Company prepaid the outstanding balance of $ 136.3 million on its term loans, without penalty.

Borrowings under the revolving credit facility have maturities of less than one year. Up to $ 50.0 million of the facility may be used for the issuance of letters of credit. There were $5.1 million of letters of credit outstanding as of September 30, 2019.

The credit agreement contains negative covenants that limit the Company's ability to engage in certain transactions, as well as financial covenants that require the Company to comply with specific consolidated leverage and interest coverage ratios. As of September 30, 2019, the Company was in compliance with these ratios. In addition, the credit agreement contains events of default that are customary for a facility of this nature, and includes a cross default provision whereby an event of default under other material indebtedness, as defined in the credit agreement, will be considered an event of default under the credit agreement.

Borrowings under the credit agreement bear interest at a rate per annum equal to, at the Company’s option, either (a) an alternate base rate, or (b) a rate based on the rates applicable for deposits in the interbank market for

U.S. Dollars or the applicable currency in which the loans are made (“adjusted LIBOR”), plus in each case an applicable margin. The applicable margin for loans will be adjusted by reference to a grid (the “Pricing Grid”) based on the consolidated leverage ratio and ranges between 1.00% to 1.25% for adjusted LIBOR loans and 0.00% to 0.25% for alternate base rate loans. During the three months ended September 30, 2019, there were no borrowings under the revolving credit facility. The weighted average interest rate under the revolving credit facility borrowings was 3.3% during the three months ended September 30, 2018, and 3.6% and 3.0% for the nine months ended September 30, 2019 and 2018, respectively. During the three and nine months ended September 30, 2019, there were no borrowings under the outstanding term loan. The weighted average interest rate under the outstanding term loan was 3.3% and 3.1% during the three and nine months ended September 30, 2018, respectively. The Company pays a commitment fee on the average daily unused amount of the revolving credit facility and certain fees with respect to letters of credit. As of September 30, 2019, the commitment fee was 15.0 basis points. The Company incurred and deferred $ 3.5 million in financing costs in connection with the credit agreement.

3.250% Senior Notes

In June 2016, the Company issued $600.0 million aggregate principal amount of 3.250% senior unsecured notes due June 15, 2026 (the “Notes”). Interest is payable semi-annually on June 15 and December 15 beginning December 15, 2016. The Company may redeem some or all of the Notes at any time, or from time to time, at redemption prices described in the indenture governing the Notes. The indenture governing the Notes contains negative covenants that limit the Company’s ability to engage in certain transactions and are subject to material exceptions described in the indenture. The Company incurred and deferred $5.3 million in financing costs in connection with the Notes.

Other Long Term Debt

In December 2012, the Company entered into a $ 50.0 million recourse loan collateralized by the land, buildings and tenant improvements comprising the Company's corporate headquarters. In July 2018, this loan was paid in full, without penalties, using borrowings under the Company's revolving credit facility.

Interest expense, net, was $5.7 million and $9.2 million for the three months ended September 30, 2019 and 2018, respectively, and $ 15.9 million and $26.3 million for the nine months ended September 30, 2019 and 2018, respectively. Interest expense includes the amortization of deferred financing costs, bank fees, capital and built-to-suit lease interest and interest expense under the credit and other long term debt facilities.

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

6. Commitments and Contingencies

There were no significant changes to the contractual obligations reported in the 2018 Form 10-K other than those which occur in the normal course of business.

In connection with various contracts and agreements, the Company has agreed to indemnify counterparties against certain third party claims relating to the infringement of intellectual property rights and other items. Generally, such indemnification obligations do not apply in situations in which the counterparties are grossly negligent, engage in willful misconduct, or act in bad faith. Based on the Company’s historical experience and the estimated probability of future loss, the Company has determined that the fair value of such indemnifications is not material to its consolidated financial position or results of operations.

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

Securities Class Action

In re Under Armour Securities Litigation

On March 23, 2017, three separate securities cases previously filed against the Company in the United States District Court for the District of Maryland (the “District Court”) were consolidated under the caption In re Under Armour Securities Litigation, Case No. 17-cv-00388-RDB (the “Consolidated Action”). On August 4, 2017, the lead plaintiff in the Consolidated Action, North East Scotland Pension Fund, joined by named plaintiff Bucks County

Employees Retirement Fund, filed a consolidated amended complaint (the “Amended Complaint”) against the Company, the Company’s Chief Executive Officer and former Chief Financial Officers Lawrence Molloy and Brad Dickerson. The Amended Complaint alleges violations of Section 10(b) (and Rule 10b-5) of the Securities Exchange Act of 1934, as amended (the “Exchange Act”) and Section 20(a) control person liability under the Exchange Act against the officers named in the Amended Complaint, claiming that the defendants made material misstatements and omissions regarding, among other things, the Company's growth and consumer demand for certain of the Company's products. The class period identified in the Amended Complaint is September 16, 2015 through January 30, 2017. The Amended Complaint also asserts claims under Sections 11 and 15 of the Securities Act of 1933, as amended (the “Securities Act”), in connection with the Company’s public offering of senior unsecured notes in June 2016. The Securities Act claims are asserted against the Company, the Company’s Chief Executive Officer, Mr. Molloy, the Company’s directors who signed the registration statement pursuant to which the offering was made and the underwriters that participated in the offering. The Amended Complaint alleges that the offering materials utilized in connection with the offering contained false and/or misleading statements and omissions regarding, among other things, the Company’s growth and consumer demand for certain of the Company’s products.

On November 9, 2017, the Company and the other defendants filed motions to dismiss the Amended Complaint. On September 19, 2018, the District Court dismissed the Securities Act claims with prejudice and the Exchange Act claims without prejudice. The lead plaintiff filed a Second Amended Complaint on November 16, 2018, asserting claims under the Exchange Act and naming the Company and Mr. Plank as the remaining defendants. The remaining defendants filed a motion to dismiss the Second Amended Complaint on January 17, 2019. On August 19, 2019, the District Court dismissed the Second Amended Complaint with prejudice.

In September 2019, the lead plaintiff in the Consolidated Action filed an appeal in the United States Court of Appeals for the Fourth Circuit challenging the decisions by the District Court on September 19, 2018 and August 19, 2019 (the "Appeal"). Briefing in connection with the Appeal is expected to be completed by the end of 2019. The Company continues to believe that the claims asserted in the Consolidated Action and the Appeal are without merit and intends to defend the lawsuit vigorously. However, because of the inherent uncertainty as to the outcome of this proceeding, the Company is unable at this time to estimate the possible impact of the outcome of this matter.

Patel v. Under Armour, Inc.

On November 6, 2019, a purported shareholder of the Company filed a securities case in the United States District Court for the District of Maryland against the Company and the Company’s Chief Executive Officer, Chief Financial Officer, and Chief Operating Officer, as well as a former Chief Financial Officer of the Company (captioned *Kirtan Patel v. Under Armour, Inc.* , No 1:19-cv-03209-RDB). The complaint alleges violations of Section 10(b) (and Rule 10b-5) of the Exchange Act, against all defendants, and Section 20(a) control person liability under the Exchange Act against the current and former officers named in the complaint. The complaint claims that the defendants’ disclosures and statements supposedly misrepresented or omitted that the Company was purportedly shifting sales between quarterly periods allegedly to appear healthier and that the Company was under investigation by and cooperating with the United States Department of Justice and the United States Securities and Exchange Commission since July 2017. The class period identified in the complaint is August 3, 2016 through November 1, 2019, inclusive.

The Company has not yet been served with the complaint. The Company believes that the claims are without merit and, once served, intends to defend the lawsuit vigorously. However, because of the inherent uncertainty as to the outcome of this proceeding, the Company is unable at this time to estimate the possible impact of this matter.

Derivative Complaints

In April 2018, two purported stockholders filed separate stockholder derivative complaints in the United States District Court for the District of Maryland. These were brought against Kevin Plank (the Company’s Chairman and Chief Executive Officer) and certain other members of the Company’s Board of Directors and name the Company as a nominal defendant. The complaints make allegations related to the Company’s purchase of certain parcels of land from entities controlled by Mr. Plank (through Sagamore Development Company, LLC (“Sagamore”)), as well as other related party transactions.

Sagamore purchased these parcels in 2014. Its total investment in the parcels was approximately $ 72.0 million, which included the initial $35.0 million purchase price for the property, an additional $ 30.6 million to terminate a lease encumbering the property and approximately $ 6.4 million of development costs. As previously disclosed, in June 2016, the Company purchased the unencumbered parcels for $70.3 million in order to further expand the Company’s corporate headquarters to accommodate its growth needs. The Company negotiated a purchase price for the parcels that it determined represented the fair market value of the parcels and approximated the cost to the seller to purchase and develop the parcels. In connection with its evaluation of the potential purchase, the Company engaged an independent third-party to appraise the fair market value of the parcels, and the Audit Committee of the Company's Board of Directors engaged its own independent appraisal firm to assess the parcels. The Audit Committee determined that the terms of the purchase were reasonable and fair, and the transaction was approved by the Audit Committee in accordance with the Company's policy on transactions with related persons.

On March 20, 2019, these cases were consolidated under the caption *In re Under Armour, Inc. Shareholder Derivative Litigation* and a lead plaintiff was appointed by the court. On May 1, 2019, the lead plaintiff filed a consolidated derivative complaint asserting that Mr. Plank and the director defendants breached their fiduciary duties in connection with the purchase of the parcels and other related party transactions and that Sagamore aided and abetted the alleged breaches of fiduciary duty by the other defendants in connection with Sagamore's alleged role in the sale of the parcels to the Company. The consolidated complaint also asserts an unjust enrichment claim against Mr. Plank and Sagamore. It seeks damages on behalf of the Company and certain corporate governance related actions. The Company and the defendants filed a motion to dismiss the consolidated complaint on July 2, 2019, which is currently pending.

