

Under Armour, Inc.
Form 10-Q
August 03, 2018
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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 June 30, 2018
or

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

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

UNDER ARMOUR, INC.

(Exact name of registrant as specified in its charter)

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

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

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

Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, a non-accelerated filer, 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 <input checked="" type="checkbox"/>	Accelerated filer <input type="checkbox"/>
Non-accelerated filer <input type="checkbox"/> (Do not check if a smaller reporting company)	Smaller reporting company <input type="checkbox"/>
	Emerging growth company <input type="checkbox"/>

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

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As of July 31, 2018 there were 186,065,515 shares of Class A Common Stock, 34,450,000 shares of Class B Convertible Common Stock and 224,423,898 Class C Common Stock outstanding.

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UNDER ARMOUR, INC.

June 30, 2018

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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)

	June 30, 2018	December 31, 2017	June 30, 2017
Assets			
Current assets			
Cash and cash equivalents	\$ 196,879	\$ 312,483	\$ 165,685
Accounts receivable, net	724,945	609,670	602,795
Inventories	1,299,332	1,158,548	1,168,786
Prepaid expenses and other current assets	340,359	256,978	229,204
Total current assets	2,561,515	2,337,679	2,166,470
Property and equipment, net	835,427	885,774	875,005
Goodwill	551,160	555,674	580,446
Intangible assets, net	45,880	46,995	59,866
Deferred income taxes	111,746	82,801	125,358
Other long term assets	135,424	97,444	87,099
Total assets	\$4,241,152	\$ 4,006,367	\$ 3,894,244
Liabilities and Stockholders' Equity			
Current liabilities			
Revolving credit facility, current	\$—	\$ 125,000	\$ 150,000
Accounts payable	691,163	561,108	483,210
Accrued expenses	258,567	296,841	232,680
Customer refund liability	303,730	—	—
Current maturities of long term debt	27,000	27,000	27,000
Other current liabilities	57,939	50,426	43,649
Total current liabilities	1,338,399	1,060,375	936,539
Long term debt, net of current maturities	752,370	765,046	777,717
Other long term liabilities	226,471	162,304	156,217
Total liabilities	2,317,240	1,987,725	1,870,473
Commitments and contingencies (See Note 5)			
Stockholders' equity			
Class A Common Stock, \$0.0003 1/3 par value; 400,000,000 shares authorized as of June 30, 2018, December 31, 2017 and June 30, 2017; 186,050,706 shares issued and outstanding as of June 30, 2018, 185,257,423 shares issued and outstanding as of December 31, 2017, and 184,938,771 shares issued and outstanding as of June 30, 2017.		61	62
Class B Convertible Common Stock, \$0.0003 1/3 par value; 34,450,000 shares authorized, issued and outstanding as of June 30, 2018, December 31, 2017 and June 30, 2017.		11	11
Class C Common Stock, \$0.0003 1/3 par value; 400,000,000 shares authorized as of June 30, 2018, December 31, 2017 and June 30, 2017; 224,382,239 shares issued and outstanding as of June 30, 2018, 222,375,079 shares issued and outstanding as of December 31, 2017, and 221,533,813 shares issued and outstanding as of June 30, 2017.		74	74

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Additional paid-in capital	901,851	872,266	852,230
Retained earnings	1,060,402	1,184,441	1,218,426
Accumulated other comprehensive loss	(38,489)	(38,211)	(47,032)
Total stockholders' equity	1,923,912	2,018,642	2,023,771
Total liabilities and stockholders' equity	\$4,241,152	\$4,006,367	\$3,894,244
See accompanying notes.			

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

	Three Months Ended June 30,		Six Months Ended June 30,	
	2018	2017	2018	2017
Net revenues	\$1,174,859	\$1,091,192	\$2,360,229	\$2,211,036
Cost of goods sold	648,275	589,999	1,310,192	1,201,907
Gross profit	526,584	501,193	1,050,037	1,009,129
Selling, general and administrative expenses	552,619	502,880	1,067,253	1,003,280
Restructuring and impairment charges	78,840	3,098	116,320	3,098
Income (loss) from operations	(104,875)	(4,785)	(133,536)	2,751)
Interest expense, net	(8,552)	(7,841)	(17,116)	(15,662)
Other expense, net	(8,069)	(2,884)	(5,181)	(313)
Loss before income taxes	(121,496)	(15,510)	(155,833)	(13,224)
Income tax expense (benefit)	(26,090)	(3,202)	(30,183)	1,357)
Loss from equity method investment	138	—	138	—
Net loss	\$(95,544)	\$(12,308)	\$(125,788)	\$(14,581)
Basic net loss per share of Class A, B and C common stock	\$ (0.21)	\$ (0.03)	\$ (0.28)	\$ (0.03)
Diluted net loss per share of Class A, B and C common stock	\$ (0.21)	\$ (0.03)	\$ (0.28)	\$ (0.03)
Weighted average common shares outstanding Class A, B and C common stock				
Basic	444,626	440,423	443,844	439,894
Diluted	444,626	440,423	443,844	439,894
See accompanying notes.				

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Under Armour, Inc. and Subsidiaries

Unaudited Consolidated Statements of Comprehensive Income (Loss)

(In thousands)

	Three Months Ended June 30,		Six Months Ended June 30,	
	2018	2017	2018	2017
Net loss	\$(95,544)	\$(12,308)	\$(125,788)	\$(14,581)
Other comprehensive income (loss):				
Foreign currency translation adjustment	(28,666)	5,364	(15,819)	15,183
Unrealized gain (loss) on cash flow hedge, net of tax benefit (expense) of (\$5,745) and \$2,112 for the three months ended June 30, 2018 and 2017, respectively, and (\$6,093) and \$4,511 for the six months ended June 30, 2018 and 2017, respectively.	16,303	(4,896)	17,335	(11,790)
Gain (loss) on intra-entity foreign currency transactions	(5,043)	711	(1,794)	1,718
Total other comprehensive income (loss)	(17,406)	1,179	(278)	5,111
Comprehensive loss	\$(112,950)	\$(11,129)	\$(126,066)	\$(9,470)
See accompanying notes.				

