Under Armour, Inc.
Form 10-K
February 25, 2019
Under Armour, Inc.Large Accelerated
Filer10-K2018FYfalsefalsefalseFALSEYesNoYes4,163,565,0414,673,904,8140001336917--12-31December 31,
2018.0003.0003400,000,000400,000,000187,710,319185,257,423187,710,319185,257,423.0003.000334,450,00034,450,00034

Table of Contents

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

---

# Form 10-K

---

**(Mark One)**

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

**For the fiscal year ended December 31, 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 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** | **New York Stock Exchange** |
| **Class C Common Stock** | **New York Stock Exchange** |
| **(Title of each class)** | **(Name of each exchange on which registered)** |

**Securities registered pursuant to Section 12(g) of the Act:**
**None**

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

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

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

Indicate by check mark whether the registrant has submitted electronically and posted on its corporate Web site, if any, every Interactive Data File required to be submitted and posted pursuant to Rule 405 of Regulation S-T (§229.405 of this chapter) during the preceding 12 months (or for such shorter period that the registrant was required to submit and post such files. Yes þ No ¨

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

Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, a non-accelerated filer, a smaller reporting company, or an emerging growth company. See the 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 þ | Accelerated filer ¨ | |
| Non-accelerated filer ¨ (Do not check if a smaller reporting company) | | 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 Act). Yes ¨ No þ

As of June 29, 2018, the last business day of our most recently completed second fiscal quarter, the aggregate market value of the registrant's Class A Common Stock and Class C Common Stock held by non-affiliates was $4,163,565,041 and $4,673,904,814, respectively.

As of January 31, 2019, there were 187,788,898 shares of Class A Common Stock, 34,450,000 shares of Class B Convertible Common Stock and 226,515,394 shares of Class C Common Stock outstanding.

**DOCUMENTS INCORPORATED BY REFERENCE**
Portions of Under Armour, Inc.'s Proxy Statement for the Annual Meeting of Stockholders to be held on May 9, 2019 are incorporated by reference in Part III of this Form 10-K.

Table of Contents

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

Table of Contents

**PART I**

# ITEM 1. BUSINESS

## General

Our principal business activities are the development, marketing and distribution of branded performance apparel, footwear and accessories for men, women and youth. The brand's performance apparel and footwear are engineered in many designs and styles for wear in nearly every climate to provide a performance alternative to traditional products. Our products are sold worldwide and are worn by athletes at all levels, from youth to professional, on playing fields around the globe, as well as by consumers with active lifestyles.

We generate net revenues from the sale of our products globally to national, regional, independent and specialty wholesalers and distributors. We also generate net revenue from the sale of our products through our direct to consumer sales channel, which includes our brand and factory house stores and websites. In addition, we generate net revenues through product licensing and digital fitness subscriptions and digital advertising on our Connected Fitness applications. A large majority of our products are sold in North America; however we believe that our products appeal to athletes and consumers with active lifestyles around the globe.

We plan to continue to grow our business over the long term through increased sales of our apparel, footwear and accessories, expansion of our wholesale distribution, growth in our direct to consumer sales channel and expansion in international markets. Our digital strategy is focused on supporting these long term objectives, emphasizing the connection and engagement with our consumers through multiple digital touch points, including through our Connected Fitness business.

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

## Products

Our product offerings consist of apparel, footwear and accessories for men, women and youth. We market our products at multiple price levels and provide consumers with products that we believe are a superior alternative to traditional athletic products. In 2018, sales of apparel, footwear and accessories represented 67%, 20% and 8% of net revenues, respectively. Licensing arrangements and revenue from our Connected Fitness business represented the remaining 5% of net revenues. Refer to Note 16 to the Consolidated Financial Statements for net revenues by product.

*Apparel*

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

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

COLDGEAR® is designed to wick moisture from the body while circulating body heat from hot spots to help maintain core body temperature. Our COLDGEAR® apparel provides both dryness and warmth in a single light

1

Table of Contents

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

*Footwear*

Our footwear offerings include running, basketball, cleated, slides and performance training, sportstyle, and outdoor footwear. Our footwear is light, breathable and built with performance attributes for athletes. Our footwear is designed with innovative technologies including UA HOVR™, Anafoam™, UA Clutch Fit® and Charged Cushioning®, which provide stabilization, directional cushioning and moisture management engineered to maximize the athlete's comfort and control.

*Accessories*

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

*Connected Fitness*

We offer digital fitness subscriptions, along with digital advertising through our MapMyFitness, MyFitnessPal and Endomondo platforms. Our MapMyFitness platform includes applications, such as MapMyRun and MapMyRide.

*License*

We have agreements with licensees to develop certain Under Armour apparel, accessories and equipment. In order to maintain consistent quality and performance, our product, marketing, sales and quality assurance teams are involved in substantially all steps of the design and go to market process in order to maintain brand and compliance standards and consistency. During 2018, our licensees offered collegiate, National Football League ("NFL") and National Basketball Association ("NBA") apparel and accessories, baby and youth apparel, team uniforms, socks, water bottles, eyewear and other specific hard goods equipment that feature performance advantages and functionality similar to our other product offerings.

## Marketing and Promotion

We currently focus on marketing our products to consumers primarily for use in athletics, fitness, and training activities and as part of an active lifestyle. We seek to drive consumer demand by building brand awareness that our products deliver advantages to help athletes perform better.