In June and July 2018, three additional purported stockholder derivative complaints were filed. Two of the complaints were filed in Maryland state court (in cases captioned *Kenney v. Plank, et al.* (filed June 29, 2018) and *Luger v. Plank, et al.* (filed July 26, 2018), respectively), and those cases were consolidated on October 19, 2018 under the caption *Kenney v. Plank, et. al*. The other complaint was filed in the United States District Court for the District of Maryland (in a case captioned *Andersen v. Plank et al.* (filed July 23, 2018)). The operative complaints in these cases name Mr. Plank, certain other members of the Company's Board of Directors and certain former Company executives as defendants, and name the Company as a nominal defendant. The operative complaints include allegations similar to those in the *In re Under Armour Securities Litigation* matter discussed above that challenges, among other things, the Company's disclosures related to growth and consumer demand for certain of the Company's products and stock sales by certain individual defendants. The operative complaints in each of these cases assert breach of fiduciary duty and unjust enrichment claims against the individual defendants. The operative complaint in the *Kenney* matter also makes allegations similar to those in the consolidated complaint in the *In re Under Armour, Inc. Shareholder Derivative Litigation* matter discussed above regarding the Company's purchase of parcels from entities controlled by Mr. Plank through Sagamore and asserts a claim of corporate waste against the individual defendants. These complaints seek similar remedies to the remedies sought in the *In re Under Armour, Inc. Shareholder Derivative Litigation* complaint.

The *Andersen* action was stayed between December 2018 and August 2019 pursuant to a court order. In September 2019, pursuant to an agreement between the parties, the court in the *Andersen* action entered an order staying that case pending the resolution of the Appeal. On March 29, 2019, the court in the consolidated *Kenney* action granted the Company's and the defendants' motion to stay that case pending the outcome of both the *In re Under Armour Securities Litigation* and the *In re Under Armour, Inc. Shareholder Derivative Litigation* matters.

Prior to the filing of the derivative complaints discussed above, each of the purported stockholders had sent the Company a letter demanding that the Company pursue claims similar to the claims asserted in the derivative complaints. Following an investigation, a majority of disinterested and independent directors of the Company determined that the claims should not be pursued by the Company and informed each of these purported stockholders of that determination. The Company believes that the claims asserted in the derivative complaints are without merit and intends to defend these matters vigorously. However, because of the inherent uncertainty as to the outcome of these proceedings, the Company is unable at this time to estimate the possible impact of the outcome of these matters.

Data Incident

In 2018, an unauthorized third party acquired data associated with the Company's Connected Fitness users' accounts for the Company's MyFitnessPal application and website. Consumer class action lawsuits in connection with this incident remain pending, and the Company has received inquiries regarding the incident from certain government regulators and agencies. The Company does not currently consider these matters to be material and believes its insurance coverage will provide coverage should any significant expense arise.

7. 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 (liabilities) measured at fair value on a recurring basis are set forth in the table below:

	September 30, 2019			December 31, 2018			September 30, 2018		
(In thousands)	Level 1	Level 2	Level 3	Level 1	Level 2	Level 3	Level 1	Level 2	Level 3
Derivative foreign currency contracts (see Note 9)	$ —	$ 18,695	$ —	$ —	$ 19,531	$ —	$ —	$ 11,592	$ —
Interest rate swap contracts (see Note 9)	—	—	—	—	1,567	—	—	2,577	—
TOLI policies held by the Rabbi Trust	—	6,139	—	—	5,328	—	—	6,026	—
Deferred Compensation Plan obligations	—	(10,269)	—	—	(6,958)	—	—	(8,339)	—

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 contracts represent unrealized gains and losses on derivative contracts, which is the net difference between the U.S. dollar value to be received or paid at the contracts' settlement date and the U.S. dollar value of the foreign currency to be sold or purchased at the current market exchange rate. The interest rate swap contracts represent gains and losses on the derivative contracts, which is the net difference between the fixed interest to be paid and variable interest to be received over the term of the contract based on current market rates. The fair value of the trust owned life insurance ("TOLI") policies held by the Rabbi Trust are based on the cash-surrender value of the life insurance policies, which are invested primarily in mutual funds and a separately managed fixed income fund. These investments are initially made in the same funds and purchased in substantially the same amounts as the selected investments of participants in the Under Armour, Inc. Deferred Compensation Plan (the "Deferred Compensation Plan"), which represent the underlying liabilities to participants in the Deferred Compensation Plan. Liabilities under the Deferred Compensation Plan are recorded at amounts due to participants, based on the fair value of participants' selected investments.

As of September 30, 2019, December 31, 2018, and September 30, 2018, the fair value of the Company's Senior Notes was $ 579.7 million, $500.1 million and $529.7 million, respectively. The carrying value of the Company's other long term debt approximated its fair value as of September 30, 2019, December 31, 2018 and September 30, 2018. The fair value of long term debt is estimated based upon quoted prices for similar instruments or quoted prices for identical instruments in inactive markets (Level 2).

Some assets are not measured at fair value on an ongoing basis but are subject to fair value adjustments only in certain circumstances. These assets can include long-lived assets and goodwill that have been reduced to fair value when impaired. Assets that are written down to fair value when impaired are not subsequently adjusted to fair value unless further impairment occurs.

8. Stock Based Compensation

Performance-Based Equity Compensation

The Company grants a combination of time-based and performance-based restricted stock units and stock options as part of its incentive compensation. Certain senior executives are eligible to receive performance-based awards. During the nine months ended September 30, 2019, 0.6 million performance-based restricted stock units and 0.2 million performance-based stock options for shares of the Company's Class C common stock were awarded under the Company's Third Amended and Restated 2005 Omnibus Long-Term Incentive Plan, as amended. The performance-based restricted stock units and stock options have weighted average grant date fair values of $19.39 and $8.70, respectively. Vesting conditions are tied to the achievement of revenue and operating income targets for 2019 and 2020, with possible achievement levels ranging from 25-200% of the target level based on performance (with no restricted stock units or stock options vesting if none of the performance targets are achieved). Upon the achievement of the targets, one third of the restricted stock units and stock options will vest each in February 2021, 2022 and 2023. The Company deemed the achievement of certain revenue and operating income targets for 2019 and 2020 probable during the nine months ended September 30, 2019. The Company assesses the probability of the achievement of the remaining revenue and operating income targets at the end of each reporting period and based on that assessment cumulative adjustments may be recorded in future periods.

9. Risk Management and Derivatives

The Company is exposed to global market risks, including the effects of changes in foreign currency and interest rates. The Company uses derivative instruments to manage financial exposures that occur in the normal course of business and does not hold or issue derivatives for trading or speculative purposes.

The Company may elect to designate certain derivatives as hedging instruments under U.S. GAAP. The Company formally documents all relationships between designated hedging instruments and hedged items, as well as its risk management objectives and strategies for undertaking hedge transactions. This process includes linking all derivatives designated as hedges to forecasted cash flows and assessing, both at inception and on an ongoing basis, the effectiveness of the hedging relationships.

The Company's foreign exchange risk management program consists of designated cash flow hedges and undesignated hedges. As of September 30, 2019, the Company has hedge instruments, primarily for U.S. Dollar/Chinese Renminbi, British Pound/U.S. Dollar, U.S. Dollar/Canadian Dollar, U.S. Dollar/Mexican Peso, Euro/U.S. Dollar, and U.S. Dollar/Korean Won currency pairs. All derivatives are recognized on the unaudited consolidated balance sheets at fair value and classified based on the instrument's maturity date.

The following table presents the fair values of derivative instruments within the unaudited consolidated balance sheets. Refer to Note 7 for a discussion of the fair value measurements.

(In thousands)	Balance Sheet Classification	September 30, 2019	December 31, 2018	September 30, 2018
Derivatives designated as hedging instruments under ASC 815				
Foreign currency contracts	Other current assets	$ 18,866	$ 19,731	$ 13,532
Foreign currency contracts	Other long term assets	1,220	—	318
Interest rate swap contracts	Other long term assets	—	1,567	2,577
Total derivative assets designated as hedging instruments		$ 20,086	$ 21,298	$ 16,427
Foreign currency contracts	Other current liabilities	$ 1,260	$ 228	$ 1,709
Foreign currency contracts	Other long term liabilities	—	—	—
Total derivative liabilities designated as hedging instruments		$ 1,260	$ 228	$ 1,709
Derivatives not designated as hedging instruments under ASC 815				
Foreign currency contracts	Other current assets	$ 1,393	$ 1,097	$ 773
Total derivative assets not designated as hedging instruments		$ 1,393	$ 1,097	$ 773
Foreign currency contracts	Other current liabilities	$ 2,794	$ 2,307	$ 3,141
Total derivative liabilities not designated as hedging instruments		$ 2,794	$ 2,307	$ 3,141

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The following table presents the amounts in the unaudited consolidated statements of operations in which the effects of cash flow hedges are recorded and the effects of cash flow hedge activity on these line items.

	Three months ended September 30,				Nine months ended September 30,			
	2019		2018		2019		2018	
(In thousands)	Total	Amount of Gain (Loss) on Cash Flow Hedge Activity	Total	Amount of Gain (Loss) on Cash Flow Hedge Activity	Total	Amount of Gain (Loss) on Cash Flow Hedge Activity	Total	Amount of Gain (Loss) on Cash Flow Hedge Activity
Net revenues	$ 1,429,456	$ 6,125	$ 1,442,976	$ (46)	$ 3,825,907	$ 14,337	$ 3,803,205	$ (3,743)
Cost of goods sold	739,558	1,317	777,769	321	2,036,901	3,525	2,087,961	(2,208)
Interest expense, net	(5,655)	(9)	(9,151)	133	(15,881)	1,607	(26,266)	191
Other expense, net	(429)	44	(4,294)	705	(2,224)	836	(9,475)	845

The following tables present the amounts affecting the unaudited statements of comprehensive income (loss).