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Under Armour, Inc. and Subsidiaries`

Unaudited Consolidated Statements of Cash Flows

(In thousands)

	Six Months Ended	
	June 30,	
	2018	2017
Cash flows from operating activities		
Net loss	\$(125,788)	\$(14,581)
Adjustments to reconcile net loss to net cash provided by (used in) operating activities		
Depreciation and amortization	91,271	83,367
Unrealized foreign currency exchange rate (gains) losses	13,151	(29,393)
Loss on disposal of property and equipment	2,496	715
Impairment charges	9,660	—
Amortization of bond premium	127	127
Stock-based compensation	20,673	24,776
Excess tax deficiency from stock-based compensation arrangements	—	1,062
Deferred income taxes	(35,969)	13,735
Changes in reserves and allowances	(238,005)	(8,581)
Changes in operating assets and liabilities:		
Accounts receivable	116,896	33,787
Inventories	(158,430)	(227,190)
Prepaid expenses and other assets	(54,422)	(10,519)
Other non-current assets	768	451
Accounts payable	160,164	84,391
Accrued expenses and other liabilities	48,939	33,426
Customer refund liability	307,192	—
Income taxes payable and receivable	(12,716)	(46,320)
Net cash provided by (used in) operating activities	146,007	(60,747)
Cash flows from investing activities		
Purchases of property and equipment	(95,607)	(167,273)
Sale of property and equipment	11,285	—
Purchases of other assets	(2,536)	—
Purchase of equity method investment	(39,207)	—
Net cash used in investing activities	(126,065)	(167,273)
Cash flows from financing activities		
Proceeds from long term debt and revolving credit facility	210,000	380,000
Payments on long term debt and revolving credit facility	(348,500)	(243,500)
Employee taxes paid for shares withheld for income taxes	(1,759)	(2,474)
Proceeds from exercise of stock options and other stock issuances	8,913	6,638
Payments of debt financing costs	(11)	—
Other financing fees	87	—
Net cash provided by (used in) financing activities	(131,270)	140,664
Effect of exchange rate changes on cash, cash equivalents and restricted cash	(2,487)	4,593
Net decrease in cash, cash equivalents and restricted cash	(113,815)	(82,763)
Cash, cash equivalents and restricted cash		
Beginning of period	318,135	252,725
End of period	\$204,320	\$169,962
Non-cash investing and financing activities		

Change in accrual for property and equipment
See accompanying notes.

(31,957) (23,811)

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Under Armour, Inc. and Subsidiaries

Notes to the Unaudited Consolidated Financial Statements

1. Description of the Business

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

2. Summary of Significant Accounting Policies

Basis of Presentation

The accompanying consolidated financial statements include the accounts of Under Armour, Inc. and its wholly owned subsidiaries (the "Company"). Certain information in footnote disclosures normally included in annual financial statements was condensed or omitted for the interim periods presented in accordance with the rules and regulations of the Securities and Exchange Commission (the "SEC") and accounting principles generally accepted in the United States of America for interim consolidated financial statements. In the opinion of management, all adjustments consisting of normal, recurring adjustments considered necessary for a fair statement of the financial position and results of operations were included. Intercompany balances and transactions were eliminated. The consolidated balance sheet as of December 31, 2017 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, 2017 (the "2017 Form 10-K"), which should be read in conjunction with these consolidated financial statements. The results for the three and six months ended June 30, 2018, are not necessarily indicative of the results to be expected for the year ending December 31, 2018 or any other portions thereof.

The Company identified an immaterial prior period error in the presentation of premium subscriptions in our Connected Fitness reporting segment. Subscription revenue was previously recorded net of any related commission. Beginning in the first quarter of 2018, subscription revenue is recorded on a gross basis and the related commission cost is included in selling, general and administrative expense in the consolidated statement of operations. The Company has revised the prior periods to be consistent with the current period's presentation resulting in an increase in net revenues and selling, general and administrative expense of \$2.9 million and \$5.4 million for the three and six months ended June 30, 2017. For the year ended December 31, 2017, the Company will record additional net revenue and selling, general and administrative expense of \$12.7 million. There is no impact in any period on income (loss) from operations. The Company concluded that the error was not material to any of its previously issued financial statements.

Cash, Cash Equivalents and Restricted Cash

The Company considers all highly liquid investments with an original maturity of three months or less at 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 consolidated balance sheet. The following table provides a reconciliation of cash, cash equivalents and restricted cash reported within the consolidated balance sheet to the consolidated statement of cash flows.

	June 30, 2018	December 31, 2017	June 30, 2017
Cash and cash equivalents	\$ 196,879	\$ 312,483	\$ 165,685
Restricted cash	7,441	5,652	4,277
Total Cash, cash equivalents and restricted cash	\$ 204,320	\$ 318,135	\$ 169,962

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 and collateral is not required. One of the Company's customers accounted for 10%, 12% and 19% of accounts receivable as of June 30, 2018, December 31, 2017 and

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June 30, 2017, respectively. For the six months ended June 30, 2018 and June 30, 2017, no customer accounted for more than 10% of the Company's net revenues.

Sale of Accounts Receivable

During the first quarter of 2018, the Company entered into an agreement with a financial institution to sell selected accounts receivable on a recurring, non-recourse basis. Under this agreement, up to \$150.0 million of the Company's accounts receivable may be sold to the financial institution and remain outstanding at any point in time. The Company removes the sold accounts receivable from the 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 institution. The carrying value of sold receivables approximated the fair value at June 30, 2018.

During the six months ended June 30, 2018, the Company sold total accounts receivable of \$75.6 million. As of June 30, 2018, \$20.2 million remained outstanding. The funding fee charged by the financial institution is included in the other expense, net line item in the consolidated statement of operations.

Allowance for Doubtful Accounts

As of June 30, 2018, December 31, 2017, and June 30, 2017, the allowance for doubtful accounts was \$27.6 million, \$19.7 million and \$13.2 million, respectively.

Revenue Recognition

The Company recognizes revenue pursuant to Accounting Standards Codification 606 ("ASC 606"). Net revenues consist of both 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 Liability

Contract liability consists of payments received in advance of revenue recognition for subscriptions for our Connected Fitness applications and is included in other liabilities on the Company's consolidated balance sheet. As of June 30, 2018, contract liability was \$30.4 million. For the three and six months ended June 30, 2018, the Company recognized \$5.6 million and \$15.2 million, respectively, of revenue that was previously included in contract liability as of December 31, 2017. 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 the value of unsatisfied performance obligations for subscriptions for our

Connected Fitness applications as they have an original expected length of one year or less.

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Shipping and Handling Costs

The Company charges certain customers shipping and handling fees. These fees are recorded in net revenues. The Company 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 \$22.4 million and \$24.2 million for the three months ended June 30, 2018 and 2017, respectively, and \$46.0 million and \$48.9 million for the six months ended June 30, 2018 and 2017, respectively.

Equity Method Investment

On April 23, 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 brings the Company's total investment in Dome's common stock to 29.5%, from 19.5%. The Company accounted for its investment in Dome under the equity method, given that it has the ability to exercise significant influence, but not control, over Dome.

As of June 30, 2018, the carrying value of the Company's total investment in Dome was \$51.9 million. The Company's proportionate share of Dome's net assets exceeded our total investment by \$63.8 million and is not amortized. For the three months ended June 30, 2018, the Company recorded the allocable share of Dome's net loss in its consolidated statement of operations and as an adjustment to the invested balance. The total allocable share of net income (loss) is not expected to be material for the year ending December 31, 2018.

In addition to the investment in Dome, the Company has a license agreement with Dome. The Company recorded \$4.8 million in license revenues from Dome for the three months ended June 30, 2018. As of June 30, 2018 the Company has \$4.9 million in licensing receivables outstanding, recorded in the prepaid expenses and other current assets line item within the Company's consolidated balance sheets.

Management Estimates

The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the consolidated financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from these estimates.

Recently Issued Accounting Standards

In June 2018, the FASB issued ASU 2018-12, Compensation-Stock Compensation (Topic 718): Improvements to Non-employee Share-Based Payment Accounting. This standard simplifies the accounting for share-based payments to nonemployees by aligning it with the accounting for share-based payments to employees, with certain exceptions. This ASU is effective for fiscal years beginning after December 15, 2018. Early adoption is permitted. The Company is currently evaluating this guidance to determine the impact it may have on its consolidated financial statements.

In January 2018, the FASB released guidance on the accounting for tax on the global intangible low-taxed income ("GILTI") provisions of the Tax Act. The GILTI provisions impose a tax on foreign income in excess of a deemed return on tangible assets of foreign corporations. The guidance indicates that either accounting for deferred taxes related to GILTI inclusions or to treat any taxes on GILTI inclusions as period costs are both acceptable methods subject to an accounting policy election. The Company has not yet made an accounting policy election in regards to the GILTI provisions under the Tax Act. The Company will make its GILTI accounting policy election during the one-year measurement period as allowed by the SEC. In accordance with the FASB guidance, until a policy election is made, any taxes related to GILTI inclusion are treated as period costs.

Recently Adopted Accounting Standards

In November 2016, the FASB issued ASU 2016-18, which reduced diversity in practice in the classification and presentation of changes in restricted cash on the statement of cash flows by including restricted cash and restricted cash equivalents with cash and cash equivalents when reconciling the beginning-of-period and end-of-period total amounts shown on the statement of cash flows. The Company adopted the provisions under this ASU on January 1,

2018 on a retrospective basis. This resulted in an increase in beginning of period and end of period cash and

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cash equivalents, and restricted cash of \$2.3 million and \$4.3 million, respectively, and an increase of \$2.0 million to the cash flows from operating activities section to the Consolidated Statement of Cash Flows for the six months ended June 30, 2017.

In January of 2016, the FASB issued ASU 2016-01 which simplifies the impairment assessment of equity investments. This ASU requires equity investments to be measured at fair value with changes recognized in net income unless they do not have readily determined fair values, in which case the cost basis measurement alternative may be elected. This ASU eliminates the requirement to disclose the methods and assumptions to estimate fair value for financial instruments, requires the use of the exit price for disclosure purposes, requires the change in liability due to a change in credit risk to be presented in other comprehensive income, requires separate presentation of financial assets and liabilities by measurement category and form of asset (securities and loans) and clarifies the need for a valuation allowance on a deferred tax asset related to available-for-sale securities. The Company adopted the provisions of this ASU on January 1, 2018 on a prospective basis. The Company elected to use the measurement alternative which allows the Company to measure its equity basis investments at historical cost, less any impairment, plus or minus changes resulting from observable price changes, resulting in no changes in the carrying value of its cost basis investments.

In May 2014, the FASB issued ASU 2014-09, Revenue from Contracts with Customers (Topic 606), which supersedes the most current revenue recognition requirements. This ASU requires entities to recognize revenue in a way that depicts the transfer of goods or services to customers in an amount that reflects the consideration which the entity expects to be entitled to in exchange for those goods or services. The Company adopted the provisions under this ASU on January 1, 2018 on a modified retrospective basis resulting in a cumulative-effect benefit to retained earnings of \$3.5 million as of the date of adoption, relating to revenues for certain wholesale and e-commerce sales being recognized upon shipment rather than upon delivery to the customer. Under this approach, the Company did not restate the prior financial statements presented. The provisions under this ASU were applied to all contracts at the date of initial adoption.

On the Company's consolidated balance sheet, reserves for returns, allowances, discounts and markdowns will be included within customer refund liability, rather than accounts receivable, net, and the value of inventory associated with reserves for sales returns will be included within prepaid expenses and other current assets. On the Company's consolidated statement of operations, certain costs associated with the Company's customer support program for its wholesale customers will now be recorded in cost of goods sold. Additionally, certain free of charge product offered with a purchase will be recorded in cost of goods sold. Previously, both of these costs were recorded in selling, general and administrative expenses. Had the Company not adopted the provisions under this ASU, its consolidated balance sheet as of June 30, 2018, its consolidated statement of operations for the three and six months ended June 30, 2018, and its consolidated statement of cash flows for the six months ended June 30, 2018 would have been presented as follows:

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	June 30, 2018 (As Presented)	ASC 606 Adjustments	June 30, 2018 (As Adjusted)
Assets			
Current assets			
Cash and cash equivalents	\$ 196,879	\$ —	\$ 196,879
Accounts receivable, net	724,945	(214,214)	510,731
Inventories	1,299,332	3,270	1,302,602
Prepaid expenses and other current assets	340,359	(92,476)	247,883
Total current assets	\$ 2,561,515	\$ (303,420)	\$ 2,258,095
Non-current assets	1,679,637	1,697	1,681,334
Total assets	\$ 4,241,152	\$ (301,723)	\$ 3,939,429
Liabilities and Stockholders' Equity			
Current liabilities			
Revolving credit facility, current	\$ —	\$ —	\$ —
Accounts payable	691,163	—	691,163
Accrued expenses	258,567	—	258,567
Customer refund liability	303,730	(303,730)	—
Current maturities of long term debt	27,000	—	27,000
Other current liabilities	57,939	6,308	64,247
Total current liabilities	1,338,399	(297,422)	1,040,977
Non-current liabilities	978,841	—	978,841
Total liabilities	2,317,240	(297,422)	2,019,818
Stockholders' equity	1,923,912	(4,301)	1,919,611
Total liabilities and stockholders' equity	\$ 4,241,152	\$ (301,723)	\$ 3,939,429