(In thousands)	Balance as of June 30, 2019	Amount of gain (loss) recognized in other comprehensive income (loss) on derivatives	Amount of gain (loss) reclassified from other comprehensive income (loss) into income	Balance as of September 30, 2019
Derivatives designated as cash flow hedges				
Foreign currency contracts	11,595	17,378	7,495	21,478
Interest rate swaps	(595)	—	(9)	(586)
Total designated as cash flow hedges	$ 11,000	$ 17,378	$ 7,486	$ 20,892

(In thousands)	Balance as of December 31, 2018	Amount of gain (loss) recognized in other comprehensive income (loss) on derivatives	Amount of gain (loss) reclassified from other comprehensive income (loss) into income	Balance as of September 30, 2019
Derivatives designated as cash flow hedges				
Foreign currency contracts	21,908	18,277	18,707	21,478
Interest rate swaps	954	67	1,607	(586)
Total designated as cash flow hedges	$ 22,862	$ 18,344	$ 20,314	$ 20,892

(In thousands)	Balance as of June 30, 2018	Amount of gain (loss) recognized in other comprehensive income (loss) on derivatives	Amount of gain (loss) reclassified from other comprehensive income (loss) into income	Balance as of September 30, 2018
Derivatives designated as cash flow hedges				
Foreign currency contracts	13,755	(1,580)	966	11,209
Interest rate swaps	1,799	23	(132)	1,954
Total designated as cash flow hedges	$ 15,554	$ (1,557)	$ 834	$ 13,163

(In thousands)	Balance as of December 31, 2017	Amount of gain (loss) recognized in other comprehensive income (loss) on derivatives	Amount of gain (loss) reclassified from other comprehensive income (loss) into income	Balance as of September 30, 2018
Derivatives designated as cash flow hedges				
Foreign currency contracts	(8,312)	14,401	(5,120)	11,209
Interest rate swaps	438	1,442	(75)	1,954
Total designated as cash flow hedges	$ (7,874)	$ 15,843	$ (5,195)	$ 13,163

The following table presents the amounts in the unaudited consolidated statements of operations in which the effects of undesignated derivative instruments are recorded and the effects of fair value hedge activity on these line items.

	Three months ended September 30,				Nine months ended September 30,			
	2019		2018		2019		2018	
(In thousands)	Total	Amount of Gain (Loss) on Fair Value Hedge Activity	Total	Amount of Gain (Loss) on Fair Value Hedge Activity	Total	Amount of Gain (Loss) on Fair Value Hedge Activity	Total	Amount of Gain (Loss) on Fair Value Hedge Activity
Other expense, net	$ (429)	$ (474)	$ (4,294)	$ (5,613)	$ (2,224)	$ (2,629)	$ (9,475)	$ (12,066)

Cash Flow Hedges

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 driven by non-functional currency generated revenue, non-functional currency inventory purchases, investments in U.S. Dollar denominated available-for-sale debt securities, and certain other intercompany transactions. The Company enters into foreign currency contracts to reduce the risk associated with the foreign currency exchange rate fluctuations on these transactions. Certain contracts are designated as cash flow hedges. As of September 30, 2019, the aggregate notional value of the Company's outstanding cash flow hedges was $568.3 million, with contract maturities ranging from one to eighteen months.

The Company may 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 the Company's long term debt can be expected to vary as a result of future business requirements, market conditions and other factors. The Company may elect to enter into interest rate swap contracts to reduce the impact associated with interest rate fluctuations. The interest rate swap contracts are accounted for as cash flow hedges. Refer to Note 5 for a discussion of long term debt. As of September 30, 2019, the Company had no outstanding interest rate swap contracts.

For foreign currency contracts designated as cash flow hedges, changes in fair value, excluding any ineffective portion, are recorded in other comprehensive income until net income is affected by the variability in cash flows of the hedged transaction. The effective portion is generally released to net income (loss) after the maturity of the related derivative and is classified in the same manner as the underlying exposure.

Undesignated Derivative Instruments

The Company may elect to enter into foreign exchange forward contracts to mitigate the change in fair value of specific assets and liabilities on the unaudited consolidated balance sheets. These undesignated instruments are recorded at fair value as a derivative asset or liability on the unaudited consolidated balance sheets with their corresponding change in fair value recognized in other expense, net, together with the re-measurement gain or loss from the hedged balance sheet position. As of September 30, 2019, the total notional value of the Company's outstanding undesignated derivative instruments was $454.0 million.

Credit Risk

The Company enters into derivative contracts with major financial institutions with investment grade credit ratings and is exposed to credit losses in the event of non-performance by these financial institutions. This credit risk is generally limited to the unrealized gains in the derivative contracts. However, the Company monitors the credit quality of these financial institutions and considers the risk of counterparty default to be minimal.

10. Provision for Income Taxes

Provision for Income Taxes

The effective rates for income taxes were 22.1% and 29.3% for the three months ended September 30, 2019 and 2018, respectively. The effective tax rate for the three months ended September 30, 2019 was lower than the effective tax rate for the three months ended September 30, 2018 primarily due to changes in the proportion of earnings taxed in the United States as a result of the 2018 Restructuring Plan, partially offset by discrete items as a percentage of the pre-tax results in each period.

Valuation Allowance

The Company evaluates on a quarterly basis whether the deferred tax assets are realizable which requires significant judgment. The Company considers all available positive and negative evidence, including historical operating performance and expectations of future operating performance. 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.

As noted in the Company's Annual Report on Form 10-K, a significant portion of our deferred tax assets relate to U.S. federal and state taxing jurisdictions. Realization of these deferred tax assets is dependent on future U.S. pre-tax earnings. Due to the Company's challenged U.S. results in 2017 and 2018 the Company incurred significant pre-tax losses in these jurisdictions. The Company continues to believe, as of September 30, 2019, that the weight of the positive evidence outweighs the negative evidence, regarding the realization of the majority of the net deferred tax assets related to U.S. federal and state taxing jurisdictions. However, as of September 30, 2019 and consistent with prior periods, valuation allowances have been recorded against select U.S. State and foreign net operating losses.

11. Earnings per Share

The following represents a reconciliation from basic income (loss) per share to diluted income (loss) per share:

	Three Months Ended September 30,		Nine Months Ended September 30,	
(In thousands, except per share amounts)	2019	2018	2019	2018
Numerator				
Net income (loss)	$ 102,315	$ 75,266	$ 107,443	$ (50,520)
Denominator				
Weighted average common shares outstanding Class A, B and C	451,385	447,070	450,739	444,931
Effect of dilutive securities Class A, B, and C	3,310	3,965	3,308	—
Weighted average common shares and dilutive securities outstanding Class A, B, and C	454,695	451,035	454,047	444,931
Basic net income (loss) per share of Class A, B and C common stock	$ 0.23	$ 0.17	$ 0.24	$ (0.11)
Diluted net income (loss) per share of Class A, B and C common stock	$ 0.23	$ 0.17	$ 0.24	$ (0.11)

Effects of potentially dilutive securities are presented only in periods in which they are dilutive. Stock options and restricted stock units representing 0.6 million and 1.3 million shares of Class A and C common stock outstanding for the three months ended September 30, 2019 and 2018, respectively, and 1.9 million for the nine months ended September 30, 2019, were excluded from the computation of diluted earnings per share because their effect would have been anti-dilutive. Due to the Company being in a net loss position for the nine months ended September 30, 2018, there were no warrants, stock options, or restricted stock units included in the computation of diluted earnings per share, as their effect would have been anti-dilutive.

12. Segment Data and Related Information

The Company’s operating segments are based on how the Chief Operating Decision Maker (“CODM”) makes decisions about allocating resources and assessing performance. As such, the CODM receives discrete financial information for the Company's principal business by geographic region based on the Company’s strategy to become a global brand. These geographic regions include North America, Europe, the Middle East and Africa (“EMEA”), Asia-Pacific, and Latin America. Each geographic segment operates exclusively in one industry: the development, marketing and distribution of branded performance apparel, footwear and accessories. The CODM also receives discrete financial information for the Company's Connected Fitness segment. Total expenditures for additions to long-lived assets are not disclosed as this information is not regularly provided to the CODM.

Effective January 1, 2019, the Company changed the way management internally analyzes the business and excludes certain corporate costs from its segment profitability measures. The Company reports these costs within Corporate Other, which is designed to provide increased transparency and comparability of the Company's operating segments performance. Prior year amounts have been recast to conform to the 2019 presentation. These changes have no impact on previously reported consolidated balance sheets, statements of operations, comprehensive income (loss), stockholders' equity, or cash flows.

Corporate Other consists largely of general and administrative expenses not allocated to an operating segment, including expenses associated with centrally managed departments such as global marketing, global IT, global supply chain, innovation and other corporate support functions; costs related to the Company's global assets and global marketing, costs related to the Company’s headquarters; restructuring and restructuring related charges; and certain foreign currency hedge gains and losses.

The net revenues and operating income (loss) associated with the Company's segments are summarized in the following tables. Net revenues represent sales to external customers for each segment. Intercompany balances were eliminated for separate disclosure.

	Three Months Ended September 30,		Nine Months Ended September 30,	
(In thousands)	2019	2018	2019	2018
Net revenues				
North America	$ 1,015,920	$ 1,059,535	$ 2,675,389	$ 2,770,463
EMEA	160,981	147,640	440,405	414,170
Asia-Pacific	154,898	149,388	453,296	390,647
Latin America	52,186	54,299	141,095	141,570
Connected Fitness	39,346	32,160	101,385	90,098
Corporate Other (1)	6,125	(46)	14,337	(3,743)
Total net revenues	$ 1,429,456	$ 1,442,976	$ 3,825,907	$ 3,803,205

(1) Corporate Other revenues consist of foreign currency hedge gains and losses related to revenues generated by entities within the Company's operating segments, but managed through the Company's central foreign exchange risk management program.

	Three Months Ended September 30,		Nine Months Ended September 30,	
(In thousands)	2019	2018	2019	2018
Operating income (loss)				
North America	$ 237,229	$ 253,706	$ 536,700	$ 534,421
EMEA	21,989	16,726	44,700	17,935
Asia-Pacific	34,666	36,579	74,116	82,092
Latin America	233	(3,772)	(4,017)	(10,339)
Connected Fitness	7,023	2,132	8,103	7,254
Corporate Other	(162,220)	(186,405)	(496,905)	(645,932)
Total operating income (loss)	138,920	118,966	162,697	(14,569)
Interest expense, net	(5,655)	(9,151)	(15,881)	(26,266)
Other expense, net	(429)	(4,294)	(2,224)	(9,475)
Income (loss) before income taxes	$ 132,836	$ 105,521	$ 144,592	$ (50,310)

The operating income (loss) information for Corporate Other presented above includes the impact of all restructuring, impairment and restructuring related charges related to the Company's 2018 restructuring plan. These unallocated charges are as follows:

(In thousands)	Three Months Ended September 30, 2018	Nine Months Ended September 30, 2018
Unallocated restructuring, impairment and restructuring related charges		
North America related	$ 13,056	$ 99,269
EMEA related	403	11,841
Asia-Pacific related	20	20
Latin America related	5,404	24,263
Connected Fitness related	178	178
Corporate Other related	5,227	18,450
Total unallocated restructuring, impairment and restructuring related charges	$ 24,288	$ 154,021

There were no restructuring charges incurred during the three and nine months ended September 30, 2019.

Net revenues by product category are as follows:

	Three Months Ended September 30,		Nine Months Ended September 30,	
(In thousands)	2019	2018	2019	2018
Apparel	$ 985,623	$ 978,457	$ 2,499,989	$ 2,495,723
Footwear	250,596	284,856	827,223	828,001
Accessories	118,164	116,186	306,406	314,250
Net Sales	1,354,383	1,379,499	3,633,618	3,637,974
License revenues	29,602	31,363	76,567	78,876
Connected Fitness	39,346	32,160	101,385	90,098
Corporate Other	6,125	(46)	14,337	(3,743)
Total net revenues	$ 1,429,456	$ 1,442,976	$ 3,825,907	$ 3,803,205

Net revenues by distribution channel are as follows:

	Three Months Ended September 30,		Nine Months Ended September 30,	
(In thousands)	2019	2018	2019	2018
Wholesale	$ 891,709	$ 914,225	$ 2,417,028	$ 2,406,922
Direct to Consumer	462,674	465,274	1,216,590	1,231,052
Net Sales	1,354,383	1,379,499	3,633,618	3,637,974
License revenues	29,602	31,363	76,567	78,876
Connected Fitness	39,346	32,160	101,385	90,098
Corporate Other	6,125	(46)	14,337	(3,743)
Total net revenues	$ 1,429,456	$ 1,442,976	$ 3,825,907	$ 3,803,205

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

Forward-Looking Statements

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

The forward-looking statements contained in this Form 10-Q reflect our current views about future events and are subject to risks, uncertainties, assumptions and changes in circumstances that may cause events or our actual activities or results to differ significantly from those expressed in any forward-looking statement. Although we believe that the expectations reflected in the forward-looking statements are reasonable, we cannot guarantee future events, results, actions, levels of activity, performance or achievements. Readers are cautioned not to place undue reliance on these forward-looking statements. A number of important factors could cause actual results to differ materially from those indicated by these forward-looking statements, including, but not limited to, those factors described in our Annual Report on Form 10-K for the year ended December 31, 2018 filed with the Securities and Exchange Commission ("SEC") (our "2018 Form 10-K") or in this Form 10-Q under "Risk Factors", if included herein, and "Management's Discussion and Analysis of Financial Condition and Results of Operations." These factors include without limitation:

- changes in general economic or market conditions that could affect overall consumer spending or our industry;
- changes to the financial health of our customers;
- our ability to successfully execute our long-term strategies;
- our ability to successfully execute any restructuring plans and realize expected benefits;
- our ability to effectively drive operational efficiency in our business;
- our ability to manage the increasingly complex operations of our global business;
- our ability to comply with existing trade and other regulations, and the potential impact of new trade, tariff and tax regulations on our profitability;
- 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;
- any disruptions, delays or deficiencies in the design, implementation or application of our new global operating and financial reporting information technology system;
- increased competition causing us to lose market share or reduce the prices of our products or to increase significantly our marketing efforts;
- fluctuations in the costs of our products;
- loss of key suppliers or manufacturers or failure of our suppliers or manufacturers to produce or deliver our products in a timely or cost-effective manner, including due to port disruptions;
- our ability to further expand our business globally and to drive brand awareness and consumer acceptance of our products in other countries;
- our ability to accurately anticipate and respond to seasonal or quarterly fluctuations in our operating results;
- our ability to successfully manage or realize expected results from acquisitions and other significant investments or capital expenditures;
- the impact of the performance of our equity method investment on our results of operations;

- risks related to foreign currency exchange rate fluctuations;
- our ability to effectively market and maintain a positive brand image;
- the availability, integration and effective operation of information systems and other technology, as well as any potential interruption of such systems or technology;
- risks related to data security or privacy breaches, including the 2018 data security issue related to our Connected Fitness business;
- our ability to raise additional capital required to grow our business on terms acceptable to us;
- our potential exposure to litigation and other proceedings; and
- our ability to attract key talent and retain the services of our senior management and key employees.

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

Overview

We are a leading developer, marketer and distributor of branded athletic performance apparel, footwear and accessories. Our products are sold worldwide and worn by athletes at all levels, from youth to professional, on playing fields around the globe, as well as by consumers with active lifestyles. The Under Armour Connected Fitness platform powers one of the world's largest digitally connected fitness and wellness communities and our strategy is focused on engaging with these consumers and increasing awareness and sales of our products.

Our net revenues grew to $5,193.2 million in 2018 from $3,084.4 million in 2014. We believe that our growth in net revenues has been driven by a growing interest in performance products and the strength of the Under Armour brand in the marketplace. Our long-term growth strategy is focused on increased sales of our products through ongoing product innovation, investment in our distribution channels and international expansion. While we plan to continue to invest in growth, we also plan to improve efficiencies throughout our business as we seek to gain scale through our operations and return on our investments.

Financial highlights for the three months ended September 30, 2019 as compared to the prior year period include:

- Net revenues decreased 0.9%.
- Wholesale revenue decreased 2.5% and direct-to-consumer revenue decreased 0.6%.
- Apparel and accessories revenue increased 0.7% and 1.7%, respectively, and footwear revenue decreased 12.0%.
- Revenue in our North America and Latin America segments decreased 4.1% and 3.9%, respectively, while revenue in our Asia-Pacific and EMEA segments increased 3.7% and 9.0%, respectively.
- Gross margin increased 220 basis points, including restructuring related charges in the prior year.
- Selling, general and administrative expense increased 4.4%.
- Restructuring and impairment charges related to the 2018 restructuring plan were $18.6 million in the prior year.

Segment Presentation

Effective January 1, 2019, we changed the way we internally analyze the business and now exclude certain corporate costs from our segment profitability measures. We now report these costs within Corporate Other, which is designed to provide increased transparency and comparability of the performance of our operating segments. Prior year amounts have been recast to conform to the 2019 presentation. These changes had no impact on previously reported consolidated balance sheets, statements of operations, comprehensive income (loss), stockholders' equity, or cash flows.

Corporate Other consists largely of general and administrative expenses not allocated to an operating segment, including expenses associated with centrally managed departments such as global marketing, global IT, global supply chain, innovation and other corporate support functions; costs related to our global assets and global marketing, costs related to our headquarters; restructuring and restructuring related charges; and certain foreign currency hedge gains and losses.

Marketing

In connection with the Corporate Other presentation discussed above, effective January 1, 2019, we changed the way we internally analyze marketing. Personnel costs previously included in marketing expense are now included in other expense and digital advertising and placement services previously included in other expense are now included in marketing expense. We believe these changes provide management with increased transparency of our demand creation investments. Certain prior year amounts have been recast to conform to the 2019 presentation. We do not expect these changes to have a material impact on marketing amounts.

2017 and 2018 Restructuring

As previously announced, in both 2017 and 2018, our Board of Directors approved restructuring plans (the "2017 restructuring plan" and the "2018 restructuring plan") designed to more closely align our financial resources with the critical priorities of the business and optimize operations. All restructuring charges under the plans were incurred by December 31, 2018.

There were no restructuring charges incurred during the three and nine months ended September 30, 2019. We recognized approximately $24.3 million and $154.0 million of pre-tax charges in connection with the 2018 restructuring plan for the three and nine months ended September 30, 2018, respectively.

Other Matters

On November 4, 2019, we disclosed that we have been responding to requests for documents and information from the SEC and the U.S. Department of Justice regarding certain of our accounting practices and related disclosures, beginning with submissions to the SEC in July 2017. In the course of cooperating with these requests, both management and the Board of Directors have reviewed our accounting practices and related disclosures and we continue to believe our accounting practices and related disclosures were appropriate.