	Three months ended June 30, 2018 (As Presented)	ASC 606 Adjustments	Three months ended June 30, 2018 (As Adjusted)	Six months ended June 30, 2018 (As Presented)	ASC 606 Adjustments	Six months ended June 30, 2018 (As Adjusted)
Net revenues	\$ 1,174,859	\$ 548	\$ 1,175,407	\$ 2,360,229	\$ (1,625)	\$ 2,358,604
Cost of goods sold	648,275	(898)	647,377	1,310,192	(2,831)	1,307,361
Gross profit	526,584	1,446	528,030	1,050,037	1,206	1,051,243
Selling, general and administrative expenses	552,619	1,120	553,739	1,067,253	2,306	1,069,559
Restructuring and impairment charges	78,840	—	78,840	116,320	—	116,320
Loss from operations	(104,875)	326	(104,549)	(133,536)	(1,100)	(134,636)
Interest expense, net	(8,552)	—	(8,552)	(17,116)	—	(17,116)
Other expense, net	(8,069)	—	(8,069)	(5,181)	—	(5,181)
Loss before income taxes	(121,496)	326	(121,170)	(155,833)	(1,100)	(156,933)
Income tax benefit	(26,090)	91	(25,999)	(30,183)	(307)	(30,490)
Loss from equity method investment	138	—	138	138	—	138
Net loss	\$ (95,544)	\$ 235	\$ (95,309)	\$ (125,788)	\$ (793)	\$ (126,581)

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Basic net loss per share of Class A, B and C common stock	\$(0.21)	\$ —	\$(0.21)	\$(0.28)	\$ —	\$(0.29)
Diluted net loss per share of Class A, B and C common stock	\$(0.21)	\$ —	\$(0.21)	\$(0.28)	\$ —	\$(0.29)

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	Six months ended June 30, 2018 (As Presented)	ASC 606 Adjustments	Six months ended June 30, 2018 (As Adjusted)
Cash flows from operating activities			
Net loss	\$(125,788)	\$ (793)	\$(126,581)
Adjustments to reconcile net loss to net cash provided by (used in) operating activities			
Depreciation and amortization	91,271	—	91,271
Unrealized foreign currency exchange rate (gains) losses	13,151	—	13,151
Loss on disposal of property and equipment	2,496	—	2,496
Impairment charges	9,660	—	9,660
Amortization of bond premium	127	—	127
Stock-based compensation	20,673	—	20,673
Excess tax deficiency from stock-based compensation arrangements	—	—	—
Deferred income taxes	(35,969)	(307)	(36,276)
Changes in reserves and allowances	(238,005)	213,234	(24,771)
Changes in operating assets and liabilities:			
Accounts receivable	116,896	—	116,896
Inventories	(158,430)	—	(158,430)
Prepaid expenses and other assets	(54,422)	93,970	39,548
Other non-current assets	768	—	768
Accounts payable	160,164	—	160,164
Accrued expenses and other liabilities	48,939	1,088	50,027
Customer refund liability	307,192	(307,192)	—
Income taxes payable and receivable	(12,716)	—	(12,716)
Net cash provided by operating activities	146,007	—	146,007
Cash flows from investing activities			
Net cash used in investing activities	(126,065)	—	(126,065)
Cash flows from financing activities			
Net cash provided by (used in) financing activities	(131,270)	—	(131,270)
Effect of exchange rate changes on cash, cash equivalents and restricted cash	(2,487)	—	(2,487)
Net decrease in cash, cash equivalents and restricted cash	(113,815)	—	(113,815)
Cash, cash equivalents and restricted cash			
Beginning of period	318,135	—	318,135
End of period	\$204,320	\$ —	\$204,320

3. Restructuring and Impairment

2017 Restructuring Plan

On July 27, 2017, the Company's Board of Directors approved a restructuring plan (the "2017 restructuring plan") to more closely align its financial resources with the critical priorities of the business. The Company recognized approximately \$100.4 million of pre-tax charges in connection with the 2017 restructuring plan for the year ended December 31, 2017. In addition to these charges, the Company also recognized restructuring related goodwill impairment charges of approximately \$28.6 million for its Connected Fitness business.

2018 Restructuring Plan

On February 9, 2018, the Company's Board of Directors approved an additional restructuring plan (the "2018 restructuring plan") pursuant to which approximately \$110.0 to \$130.0 million of pre-tax restructuring and related charges were expected to be incurred during the Company's 2018 fiscal year. During the six months ended June 30,

2018, the Company recognized \$129.7 million of pre-tax charges in connection with the 2018 restructuring plan. On July 23, 2018, the Company's Board of Directors approved increasing the size of the 2018 restructuring plan by approximately \$80 million for a total range of \$190.0 to \$210.0 million of total pre-tax restructuring and related charges during the 2018 fiscal year. These include:

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Up to \$155.0 million in cash charges, consisting of up to: \$75.0 million in facility and lease terminations and \$80.0 million in contract termination and other restructuring charges; and,

Up to \$55.0 million in non-cash charges comprised of approximately \$20.0 million of inventory related charges and approximately \$35.0 million of intangibles and other asset related impairments.

The summary of the costs incurred during the three and six months ended June 30, 2018 in connection with the 2018 restructuring plan are as follows:

(In thousands)	Restructuring and Impairment Charges Incurred		Estimated Restructuring and Impairment Charges to be Incurred	
	Three Months Ended June 30, 2018	Six Months Ended June 30, 2018	Six Months Ending December 31, 2018 (1)	Year Ending December 31, 2018 (1)
Costs recorded in cost of goods sold:				
Inventory write-offs	\$5,940	\$13,414	\$6,586	\$20,000
Total costs recorded in cost of goods sold	5,940	13,414	6,586	20,000
Costs recorded in restructuring and impairment charges:				
Property and equipment impairment	9,717	11,964	17,736	29,700
Other restructuring related costs	9,840	19,723	12,777	32,500
Contract exit costs	59,283	84,633	43,167	127,800
Total costs recorded in restructuring and impairment charges	78,840	116,320	73,680	190,000
Total restructuring, impairment and restructuring related costs	\$84,780	\$129,734	\$80,266	\$210,000

(1) Estimated restructuring and impairment charges to be incurred reflect the high-end of the range of the estimated remaining charges expected to be taken by the Company during 2018 in connection with the restructuring plan.