General

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

Cost of goods sold consists primarily of product costs, inbound freight and duty costs, outbound freight costs, handling costs to make products floor-ready to customer specifications, royalty payments to endorsers based on a predetermined percentage of sales of selected products and write downs for inventory obsolescence. In general, as a percentage of net revenues, we expect cost of goods sold associated with our apparel and accessories to be lower than that of our footwear. A limited portion of cost of goods sold is associated with Connected Fitness revenues, primarily website hosting costs, and no cost of goods sold is associated with our 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 $20.8 million and $24.2 million for the three months ended September 30, 2019 and 2018, respectively, and $63.0 million and $70.2 million for the nine months ended September 30, 2019 and 2018.

Our selling, general and administrative expenses consist of costs related to marketing, selling, product innovation and supply chain and corporate services. We consolidate our selling, general and administrative expenses into two primary categories: marketing and other. The other category is the sum of our selling, product innovation and supply chain, and corporate services categories. The marketing category consists primarily of sports and brand marketing, media, and retail presentation. Sports and brand marketing includes professional, club, collegiate sponsorship, individual athlete and influencer agreements, and providing and selling products directly to team equipment managers and to individual athletes. Media includes digital, broadcast and print media outlets, including social and mobile media. Retail presentation includes sales displays and concept shops and depreciation expense specific to our in-store fixture programs. Our marketing costs are an important driver of our growth.

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 tables set forth key components of our results of operations for the periods indicated, both in dollars and as a percentage of net revenues:

	Three Months Ended September 30,		Nine Months Ended September 30,	
(In thousands)	2019	2018	2019	2018
Net revenues	$ 1,429,456	$ 1,442,976	$ 3,825,907	$ 3,803,205
Cost of goods sold	739,558	777,769	2,036,901	2,087,961
Gross profit	689,898	665,207	1,789,006	1,715,244
Selling, general and administrative expenses	550,978	527,640	1,626,309	1,594,893
Restructuring and impairment charges	—	18,601	—	134,920
Income (loss) from operations	138,920	118,966	162,697	(14,569)
Interest expense, net	(5,655)	(9,151)	(15,881)	(26,266)
Other expense, net	(429)	(4,294)	(2,224)	(9,475)
Income (loss) before income taxes	132,836	105,521	144,592	(50,310)
Income tax expense	29,344	30,874	31,735	691
Income (loss) from equity method investment	(1,177)	619	(5,414)	$ 481
Net income (loss)	$ 102,315	$ 75,266	$ 107,443	$ (50,520)

	Three Months Ended September 30,		Nine Months Ended September 30,	
(As a percentage of net revenues)	2019	2018	2019	2018
Net revenues	100.0 %	100.0 %	100.0 %	100.0 %
Cost of goods sold	51.7 %	53.9 %	53.2 %	54.9 %
Gross profit	48.3 %	46.1 %	46.8 %	45.1 %
Selling, general and administrative expenses	38.5 %	36.6 %	42.5 %	41.9 %
Restructuring and impairment charges	— %	1.3 %	— %	3.5 %
Income (loss) from operations	9.7 %	8.2 %	4.3 %	(0.4)%
Interest expense, net	(0.4)%	(0.6)%	(0.4)%	(0.7)%
Other expense, net	— %	(0.3)%	(0.1)%	(0.2)%
Income (loss) before income taxes	9.3 %	7.3 %	3.8 %	(1.3)%
Income tax expense	2.1 %	2.1 %	0.8 %	— %
Loss from equity method investment	(0.1)%	— %	(0.1)%	— %
Net income (loss)	7.2 %	5.2 %	2.8 %	(1.3)%

Consolidated Results of Operations

Three Months Ended September 30, 2019 Compared to Three Months Ended September 30, 2018

Net revenues decreased $13.5 million, or 0.9%, to $1,429.5 million for the three months ended September 30, 2019, from $1,443.0 million during the same period in 2018. Net revenues by product category are summarized below:

(In thousands)	Three Months Ended September 30, 2019	2018
Apparel	$ 985,623	$ 978,457
Footwear	250,596	284,856
Accessories	118,164	116,186
Net Sales	1,354,383	1,379,499
License revenues	29,602	31,363
Connected Fitness	39,346	32,160
Corporate Other (1)	6,125	(46)
Total net revenues	$ 1,429,456	$ 1,442,976

(1) Corporate Other revenues consist of foreign currency hedge gains and losses related to revenues generated by entities within our geographic operating segments, but managed through our central foreign exchange risk management program.

The decrease in net sales was primarily driven by a unit sales decline in footwear in all categories.

License revenues decreased $1.8 million, or 5.6%, to $29.6 million for the three months ended September 30, 2019, from $31.4 million during the same period in 2018, primarily driven by decreased revenue from our licensing partners in North America due to softer demand.

Connected Fitness revenue increased $7.2 million, or 22.3%, to $39.3 million for the three months ended September 30, 2019, from $32.2 million during the same period in 2018, primarily driven by an increase in new subscription revenue and a one-time development fee from a partner.

Gross profit increased $24.7 million to $689.9 million for the three months ended September 30, 2019 from $665.2 million for the same period in 2018. Gross profit as a percentage of net revenues, or gross margin, increased 220 basis points to 48.3% for the three months ended September 30, 2019, compared to 46.1% during the same period in 2018. This increase in gross margin percentage was primarily driven by the following:

- approximate 90 basis point increase driven by channel mix, primarily due to a lower percentage of off-price sales within our wholesale channel;
- approximate 80 basis point increase driven by supply chain initiatives related to favorable product costs and lower air freight;
- approximate 40 basis point increase driven by restructuring related charges in the prior year period;
- approximate 20 basis point increase driven by segment mix due to a higher proportion of Connected Fitness revenues; and
- approximate 20 basis point increase driven by product mix due to a lower proportion of footwear revenues.

The above increases were partially offset by an approximate 30 basis point decrease driven by pricing, partially driven by off-price sales within our wholesale channel.

We expect benefits from channel mix and supply chain initiatives, including favorable product costs and lower air freight, for the remainder of the year.

Selling, general and administrative expenses increased $23.3 million, or 4.4%, to $551.0 million for the three months ended September 30, 2019, from $527.6 million for the same period in 2018. Within selling, general and administrative expense:

- Marketing costs increased $3.2 million to $133.9 million for the three months ended September 30, 2019, from $130.7 million for the same period in 2018. As a percentage of net revenues, marketing costs increased to 9.4% for the three months ended September 30, 2019 from 9.1% for the same period in 2018.
- Other costs increased $20.1 million to $417.1 million for the three months ended September 30, 2019, from $397.0 million for the same period in 2018. This increase was driven primarily by higher compensation expense, including additional incentive compensation expense. As a percentage of net revenues, other costs increased to 29.2% for the three months ended September 30, 2019 from 27.5% for the same period in 2018.

As a percentage of net revenues, selling, general and administrative expenses increased to 38.5% for the three months ended September 30, 2019, compared to 36.6% for the same period in 2018.

Restructuring and impairment charges related to the 2018 restructuring plan were $18.6 million for the three months ended September 30, 2018. There was no restructuring plan or charges in the three months ended September 30, 2019.

Income from operations increased $19.9 million to $138.9 million for the three months ended September 30, 2019, from income of $119.0 million for the same period in 2018, primarily driven by the improvements in gross profit, discussed above, and $24.3 million of restructuring, impairment and restructuring related charges in the three months ended September 30, 2018, partially offset by increases in selling, general and administrative expenses, discussed above.

Interest expense, net decreased $3.5 million to $5.7 million for the three months ended September 30, 2019, from $9.2 million for the same period in 2018. This decrease was primarily due to lower interest expense as a result of the prepayment of the outstanding balance of $136.3 million on our term loan.

Other expense, net decreased $3.9 million to $0.4 million for the three months ended September 30, 2019, from $4.3 million for the same period in 2018. This decrease was primarily due to lower foreign exchange losses.

Income tax expense decreased $1.6 million to $29.3 million during the three months ended September 30, 2019 from $30.9 million during the same period in 2018. For the three months ended September 30, 2019, our effective tax rate was 22.1% compared to 29.3% for the same period in 2018. The effective tax rate for the three months ended September 30, 2019 was lower than the effective tax rate for the three months ended September 30, 2018, primarily due to changes in the proportion of earnings taxed in the United States as result of the 2018 Restructuring Plan, partially offset by discrete items as a percentage of the pre-tax results in each period.

Loss from equity method investment increased $1.8 million to $1.2 million during the three months ended September 30, 2019, from income of $0.6 million during the same period in 2018 due to our allocable share of the net loss of our Japanese licensee, in which we hold a minority investment. We expect this loss to continue for the remainder of the year.

Nine Months Ended September 30, 2019 Compared to Nine Months Ended September 30, 2018

Net revenues increased $22.7 million, or 0.6%, to $3,825.9 million for the nine months ended September 30, 2019, from $3,803.2 million during the same period in 2018. Net revenues by product category are summarized below:

	Nine Months Ended September 30,	
(In thousands)	2019	2018
Apparel	$ 2,499,989	$ 2,495,723
Footwear	827,223	828,001
Accessories	306,406	314,250
Net Sales	3,633,618	3,637,974
License revenues	76,567	78,876
Connected Fitness	101,385	90,098
Corporate Other (1)	14,337	(3,743)
Total net revenues	$ 3,825,907	$ 3,803,205

(1) Corporate Other revenues consist of foreign currency hedge gains and losses related to revenues generated by entities within our geographic operating segments, but managed through our central foreign exchange risk management program.

The decrease in net sales was primarily driven by a unit sales decline in accessories due to softer demand.