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

	Employee Related Costs	Contract Exit Costs	Other Restructuring Related Costs
Balance at January 1, 2018	\$4,555	\$2,848	\$3,000
Additions charged to expense	—	82,548	10,400
Cash payments charged against reserve	(906)	(6,168)	(3,000)
Changes in reserve estimate	\$(768)	\$463	\$—
Balance at June 30, 2018	\$2,881	\$79,691	\$10,400

4. Long Term Debt

Credit Facility

The Company is party to a credit agreement that provides revolving credit commitments for up to \$1.25 billion of borrowings, as well as term loan commitments, in each case maturing in January 2021. As of June 30, 2018, there were no amounts outstanding under the revolving credit facility and \$148.8 million of term loan borrowings outstanding. 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 \$4.5 million of letters of credit outstanding as of June 30, 2018.

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 June 30, 2018, 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

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provision whereby an event of default under other material indebtedness, as defined in the credit agreement, will be considered under the credit agreement.

Borrowings under the credit agreement bear interest at a rate per annum equal to, at the Company's option, either (a) an alternate base rate, or (b) a rate based on the rates applicable for deposits in the interbank market for U.S. Dollars or the applicable currency in which the loans are made ("adjusted LIBOR"), plus in each case an applicable margin. The applicable margin for loans will be adjusted by reference to a grid (the "Pricing Grid") based on the consolidated leverage ratio and ranges between 1.00% to 1.25% for adjusted LIBOR loans and 0.00% to 0.25% for alternate base rate loans. The weighted average interest rates under the outstanding term loans were 3.3% and 2.2% during the three months ended June 30, 2018 and 2017, respectively, and 3.1% and 2.0% for the six months ended June 30, 2018 and 2017, respectively. The weighted average interest rate under the revolving credit facility borrowings were 2.9% and 2.2% during the three months ended June 30, 2018 and 2017, respectively, and 2.8% and 2.0% for the six months ended June 30, 2018 and 2017, 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 June 30, 2018, the commitment fee was 15.0 basis points. Since inception, the Company incurred and deferred \$3.9 million in financing costs in connection with the credit agreement.

3.250% Senior Notes

In June 2016, the Company issued \$600.0 million aggregate principal amount of 3.250% senior unsecured notes due June 15, 2026 (the "Notes"). 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. On July 17, 2018, this loan was paid in full using borrowings under the Company's revolving credit facility. The loan had a seven year term and maturity date of December 2019. The loan bore interest at one month LIBOR plus a margin of 1.50%, and allowed for prepayment without penalty. As of June 30, 2018, December 31, 2017 and June 30, 2017, the outstanding balance on the loan was \$39.0 million, \$40.0 million and \$41.0 million, respectively. The weighted average interest rate on the loan was 3.4% and 2.5% for the three months ended June 30, 2018 and 2017, respectively, and 3.2% and 2.4% for the six months ended June 30, 2018 and 2017, respectively.

Interest expense, net, was \$8.6 million and \$7.8 million for the three months ended June 30, 2018 and 2017, respectively, and \$17.1 million and \$15.7 million for the six months ended June 30, 2018, and 2017, respectively.

Interest expense includes the amortization of deferred financing costs, bank fees, capital and built-to-suit lease interest and interest expense under the credit and other long term debt facilities.

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

5. Commitments and Contingencies

There were no significant changes to the contractual obligations reported in the 2017 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

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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

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 “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 a motion to dismiss the Amended Complaint, which is still pending with the Court. The Company believes that the claims asserted in the Consolidated Action 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.

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.

In *Mioduszewski v. Plank, et al.*, filed on April 16, 2018, the complaint asserts 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 the director defendants aided and abetted Mr. Plank’s alleged breach of his fiduciary duties. The complaint also asserts an unjust enrichment claim against Mr. Plank. The complaint seeks damages on behalf of the Company and certain corporate governance-related actions. In *King v. Plank, et al.*, filed on April 30, 2018, the complaint asserts similar breach of fiduciary duty claims against Mr. Plank and the director defendants and also

claims 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 of land to the Company. The King complaint also asserts an unjust enrichment claim against Mr. Plank and Sagamore. It asserts similar damages to the damages sought in the Mioduszewski complaint.

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). The other complaint was filed in the United States District

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Court for the District of Maryland (in a case captioned Andersen v. Plank et al. (filed July 23, 2018)). These 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. All three complaints assert breach of fiduciary duty and unjust enrichment claims against the individual defendants. The Kenney complaint also makes allegations similar to those in the King and Mioduszewski complaints 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 assert similar damages to the damages sought in the Mioduszewski complaint.

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

During the quarter ended March 31, 2018, an unauthorized third party acquired data associated with the Company's Connected Fitness users' accounts for the Company's MyFitnessPal application and website. A consumer class action lawsuit has been filed against the Company in connection with this incident, 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.

6. Fair Value Measurements

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

Level 1: Observable inputs such as quoted prices in active markets;

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

Level 3: Unobservable inputs for which there is little or no market data, which require the reporting entity to develop its own assumptions.

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

	June 30, 2018		December 31, 2017		June 30, 2017	
(In thousands)	Level 1	Level 2	Level 1	Level 2	Level 1	Level 2
Derivative foreign currency contracts (see Note 8)	-14,034	—	-(6,818)	—	-(4,554)	—
Interest rate swap contracts (see Note 8)	-2,430	—	-1,088	—	-(35)	—
TOLI policies held by the Rabbi Trust	-5,772	—	-5,756	—	-5,258	—
Deferred Compensation Plan obligations	-(8,447)	—	-(7,971)	—	-(8,753)	—

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 gains and losses on derivative contracts, which is the net difference between the U.S. dollar value to be received or paid at the contracts' settlement date and the U.S. dollar value of the foreign currency to be sold or purchased at the current market exchange rate. The interest rate swap contracts represent gains and losses on the derivative contracts, which is the net difference between the fixed interest

to be paid and variable interest to be received over the term of the contract based on current market rates. The fair value of the trust owned life insurance (“TOLI”) policies held by the Rabbi Trust is based on the cash-

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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 June 30, 2018, December 31, 2017 and June 30, 2017, the fair value of the Company's Senior Notes was \$538.6 million, \$526.3 million and \$562.4 million, respectively. The carrying value of the Company's other long term debt approximated its fair value as of June 30, 2018, December 31, 2017 and June 30, 2017. 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.

7. 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 six months ended June 30, 2018, 0.8 million performance-based restricted stock units and 0.3 million performance-based stock options for shares of the Company's Class C common stock were awarded under the Company's Second Amended and Restated 2005 Omnibus Long-Term Incentive Plan, as amended. The performance-based restricted stock units and options have weighted average grant date fair values of \$15.41 and \$6.91, respectively, and have vesting conditions tied to the achievement of an operating income target for 2018. Upon the achievement of the target, one fourth of the restricted stock units and options will vest each in February 2019, 2020, 2021 and 2022.

During 2017, the Company granted performance-based restricted stock units and options with vesting conditions tied to the achievement of certain combined annual revenue and operating income targets for 2017 and 2018. As of June 30, 2018, the Company deemed the achievement of these targets improbable. As such, no expense for these awards has been recorded during the three and six ended June 30, 2018.

8. Risk Management and Derivatives

Foreign Currency Risk Management

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

As of June 30, 2018, the aggregate notional value of the Company's outstanding foreign currency contracts was \$617.7 million, which was comprised of Canadian Dollar/U.S. Dollar, Euro/U.S. Dollar, Yen/Euro, Mexican Peso/Euro and Pound Sterling/Euro currency pairs with contract maturities ranging from one to thirteen months. A portion of the Company's foreign currency contracts are not designated as cash flow hedges, and accordingly, changes in their fair value are recorded in earnings. The Company also enters into foreign currency contracts designated as cash flow hedges. For foreign currency contracts designated as cash flow hedges, changes in fair value, excluding any ineffective portion, are recorded in other comprehensive income until net income is affected by the variability in cash flows of the hedged transaction. The effective portion is generally released to net income after the maturity of the related derivative and is classified in the same manner as the underlying exposure.

The Company reclassified from other comprehensive income to cost of goods sold related to foreign currency contracts designated as cash flow hedges \$0.5 million and \$0.9 million during the three months ended June 30, 2018 and 2017, respectively, and \$2.5 million and \$1.7 million during the six months ended June 30, 2018 and 2017,

respectively. The fair value of the Company's foreign currency contracts were assets of \$14 million as of June 30, 2018 and were included in other current assets on the consolidated balance sheet. The fair values of the Company's foreign currency contracts were liabilities of \$6.8 million and \$4.6 million as of December 31, 2017 and June 30, 2017, respectively, and were included in other current liabilities on the consolidated balance sheet. Refer to Note 6 for a

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discussion of the fair value measurements. Included in other expense, net were the following amounts related to changes in foreign currency exchange rates and derivative foreign currency contracts:

(In thousands)	Three Months		Six Months Ended	
	Ended June 30,		June 30,	
	2018	2017	2018	2017
Unrealized foreign currency exchange rate gains	\$18,181	\$21,080	\$13,151	\$29,393
Realized foreign currency exchange rate gains (losses)	3,412	(2,084)	1,037	(2,356)
Unrealized derivative losses	(344)	(521)	(309)	(1,225)
Realized derivative losses	(12,860)	(16,425)	(8,634)	(22,790)

Interest Rate Risk Management

In order to maintain liquidity and fund business operations, the Company enters into long term debt arrangements with various lenders which bear a range of fixed and variable rates of interest. The nature and amount of the Company's long term debt can be expected to vary as a result of future business requirements, market conditions and other factors. The Company may elect to enter into interest rate swap contracts to reduce the impact associated with interest rate fluctuations. The Company utilizes interest rate swap contracts to convert a portion of variable rate debt to fixed rate debt. The contracts pay fixed and receive variable rates of interest. The interest rate swap contracts are accounted for as cash flow hedges. Accordingly, the effective portion of the changes in their fair value are recorded in other comprehensive income and reclassified into interest expense over the life of the underlying debt obligation. Refer to Note 4 for a discussion of long term debt.

As of June 30, 2018, the notional value of the Company's outstanding interest rate swap contracts was \$126.9 million. During the three months ended June 30, 2018 and 2017, the Company recorded a \$0.1 million decrease and \$0.3 million increase in interest expense, respectively, representing the effective portion of the contract reclassified from accumulated other comprehensive income. During the six months ended June 30, 2018 and 2017, the Company recorded a \$0.1 million decrease and \$0.6 million increase in interest expense, respectively, representing the effective portion of the contract reclassified from accumulated other comprehensive income. The fair values of the interest rate swap contracts were assets of \$2.4 million and \$1.1 million, as of June 30, 2018 and June 30, 2017, respectively. The fair values of the interest rate swap contracts were liabilities of less than \$35.0 thousand as of June 30, 2017 and were included in other long term liabilities on the consolidated balance sheet.

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

9. Provision for Income Taxes

The effective rates for income taxes were 21.5% and 20.6% for the three months ended June 30, 2018 and 2017, respectively. The effective tax rate for the three months ended June 30, 2018 was higher than the effective tax rate for the three months ended June 30, 2017, primarily due to the impact of valuation allowances recorded in certain foreign markets in relation to the pre-tax loss for the three months in each year and a measurement-period adjustment related to the Tax Cuts and Jobs Act (the "Tax Act") recorded during the three months ended June 30, 2018, partially offset by decreased excess tax benefits on stock based compensation recorded during the three months ended June 30, 2018.

On December 22, 2017, the Tax Act was enacted in the United States. The Company recognized the income tax effects of the Tax Act in its 2017 financial statements in accordance with Staff Accounting Bulletin No. 118, which provides SEC staff guidance for the application of ASC Topic 740, Income Taxes, in the reporting period in which the Tax Act, as defined below, was signed into law. As noted in the 2017 financial statements, we were able to reasonably estimate certain effects and, therefore, recorded provisional amounts associated with the one-time transition tax on indefinitely reinvested foreign earnings and the adjustment to our deferred tax assets and liabilities for the reduction in the corporate income tax rate. As noted in the 2017 financial statements, the Company did not identify items for which the income tax effects of the Tax Act have not been completed and a reasonable estimate could not be determined.

During the three months ended June 30, 2018, the Company received consent from the Internal Revenue Service for a change in income tax accounting method filed in the fourth quarter of 2017. As a result, a measurement-period

adjustment of \$3.7 million was made to the provisional amount recorded in Company's 2017

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financial statements for the adjustment to our deferred tax assets and liabilities for the reduction in the corporate income tax rate. The effect of the measurement-period adjustment on the effective tax rate for the three months ended June 30, 2018 was approximately 3.1% percent. As the Company is continuing to review all information and collect and prepare necessary data to finalize the adjustment to our deferred tax assets and liabilities for the reduction in the corporate income tax rate, our accounting for this item is not yet complete. We expect to complete our accounting within the prescribed measurement period.