License revenues decreased $2.3 million, or 2.9%, to $76.6 million for the nine months ended September 30, 2019, from $78.9 million during the same period in 2018, driven primarily by decreased revenue from our licensing partners in Japan and North America due to softer demand.

Connected Fitness revenue increased $11.3 million, or 12.5%, to $101.4 million for the nine months ended September 30, 2019, from $90.1 million during the same period in 2018, primarily driven by an increase in new subscription revenue and a one-time development fee from a partner.

Gross profit increased $73.8 million to $1,789.0 million for the nine months ended September 30, 2019, from $1,715.2 million for the same period in 2018. Gross profit as a percentage of net revenues, or gross margin, increased 170 basis points to 46.8% for the nine months ended September 30, 2019, compared to 45.1% during the same period in 2018. The increase in gross margin percentage was primarily driven by the following:

- approximate 90 basis point increase driven by supply chain initiatives including favorable product costs and lower air freight;
- approximate 50 basis point increase driven by restructuring related charges in the prior year period;
- approximate 40 basis point increase driven by channel mix, primarily due to a lower percentage of off-price sales within our wholesale channel;
- approximate 30 basis point increase driven by regional and segment mix due to a higher proportion of Asia-Pacific and Connected Fitness revenue, respectively.

The above increases were partially offset by an approximate 40 basis point decrease driven by pricing, partially driven by off-price sales within our wholesale channel.

We expect benefits from channel mix and supply chain initiatives, including favorable product costs and lower air freight, for the remainder of the year.

Selling, general and administrative expenses increased $31.4 million, or 2.0%, to $1,626.3 million for the nine months ended September 30, 2019, from $1,594.9 million for the same period in 2018. Within selling, general and administrative expense:

- Marketing costs increased $14.7 million to $411.5 million for the nine months ended September 30, 2019, from $396.8 million for the same period in 2018. As a percentage of net revenues, marketing costs increased to 10.8% for the nine months ended September 30, 2019, from 10.4% for the same period in 2018.
- Other costs increased $16.7 million to $1,214.8 million for the nine months ended September 30, 2019, from $1,198.1 million for the same period in 2018. This increase was driven primarily by increased process design efficiency consulting and incentive compensation expense, partially offset by a reserve related to a commercial dispute in the prior year period. As a percentage of net revenues, other costs increased to 31.8% for the nine months ended September 30, 2019 from 31.5% for the same period in 2018.

As a percentage of net revenues, selling, general and administrative expenses increased to 42.5% for the nine months ended September 30, 2019 compared to 41.9% for the same period in 2018.

Restructuring and impairment charges related to the 2018 restructuring plan were $134.9 million for the nine months ended September 30, 2018. There was no restructuring plan or charges in the nine months ended September 30, 2019.

Income from operations increased $177.3 million to $162.7 million for the nine months ended September 30, 2019, from a loss of $14.6 million for the same period in 2018, primarily driven by the improvements in gross profit, discussed above, and $154.0 million of restructuring, impairment and restructuring related charges in the nine months ended September 30, 2018, partially offset by increases in selling, general, and administrative expenses, discussed above.

Interest expense, net decreased $10.4 million to $15.9 million for the nine months ended September 30, 2019 from $26.3 million for the same period in 2018. This decrease was primarily due to lower interest expense as a result of the prepayment of the outstanding balance of $136.3 million on our term loan.

Other expense, net decreased $7.3 million to $2.2 million for the nine months ended September 30, 2019 from $9.5 million for the same period in 2018. This decrease was primarily due to lower foreign exchange losses.

Income tax expense increased $31.0 million to $31.7 million during the nine months ended September 30, 2019 from $0.7 million during the same period in 2018. For the nine months ended September 30, 2019, our effective tax rate was 21.9% compared to (1.4)% for the same period in 2018. The income tax expense for the nine months ended September 30, 2019 was higher than the income tax expense for the nine months ended September 30, 2018, primarily due to pre-tax income for the nine months ended September 30, 2019 compared to pre-tax losses for the nine months ended September 30, 2018, partially offset by the impact of discrete items in each period.

Loss from equity method investment increased $5.9 million to $5.4 million during the nine months ended September 30, 2019, from income of $0.5 million during the same period in 2018 due to our allocable share of the net loss of our Japanese licensee, in which we hold a minority investment. We expect this loss to continue for the remainder of the year.

Segment Results of Operations

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

Three Months Ended September 30, 2019 Compared to Three Months Ended September 30, 2018

Net revenues by segment and Corporate Other are summarized below:

	Three Months Ended September 30,			
(In thousands)	2019	2018	$ Change	% Change
North America	$ 1,015,920	$ 1,059,535	$ (43,615)	(4.1)%
EMEA	160,981	147,640	13,341	9.0 %
Asia-Pacific	154,898	149,388	5,510	3.7 %
Latin America	52,186	54,299	(2,113)	(3.9)%
Connected Fitness	39,346	32,160	7,186	22.3 %
Corporate Other (1)	6,125	(46)	6,171	13,415.2 %
Total net revenues	$ 1,429,456	$ 1,442,976	$ (13,520)	(0.9)%

(1) Corporate Other revenues consist of foreign currency hedge gains and losses related to revenues generated by entities within our geographic operating segments, but managed through our central foreign exchange risk management program.

The decrease in total net revenues was driven by the following:

- Net revenues in our North America operating segment decreased $43.6 million to $1,015.9 million for the three months ended September 30, 2019, from $1,059.5 million for the same period in 2018, primarily due to a decrease of off-price sales within our wholesale channel and a decrease in our direct-to-consumer channel. This was partially offset by favorable impacts of returns activity within our wholesale channel, driven by approximately $12.7 million of specific customer returns that were lower than the reserves previously established.
- Net revenues in our EMEA operating segment increased $13.3 million to $161.0 million for the three months ended September 30, 2019, from $147.6 million for the same period in 2018, primarily due to growth in our wholesale channel.
- Net revenues in our Asia-Pacific operating segment increased $5.5 million to $154.9 million for the three months ended September 30, 2019, from $149.4 million for the same period in 2018, primarily due to growth in our direct-to-consumer channel; partially offset by a decrease in our wholesale channel.
- Net revenues in our Latin America operating segment decreased $2.1 million to $52.2 million for the three months ended September 30, 2019, from $54.3 million for the same period in 2018, primarily due to decreased unit sales driven by a change in our business model in Brazil from a subsidiary to a license and distributor model and a decrease in our direct-to-consumer channel; partially offset by an increase in our wholesale channel.
- Net revenues in our Connected Fitness operating segment increased $7.2 million to $39.3 million for the three months ended September 30, 2019, from $32.2 million for the same period in 2018, primarily driven by an increase in new subscription revenue and a one-time development fee from a partner.

Operating income (loss) by segment and Corporate Other is summarized below:

	Three Months Ended September 30,			
(In thousands)	2019	2018	$ Change	% Change
North America	$ 237,229	$ 253,706	$ (16,477)	(6.5) %
EMEA	21,989	16,726	5,263	31.5 %
Asia-Pacific	34,666	36,579	(1,913)	(5.2) %
Latin America	233	(3,772)	4,005	106.2 %
Connected Fitness	7,023	2,132	4,891	229.4 %
Corporate Other	(162,220)	(186,405)	24,185	13.0 %
Total operating income	$ 138,920	$ 118,966	$ 19,954	16.8 %

The increase in total operating income was driven by the following segment results:

- Operating income in our North America operating segment decreased $16.5 million to $237.2 million for the three months ended September 30, 2019, from $253.7 million for the same period in 2018, primarily driven by decreases in net revenues discussed above, partially offset by supply chain initiatives including favorable product costs.

- Operating income in our EMEA operating segment increased $5.3 million to $22.0 million for the three months ended September 30, 2019, from $16.7 million for the same period in 2018, primarily driven by increases in net revenues discussed above, which was partially offset by continued investment in operations.
- Operating income in our Asia-Pacific operating segment decreased $1.9 million to $34.7 million for the three months ended September 30, 2019, from $36.6 million for the same period in 2018, primarily driven by continued investments in our direct-to-consumer business and higher compensation expense, partially offset by better than planned pricing on inventory reserved in prior quarters.
- Operating income in our Latin America operating segment increased $4.0 million to $0.2 million for the three months ended September 30, 2019, from a loss of $3.8 million for the same period in 2018, primarily driven by expense management and changes to our business model in Brazil.
- Operating income in our Connected Fitness segment increased $4.9 million to $7.0 million for the three months ended September 30, 2019, compared to $2.1 million for the same period in 2018, primarily driven by the increase in net revenues discussed above, partially offset by increased selling expenses.

Nine Months Ended September 30, 2019 Compared to Nine Months Ended September 30, 2018

Net revenues by segment and Corporate Other are summarized below:

	Nine Months Ended September 30,			
(In thousands)	2019	2018	$ Change	% Change
North America	$ 2,675,389	$ 2,770,463	$ (95,074)	(3.4) %
EMEA	440,405	414,170	26,235	6.3 %
Asia-Pacific	453,296	390,647	62,649	16.0 %
Latin America	141,095	141,570	(475)	(0.3) %
Connected Fitness	101,385	90,098	11,287	12.5 %
Corporate Other (1)	14,337	(3,743)	18,080	483.0 %
Total net revenues	$ 3,825,907	$ 3,803,205	$ 22,702	0.6 %

(1) Corporate Other revenues consist of foreign currency hedge gains and losses related to revenues generated by entities within our geographic operating segments, but managed through our central foreign exchange risk management program.