We have not made any additional measurement period adjustments related to the one-time transition tax on indefinitely reinvested foreign earnings during the three months ended June 30, 2018. As we continue our analysis of the Tax Act, review all information, collect and prepare necessary data, and interpret any additional guidance, we may make adjustments to the provisional amounts that we have recorded that may materially impact our provision for income taxes. Any subsequent adjustment will be recorded to current income tax expense in the quarter of 2018 when the analysis is completed. We expect to complete our accounting within the prescribed measurement period.

The Company evaluates on a quarterly basis whether its deferred tax assets are realizable which requires significant judgment. We consider all available positive and negative evidence, including historical operating performance and expectations of future operating performance. To the extent we believe it is more likely than not that all or some portion of the asset will not be realized, valuation allowances are established against our deferred tax assets, which increase income tax expense in the period when such a determination is made.

As noted in the 2017 financial statements, 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 our challenged U.S. results we incurred significant net operating losses (“NOLs”) in these jurisdictions in 2017 and continued losses during the six months ended June 30, 2018. The Company continues to believe, as of June 30, 2018, 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 June 30, 2018 and consistent with prior periods valuation allowances have been recorded against select U.S. State and foreign net operating losses.

10. Earnings per Share

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

(In thousands, except per share amounts)	Three Months Ended		Six Months Ended	
	June 30, 2018	2017	June 30, 2018	2017
Numerator				
Net loss	\$(95,544)	\$(12,308)	\$(125,788)	\$(14,581)
Denominator				
Weighted average common shares outstanding Class A, B and C	444,626	440,423	443,844	439,894
Basic net loss per share of Class A, B and C common stock	\$(0.21)	\$(0.03)	\$(0.28)	\$(0.03)
Diluted net loss per share of Class A, B and C common stock	\$(0.21)	\$(0.03)	\$(0.28)	\$(0.03)

Effects of potentially dilutive securities are presented only in periods in which they are dilutive. Due to the Company being in a net loss position for the three and six months ended June 30, 2018 and 2017, 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.

11. Segment Data and Related Information

The Company’s operating segments are based on how the Chief Operating Decision Maker (“CODM”) makes decisions about allocating resources and assessing performance. As such, the CODM receives discrete financial information for the Company’s principal business by geographic region based on the Company’s strategy to become a global brand. These geographic regions include North America, Latin America, Europe, the Middle East and Africa (“EMEA”), and Asia-Pacific. Each geographic segment operates exclusively in one industry: the development, marketing and distribution of branded performance apparel, footwear and accessories. The CODM also receives discrete financial

information for the Company's Connected Fitness business. Total expenditures for additions to long-lived assets are not disclosed as this information is not regularly provided to the CODM.

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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. The majority of corporate service costs within North America have not been allocated to the Company's other segments. As the Company continues to grow its business outside of North America, a larger portion of its corporate overhead costs have begun to support global functions.

	Three Months Ended		Six Months Ended	
	June 30,		June 30,	
(In thousands)	2018	2017	2018	2017
Net revenues				
North America	\$843,383	\$829,805	\$1,710,928	\$1,701,076
EMEA	135,901	103,896	262,833	206,751
Asia-Pacific	125,706	93,574	241,259	179,392
Latin America	40,757	38,001	87,271	76,455
Connected Fitness	29,112	25,916	57,938	47,362
Total net revenues	\$1,174,859	\$1,091,192	\$2,360,229	\$2,211,036
(In thousands)	Three Months Ended		Six Months Ended	
	June 30,		June 30,	
	2018	2017	2018	2017
Operating income (loss)				
North America		\$(93,192)	\$(5,417)	\$(136,687)
EMEA		(10,155)	(4,616)	(13,782)
Asia-Pacific		18,657	15,249	39,898
Latin America		(21,791)	(8,093)	(27,661)
Connected Fitness		1,606	(1,908)	4,696
Total operating income (loss)		(104,875)	(4,785)	(133,536)
Interest expense, net		(8,552)	(7,841)	(17,116)
Other expense, net		(8,069)	(2,884)	(5,181)
Loss before income taxes		\$(121,496)	\$(15,510)	\$(155,833)

The operating income (loss) information presented above includes the impact of restructuring and impairment charges related to the Company's restructuring plans. Charges incurred and expected to be incurred by segment in connection with the 2018 restructuring plan are as follows:

(In thousands)	Costs Incurred		Estimated Costs to be Incurred	
	Three Months Ended June 30, 2018	Six Months Ended June 30, 2018	Six Months Ending December 31, 2018	Year Ending December 31, 2018
Costs recorded in restructuring and impairment charges:				
North America	\$65,429	\$96,467	\$45,380	\$141,847
EMEA	3,173	8,590	11,200	19,790
Asia-Pacific	—	—	500	500
Latin America	10,238	11,263	16,600	27,863
Connected Fitness	—	—	—	—
Total costs recorded in restructuring and impairment charges	\$78,840	\$116,320	\$73,680	\$190,000

(1) This table excludes additional non-cash charges of \$5.9 million and \$13.4 million for the three and six months ended June 30, 2018, respectively, and estimated non-cash charges of \$6.6 million for the six months ended

December 31, 2018 associated with the reduction of inventory outside of current liquidation channels in line with the 2018 restructuring plan.

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Net revenues by product category are as follows:

(In thousands)	Three Months Ended		Six Months Ended June	
	June 30, 2018	2017	30, 2018	2017
Net Revenues				
Apparel	\$747,294	\$680,653	\$1,513,569	\$1,396,090
Footwear	271,375	236,925	543,145	506,583
Accessories	105,906	122,588	198,064	211,686
Total net sales	1,124,575	1,040,166	2,254,778	2,114,359
License revenues	21,172	25,110	47,513	49,315
Connected Fitness	29,112	25,916	57,938	47,362
Total net revenues	\$1,174,859	\$1,091,192	\$2,360,229	\$2,211,036

Net revenues by distribution channel are as follows:

(In thousands)	Three Months Ended		Six Months Ended June	
	June 30, 2018	2017	30, 2018	2017
Net Revenues				
Wholesale	\$710,408	\$654,648	\$1,489,000	\$1,427,268
Direct to Consumer	414,167	385,518	765,778	687,091
Net Sales	1,124,575	1,040,166	2,254,778	2,114,359
Licensing	21,172	25,110	47,513	49,315
Connected Fitness	29,112	25,916	57,938	47,362
Total net revenues	\$1,174,859	\$1,091,192	\$2,360,229	\$2,211,036

12. Subsequent Events

On July 6, 2018, the Company entered into an agreement to sell its Brazilian subsidiary. The sale is subject to customary closing considerations and is expected to close during the third quarter of 2018. The Company's Brazil business currently represents less than 1% of the Company's net revenue and is not considered material to the Company's consolidated results of operations. In addition, the closing of this transaction is not expected to have a material impact on projected future cash flows for the Latin America reporting segment. In connection with this divestiture, the Company expects to enter into a license agreement with the buyer who will continue to sell the Company's products in Brazil. As of June 30, 2018, the assets associated with this divestiture did not meet held for sale classification criteria.