The increase in total net revenues was driven by the following:

- Net revenues in our North America operating segment decreased $95.1 million to $2,675.4 million for the nine months ended September 30, 2019, from $2,770.5 million for the same period in 2018, primarily due to a decrease of off-price sales within our wholesale channel and a decrease in our direct-to consumer channel. This was partially offset by favorable impacts of returns activity within our wholesale channel, inclusive of approximately $20.4 million of specific customer returns that were lower than the reserves previously established.
- Net revenues in our EMEA operating segment increased $26.2 million to $440.4 million for the nine months ended September 30, 2019, from $414.2 million for the same period in 2018, primarily due to growth in our wholesale and direct-to-consumer channels.
- Net revenues in our Asia-Pacific operating segment increased $62.6 million to $453.3 million for the nine months ended September 30, 2019, from $390.6 million for the same period in 2018, primarily due to growth in our wholesale and direct-to-consumer channels.
- Net revenues in our Latin America operating segment decreased $0.5 million to $141.1 million for the nine months ended September 30, 2019, from $141.6 million for the same period in 2018, primarily due to decreased unit sales driven by a change in our business model in Brazil from a subsidiary to a license and distributor model and a decrease in our direct-to-consumer channel; partially offset by an increase in our wholesale channel.
- Net revenues in our Connected Fitness operating segment increased $11.3 million to $101.4 million for the nine months ended September 30, 2019, from $90.1 million for the same period in 2018, primarily driven by an increase in new subscription revenue and a one-time development fee from a partner. This was partially offset by a decrease in media revenue.

Operating income (loss) by segment and Corporate Other is summarized below:

(In thousands)	Nine Months Ended September 30, 2019	2018	$ Change	% Change
North America	$ 536,700	$ 534,421	$ 2,279	0.4 %
EMEA	44,700	17,935	26,765	149.2 %
Asia-Pacific	74,116	82,092	(7,976)	(9.7)%
Latin America	(4,017)	(10,339)	6,322	61.1 %
Connected Fitness	8,103	7,254	849	11.7 %
Corporate Other	(496,905)	(645,932)	149,027	23.1 %
Total operating income (loss)	$ 162,697	$ (14,569)	$ 177,266	1,216.7 %

The increase in total operating income was driven by the following segment results:

- Operating income in our North America operating segment increased $2.3 million to $536.7 million for the nine months ended September 30, 2019, from $534.4 million for the same period in 2018, primarily driven by supply chain initiatives including favorable product costs and expense management, partially offset by decreases in net revenues discussed above.
- Operating income in our EMEA operating segment increased $26.8 million to $44.7 million for the nine months ended September 30, 2019, from $17.9 million for the same period in 2018, primarily driven by increases in net revenues discussed above and a reserve related to a commercial dispute in the prior year period.
- Operating income in our Asia-Pacific operating segment decreased $8.0 million to $74.1 million for the nine months ended September 30, 2019, from $82.1 million for the same period in 2018, primarily driven by higher compensation expense and investments in our direct-to-consumer business.
- Operating loss in our Latin America operating segment decreased $6.3 million to $4.0 million for the nine months ended September 30, 2019, from $10.3 million for the same period in 2018, primarily driven by expense management and changes to our business model in Brazil.
- Operating income in our Connected Fitness segment increased $0.8 million to $8.1 million for the nine months ended September 30, 2019, from $7.3 million for the same period in 2018, primarily driven by the increase in net revenues discussed above, offset by increased application enhancements and selling expenses.

Financial Position, Capital Resources and Liquidity

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

Our inventory strategy is focused on continuing to meet consumer demand while improving our inventory efficiency over the long term by putting systems and processes in place to improve our inventory management. These systems and processes are designed to improve our forecasting and supply planning capabilities. In addition to systems and processes, key areas of focus that we believe enhance inventory performance are added discipline around the purchasing of product, production lead time reduction, and better planning and execution in selling of excess inventory through our factory house stores and other liquidation channels.

We believe our cash and cash equivalents on hand, cash from operations, our ability to access the debt capital markets, and borrowings available to us under our credit agreement and other financing instruments are adequate to meet our liquidity needs and capital expenditure requirements for at least the next twelve months. As of September 30, 2019, we had no amounts outstanding under our revolving credit facility. Although we believe we have adequate sources of liquidity over the long term, an economic recession or a slow recovery could adversely affect our business and liquidity. In addition, instability in, or tightening of the capital markets, could adversely affect our ability to obtain additional capital to grow our business on terms acceptable to us or at all.

Cash Flows

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

(In thousands)	Nine Months Ended September 30, 2019	2018
Net cash provided by (used in):		
Operating activities	$ 102,468	$ 118,817
Investing activities	(107,040)	(154,223)
Financing activities	(138,692)	(106,709)
Effect of exchange rate changes on cash and cash equivalents	4,809	520
Net increase (decrease) in cash and cash equivalents	$ (138,455)	$ (141,595)

Operating Activities

Operating activities consist primarily of net income (loss) 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, impairment charges, stock-based compensation, excess tax benefits from stock-based compensation arrangements, 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 decreased $16.3 million to $102.5 million for the nine months ended September 30, 2019 from $118.8 million for the same period in 2018. The decrease in cash provided by operating activities was primarily driven by the following:

- a decrease in cash provided by a change in accrued expenses and other liabilities of $165.8 million for the nine months ended September 30, 2019 as compared to the same period in 2018;
- a decrease in cash provided by a change in accounts receivable of $163.7 million for the nine months ended September 30, 2019 as compared to the same period in 2018; and
- a decrease in cash provided by a change in accounts payable of $30.0 million for the nine months ended September 30, 2019 as compared to the same period in 2018 .

This was partially offset by a decrease in net income adjusted for non-cash items of $195.9 million and an increase in cash provided by a change in inventory of $153.8 million for the nine months ended September 30, 2019 as compared to the same period in 2018, primarily due to improved inventory management efforts.

Investing Activities

Cash used in investing activities decreased $47.2 million to $107.0 million for the nine months ended September 30, 2019 from $154.2 million for the same period in 2018, primarily due to lower capital expenditures and the purchase of an additional 10% common stock ownership in Dome Corporation ("Dome"), our Japanese licensee in the prior year.

Capital expenditures for the full year 2019 are expected to be approximately $180.0 million, comprised primarily of investments in our retail stores, global wholesale fixtures, corporate offices and digital initiatives.

Financing Activities

Cash used in financing activities increased $32.0 million to $138.7 million for the nine months ended September 30, 2019 from $106.7 million of cash used in financing activities during the same period in 2018.

Capital Resources

Credit Facility

On March 8, 2019, we entered into an amended and restated credit agreement, amending and restating our prior credit agreement. As amended and restated, our credit agreement has a term of five years, maturing in March 2024, and provides revolving credit commitments for up to $1.25 billion of borrowings, with no term loan borrowings, which were provided for under our prior credit agreement. As of September 30, 2019, there were no amounts outstanding under our revolving credit facility. As of December 31, 2018, there were no amounts outstanding under the revolving credit facility and $136.3 million outstanding under the term loan. In January 2019, we prepaid the outstanding balance of $136.3 million on our term loan, without penalty.

At our request and the lender's consent, commitments under the credit agreement may be increased by up to $300.0 million in aggregate, subject to certain conditions as set forth in the credit agreement, as amended. Incremental borrowings are uncommitted and the availability thereof will depend on market conditions at the time we seek to incur such borrowings.

The borrowings under the revolving credit facility have maturities of less than one year. Up to $50.0 million of the facility may be used for the issuance of letters of credit. There were $5.1 million of letters of credit outstanding as of September 30, 2019.

The credit agreement contains negative covenants that, subject to significant exceptions, limit our ability to, among other things, incur additional indebtedness, make restricted payments, pledge our assets as security, make investments, loans, advances, guarantees and acquisitions, undergo fundamental changes and enter into transactions with affiliates. We are also required to maintain a ratio of consolidated EBITDA, as defined in the credit agreement, to consolidated interest expense of not less than 3.50 to 1.00, and we are not permitted to allow the ratio of consolidated total indebtedness to consolidated EBITDA to be greater than 3.25 to 1.00 ("consolidated leverage ratio"). As of September 30, 2019, we were in compliance with these ratios. In addition, the credit agreement contains events of default that are customary for a facility of this nature, and includes a cross default provision whereby an event of default under other material indebtedness, as defined in the credit agreement, will be considered an event of default under the credit agreement.

Borrowings under the credit agreement bear interest at a rate per annum equal to, at our option, either (a) an alternate base rate, or (b) a rate based on the rates applicable for deposits in the interbank market for U.S. Dollars or the applicable currency in which the loans are made (“adjusted LIBOR”), plus in each case an applicable margin. The applicable margin for loans will be adjusted by reference to a grid (the “Pricing Grid”) based on the consolidated leverage ratio and ranges between 1.00% to 1.25% for adjusted LIBOR loans and 0.00% to 0.25% for alternate base rate loans. During the three months ended September 30, 2019, there were no borrowings under the revolving credit facility. The weighted average interest rate under the revolving credit facility borrowings was 3.3% during the three months ended September 30, 2018, and 3.6% and 3.0% for the nine months ended September 30, 2019 and 2018, respectively. The weighted average interest rate under the outstanding term loan was 3.3% and 3.1% during the three and nine months ended September 30, 2018, respectively. We pay a commitment fee on the average daily unused amount of the revolving credit facility and certain fees with respect to letters of credit. As of September 30, 2019, the commitment fee was 15.0 basis points.

3.250% Senior Notes

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

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

Other Long Term Debt

In December 2012, we entered into a $50.0 million recourse loan collateralized by the land, buildings and tenant improvements comprising our corporate headquarters. In July 2018, this loan was paid in full using borrowings under our revolving credit facility.

Interest expense, net, was $5.7 million and $9.2 million for the three months ended September 30, 2019 and 2018, respectively and $15.9 million and $26.3 million for the nine months ended September 30, 2019 and 2018, respectively. Interest expense includes the amortization of deferred financing costs, bank fees, capital and built-to-suit lease interest and interest expense under the credit and other long term debt facilities.

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

Contractual Commitments and Contingencies

Other than the borrowings and repayments disclosed above in the "Capital Resources" section and changes which occur in the normal course of business, there were no significant changes to the contractual obligations reported in our 2018 Form 10-K as updated in our Form 10-Q for the quarter ended September 30, 2019.

Critical Accounting Policies and Estimates

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

Our significant accounting policies are described in Note 2 of the audited consolidated financial statements included in our 2018 Form 10-K. The SEC suggests companies provide additional disclosure on those accounting policies considered most critical. The SEC considers an accounting policy to be critical if it is important to our financial condition and results of operations and requires significant judgments and estimates on the part of management in its application. Our estimates are often based on complex judgments, probabilities and assumptions that management believes to be reasonable, but that are inherently uncertain and unpredictable. It is also possible that other professionals, applying reasonable judgment to the same facts and circumstances, could develop and support a range of alternative estimated amounts. For a complete discussion of our critical accounting policies, see the “Critical Accounting Policies” section of the MD&A in our 2018 Form 10-K. Other than adoption of recent accounting standards as discussed in Note 2 of our consolidated financial statements, there were no significant changes to our critical accounting policies during the nine months ended September 30, 2019.

Recently Issued Accounting Standards

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

ITEM 3. QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK

There have been no significant changes to our market risk since December 31, 2018. For a discussion of our exposure to market risk, refer to our Annual Report on Form 10-K for the year ended December 31, 2018.

ITEM 4. CONTROLS AND PROCEDURES

Evaluation of Disclosure Controls and Procedures

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

Changes in Internal Controls

In 2015, we began the process of implementing a global operating and financial reporting information technology system, SAP Fashion Management Solution ("FMS"), as part of a multi-year plan to integrate and upgrade our systems and processes. The first phase of this implementation became operational in July 2017, in our North America, EMEA, and Connected Fitness operations. The second phase of this implementation became operational in April 2019 in China and South Korea. We believe the implementation of the systems and related changes to internal controls will enhance our internal controls over financial reporting. We also believe the necessary steps have been taken to monitor and maintain appropriate internal control over financial reporting during this period of change and we will continue to evaluate the operating effectiveness of related key controls during subsequent periods.

We are currently in the process of developing an implementation strategy and roll-out plan for FMS in our Latin America operations over the next several years. As the phased implementation of this system continues, we will continue to experience certain changes to our processes and procedures which, in turn, result in changes to our internal control over financial reporting. In addition, we believe that our robust assessment provides effective global coverage for key control activities that support our internal controls over financial reporting conclusion. While we expect FMS to strengthen our internal financial controls by automating certain manual processes and standardizing business processes and reporting across our organization, management will continue to evaluate and monitor our internal controls as each of the affected areas evolve. For a discussion of risks related to the implementation of new systems, see Item 1A - "Risk Factors - Risks Related to Our Business - The process of implementing a new operating and information system, which involves risks and uncertainties that could adversely affect our business " in our Annual Report on Form 10-K for the year ended December 31, 2018.

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

During the quarter ended March 31, 2019, we implemented controls to ensure we adequately evaluated our contracts and properly assessed the impact of the new lease accounting standard on our financial statements in connection with the adoption of ASU 2016-02 on January 1, 2019. We also implemented controls to support the lease system and accounting under this ASU to monitor and maintain appropriate internal control over financial reporting.

PART II. OTHER INFORMATION

ITEM 1. LEGAL PROCEEDINGS

From time to time, we are involved in litigation and other proceedings, including matters related to commercial and intellectual property, as well as trade, regulatory and other claims related to our business. See Note 6 to our Consolidated Financial Statements for information on certain legal proceedings, which is incorporated by reference herein.

ITEM 1A. RISK FACTORS

In addition to the other information in this Quarterly Report on Form 10-Q, you should carefully consider the Risk Factors included in our Annual Report on Form 10-K filed with the Securities and Exchange Commission for the year ended December 31, 2018. The Company is supplementing those risk factors by adding the Risk Factor set forth below.

Our results of operations are affected by the performance of our equity investment, over which we do not exercise control.

We maintain a minority investment in our Japanese licensee, which we account for under the equity method, and are required to recognize our allocable share of its net income or loss in our consolidated financial statements. Our results of operations are affected by the performance of that business, over which we do not exercise control. We are also required to regularly review our investment for impairment, and an impairment charge may result from the occurrence of adverse events or management decisions that impact the fair value or estimated future cash flows to be generated from our investment.

ITEM 6. EXHIBITS

Exhibit No.	
3.01	Third Amended and Restated Bylaws of Under Armour, Inc. as amended (effective January 1, 2020).
31.01	Section 302 Chief Executive Officer Certification
31.02	Section 302 Chief Financial Officer Certification
32.01	Section 906 Chief Executive Officer Certification
32.02	Section 906 Chief Financial Officer Certification
101.INS	XBRL Instance Document - The instance document does not appear in the Interactive Data File because its XBRL tags are embedded within the Inline XBRL 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
104	Cover Page Interactive Data File (embedded within the Inline XBRL document)

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/ DAVID E. BERGMAN

David E. Bergman

Chief Financial Officer

Date: November 8, 2019

Exhibit 31.01

Certification of Chief Executive Officer
Pursuant to Section 302 of the Sarbanes-Oxley Act of 2002

I, Kevin A. Plank, certify that:

1. I have reviewed this quarterly report on Form 10-Q of Under Armour, Inc.;

2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;

3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this report;

4. The registrant's other certifying officer and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) and internal control over financial reporting (as defined in Exchange Act Rules 13a-15(f) and 15d-15(f)) for the registrant and have:

a) designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;

b) designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, 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;

c) evaluated the effectiveness of the registrant's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and

d) disclosed in this report any change in the registrant's internal control over financial reporting that occurred during the registrant's most recent fiscal quarter (the registrant's fourth fiscal quarter in the case of an annual report) that has materially affected, or is reasonably likely to materially affect, the registrant's internal control over financial reporting; and

5. The registrant's other certifying officer and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant's auditors and the audit committee of the registrant's board of directors (or persons performing the equivalent functions):

a) all significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the registrant's ability to record, process, summarize and report financial information; and

b) any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal control over financial reporting.

Date: November 8, 2019

/s/ KEVIN A. PLANK

Kevin A. Plank

Chairman of the Board of Directors and Chief Executive Officer
Principal Executive Officer

Exhibit 31.02

Certification of Chief Financial Officer
Pursuant to Section 302 of the Sarbanes-Oxley Act of 2002

I, David E. Bergman, certify that:

1. I have reviewed this quarterly report on Form 10-Q of Under Armour, Inc.;

2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;

3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this report;

4. The registrant's other certifying officer and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) and internal control over financial reporting (as defined in Exchange Act Rules 13a-15(f) and 15d-15(f)) for the registrant and have:

a) designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;

b) designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, 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;

c) evaluated the effectiveness of the registrant's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and

d) disclosed in this report any change in the registrant's internal control over financial reporting that occurred during the registrant's most recent fiscal quarter (the registrant's fourth fiscal quarter in the case of an annual report) that has materially affected, or is reasonably likely to materially affect, the registrant's internal control over financial reporting; and

5. The registrant's other certifying officer and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant's auditors and the audit committee of the registrant's board of directors (or persons performing the equivalent functions):

a) all significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the registrant's ability to record, process, summarize and report financial information; and

b) any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal control over financial reporting.

Date: November 8, 2019

/s/ DAVID E. BERGMAN

David E. Bergman

Chief Financial Officer Principal Financial Officer

Exhibit 32.01

Certification of Chief Executive Officer

Pursuant to 18 U.S.C. Section 1350, as created by Section 906 of the Sarbanes-Oxley Act of 2002, the undersigned officer of Under Armour, Inc. (the “Company”) hereby certifies, to such officer's knowledge, that:

(i) the quarterly report on Form 10-Q of the Company for the period ended September 30, 2019 (the “Report”) fully complies with the requirements of Section 13(a) or Section 15(d), as applicable, of the Securities Exchange Act of 1934, as amended; and

(ii) the information contained in the Report fairly presents, in all material respects, the financial condition and results of operations of the Company.

Date: November 8, 2019

/s/ KEVIN A. PLANK

Kevin A. Plank

Chairman of the Board of Directors and
Chief Executive Officer Principal Executive Officer

A signed original of this written statement required by Section 906 of the Sarbanes-Oxley Act of 2002 has been provided to Under Armour, Inc. and will be retained by Under Armour, Inc. and furnished to the Securities and Exchange Commission or its staff upon request.

Exhibit 32.02

Certification of Chief Financial Officer

Pursuant to 18 U.S.C. Section 1350, as created by Section 906 of the Sarbanes-Oxley Act of 2002, the undersigned officer of Under Armour, Inc. (the “Company”) hereby certifies, to such officer's knowledge, that:

(i) the quarterly report on Form 10-Q of the Company for the period ended September 30, 2019 (the “Report”) fully complies with the requirements of Section 13(a) or Section 15(d), as applicable, of the Securities Exchange Act of 1934, as amended; and

(ii) the information contained in the Report fairly presents, in all material respects, the financial condition and results of operations of the Company.

Date: November 8, 2019

/s/ DAVID E. BERGMAN

David E. Bergman

Chief Financial Officer Principal Financial Officer

A signed original of this written statement required by Section 906 of the Sarbanes-Oxley Act of 2002 has been provided to Under Armour, Inc. and will be retained by Under Armour, Inc. and furnished to the Securities and Exchange Commission or its staff upon request.