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, our anticipated charges and restructuring costs and the timing of these measures, the impact of the Tax Act on our results of operations, the development and introduction of new products, the implementation of our marketing and branding strategies 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," "ou" "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

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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, 2017 filed with the Securities and Exchange Commission (“SEC”) (our “2017 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 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;
- 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 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 the world's largest digital health and fitness community and our strategy is focused on engaging with these consumers and increasing awareness and sales of our products.

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Our net revenues grew to \$4,976.6 million in 2017 from \$2,332.1 million in 2013. We believe that our growth in net revenues has been driven by a growing interest in performance products and the strength of the Under Armour brand in the marketplace. 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 June 30, 2018 as compared to the prior year period include:

• Net revenues increased 7.7%.

• Wholesale revenue increased 8.5% and Direct to Consumer revenue increased 7.4%.

• Apparel and footwear revenue increased 9.8% and 14.5%, respectively, while accessories revenue decreased 13.6%.

• Revenue in our North America, Asia-Pacific, EMEA and Latin America segments increased 1.6%, 34.3%, 30.8% and 7.3%, respectively.

• Selling, general and administrative expense increased 9.9%.

• Gross margin decreased 110 basis points.

2017 Restructuring

On July 27, 2017, our Board of Directors approved a restructuring plan (the "2017 restructuring plan") to more closely align our financial resources with the critical priorities of the business. We recognized approximately \$100.4 million of pre-tax charges in connection with this restructuring plan for the year ended December 31, 2017. In addition to these charges, we also recognized restructuring related goodwill impairment charges of approximately \$28.6 million for our Connected Fitness business.

2018 Restructuring

On February 9, 2018, our Board of Directors approved an additional restructuring plan (the "2018 restructuring plan") pursuant to which approximately \$110.0 to \$130.0 million of pre-tax restructuring and related charges were expected to be incurred during the 2018 fiscal year. During the six months ended June 30, 2018, we recognized \$129.7 million of pre-tax charges in connection with the 2018 restructuring plan.

On July 23, 2018, the Company's Board of Directors approved increasing the size of the 2018 restructuring plan by approximately \$80 million for a total range of \$190.0 to \$210.0 million of total pre-tax restructuring and related charges during the 2018 fiscal year. These include:

• Up to \$155.0 million in cash charges, consisting of up to: \$75.0 million in facility and lease terminations and \$80.0 million in contract termination and other restructuring charges; and,

• Up to \$55.0 million in non-cash charges comprised of approximately \$20.0 million of inventory related charges and approximately \$35.0 million of intangibles and other asset related impairments.

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 license and Connected Fitness revenues, primarily website hosting costs and other costs related to our Connected Fitness business.

We include outbound freight costs associated with shipping goods to customers as cost of goods sold; however, we include the majority of outbound handling costs as a component of selling, general and administrative expenses. As a result, our gross profit may not be comparable to that of other companies that include outbound handling costs in their cost of goods sold. Outbound handling costs include costs associated with preparing goods to ship to customers and certain costs to operate our distribution facilities. These costs were \$22.4 million and \$24.2 million for the three

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months ended June 30, 2018 and 2017, respectively, and \$46.0 million and \$48.9 million for the six months ended June 30, 2018 and 2017.

Our selling, general and administrative expenses consist of costs related to marketing, selling, product innovation and supply chain and corporate services. We consolidate our selling, general and administrative expenses into two primary categories: marketing and other. The other category is the sum of our selling, product innovation and supply chain and corporate services categories. Personnel costs are included in these categories based on the employees' function. Personnel costs include salaries, benefits, incentives and stock-based compensation related to our employees. Our marketing costs are an important driver of our growth. Marketing costs consist primarily of commercials, league, team, player and event sponsorships and depreciation expense specific to our in-store fixture program for our concept shops.

Other expense, net consists of unrealized and realized gains and losses on our foreign currency derivative financial instruments and unrealized and realized gains and losses on adjustments that arise from fluctuations in foreign currency exchange rates relating to transactions generated by our international subsidiaries.

Results of Operations

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

(in thousands)	Three Months Ended June 30,		Six Months Ended June 30,	
	2018	2017	2018	2017
Net revenues	\$1,174,859	\$1,091,192	\$2,360,229	\$2,211,036
Cost of goods sold	648,275	589,999	1,310,192	1,201,907
Gross profit	526,584	501,193	1,050,037	1,009,129
Selling, general and administrative expenses	552,619	502,880	1,067,253	1,003,280
Restructuring and impairment charges	78,840	3,098	116,320	3,098
Income (loss) from operations	(104,875)	(4,785)	(133,536)	2,751
Interest expense, net	(8,552)	(7,841)	(17,116)	(15,662)
Other expense, net	(8,069)	(2,884)	(5,181)	(313)
Loss before income taxes	(121,496)	(15,510)	(155,833)	(13,224)
Income tax expense (benefit)	(26,090)	(3,202)	(30,183)	1,357
Loss from equity method investment	138	—	138	—
Net loss	\$(95,544)	\$(12,308)	\$(125,788)	\$(14,581)

(As a percentage of net revenues)	Three Months Ended June 30,		Six Months Ended June 30,	
	2018	2017	2018	2017
Net revenues	100.0 %	100.0 %	100.0 %	100.0 %
Cost of goods sold	55.2 %	54.1 %	55.5 %	54.4 %
Gross profit	44.8 %	45.9 %	44.5 %	45.6 %
Selling, general and administrative expenses	47.0 %	46.1 %	45.2 %	45.4 %
Restructuring and impairment charges	6.7 %	0.3 %	4.9 %	0.1 %
Income (loss) from operations	(8.9)%	(0.4)%	(5.7)%	0.1 %
Interest expense, net	(0.7)%	(0.7)%	(0.7)%	(0.7)%
Other expense, net	(0.7)%	(0.3)%	(0.2)%	— %
Loss before income taxes	(10.3)%	(1.4)%	(6.6)%	(0.6)%
Income tax expense (benefit)	(2.2)%	(0.3)%	(1.3)%	0.1 %
Loss from equity method investment	— %	— %	— %	— %
Net loss	(8.1)%	(1.1)%	(5.3)%	— %