*Sports Marketing*

Our marketing and promotion strategy begins with providing and selling our products to high-performing athletes and teams at the high school, collegiate and professional levels. We execute this strategy through outfitting agreements, professional, club, and collegiate sponsorship, individual athlete and influencer agreements and by providing and selling our products directly to team equipment managers and to individual athletes. We also seek to sponsor and host consumer events to drive awareness and brand authenticity from a grassroots level by hosting combines, camps and clinics for young athletes in many sports. As a result, our products are seen on the field and on the court, and by various consumer audiences through the internet, television, magazines and live at sporting events. This exposure to consumers helps us establish on-field authenticity as consumers can see our products being worn by high-performing athletes.

We are the official outfitter of athletic teams in several high-profile collegiate conferences. We are an official supplier of footwear and gloves to the NFL and a partner with the NBA which allows us to market our NBA athletes in game uniforms in connection with our products, including basketball footwear. We are the official headwear and performance apparel provider for the NFL Scouting Combine and the official partner and title sponsor of the NBA Draft Combine. In each case we have the right to sell licensed combine training apparel and headwear. In 2018, we exited our agreement to be the Official On-Field Uniform Supplier, Official Authentic Performance Apparel Partner, and Official Connected Fitness Partner of MLB, while retaining our rights as an Official Performance Footwear Supplier and Sponsor of MLB. In 2018, we worked with a manufacturing and distribution partner to sell MLB fan wear at retail. We sponsor and sell our products to international sports teams, which helps to drive brand awareness in various countries and regions around the world.

2

Table of Contents

*Media*

We feature our products in a variety of national digital, broadcast, and print media outlets. We also utilize social and mobile media to engage consumers and promote connectivity with our brand and our products. For example, in 2018, we had a digitally led marketing approach for the launch of our UA HOVR™ run franchise, which included a variety of content on various social media platforms.

*Retail Presentation*

The primary goal of our retail marketing strategy is to increase brand floor space dedicated to our products within our major retail accounts. The design and funding of Under Armour point of sale displays and concept shops within our major retail accounts has been a key initiative for securing prime floor space, educating the consumer and creating an exciting environment for the consumer to experience our brand. Under Armour point of sale displays and concept shops enhance our brand's presentation within our major retail accounts with a shop-in-shop approach, using dedicated floor space exclusively for our products, including flooring, lighting, walls, displays and images.

## Sales and Distribution

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

We also sell our products directly to consumers through our own network of brand and factory house stores and through websites globally. Factory house stores serve an important role in our overall inventory management by allowing us to sell a significant portion of excess, discontinued and out-of-season products while maintaining the pricing integrity of our brand in our other distribution channels. Through our brand house stores, consumers experience the premium full expression of our brand while having broader access to our performance products. In 2018, sales through our wholesale, direct to consumer, licensing and Connected Fitness channels represented 60%, 35%, 3% and 2% of net revenues, respectively.

We believe the trend toward performance products is global and plan to continue to introduce our products and simple merchandising story to athletes throughout the world. We are introducing our performance products and services outside of North America in a manner consistent with our past brand-building strategy, including selling our products directly to teams and individual athletes in these markets, thereby providing us with product exposure to broad audiences of potential consumers.

Our primary business operates in four geographic segments: (1) North America, comprising the United States and Canada, (2) Europe, the Middle East and Africa "EMEA", (3) Asia-Pacific, and (4) Latin America. Each of these geographic segments operate predominantly in one industry: the design, development, marketing and distribution of performance apparel, footwear and accessories. We also operate our Connected Fitness business as a separate segment. The majority of corporate service costs within North America have not been allocated to our other segments. As we continue to grow our business outside of North America, a larger portion of our corporate overhead costs have begun to support global functions. During 2019, we plan to exclude certain corporate costs from our segment profitability measures. We believe this presentation will provide the users of our financial statements with increased transparency and comparability of our operating segments.

Our North America segment accounted for approximately 72% of our net revenues for 2018. Approximately 26% of our net revenues were generated from our international segments in 2018. Approximately 2% of our net revenues were generated from our Connected Fitness segment in 2018. No customer accounted for more than 10% of our net revenues in 2018. We plan to continue to grow our business over the long term in part through continued expansion in new and established international markets. Refer to Note 16 to the Consolidated Financial Statements for net revenues by segment.

*North America*

We sell our branded apparel, footwear and accessories in North America through our wholesale and direct

to consumer channels. Net revenues generated from the sales of our products in the United States were $3.5 billion, $3.6 billion and $3.8 billion for the years ended December 31, 2018, 2017 and 2016 respectively.
Our direct to consumer sales are generated through our brand and factory house stores and internet websites. As of December 31, 2018, we had 163 factory house stores in North America primarily located in outlet centers throughout the United States. As of December 31, 2018, we had 16 brand house stores in North America. Consumers can purchase our products directly from our e-commerce website, www.underarmour.com.


---

Table of Contents

In addition, we earn licensing revenue in North America based on our licensees' sale of collegiate and league apparel and accessories, as well as sales of other licensed products.

We distribute the majority of our products sold to our North American wholesale customers and our own retail stores and e-commerce businesses from distribution facilities we lease and operate in California, Maryland and Tennessee. In addition, we distribute our products in North America through third-party logistics providers with primary locations in Canada, New Jersey and Florida. In some instances, we arrange to have products shipped from the factories that manufacture our products directly to customer-designated facilities.

*EMEA*

We sell our apparel, footwear and accessories primarily through wholesale customers, website operations, independent distributors and a limited number of stores we operate in certain European countries. We also sell our branded products to various sports clubs and teams in Europe. We generally distribute our products to our retail customers and e-commerce consumers in Europe through a third-party logistics provider in the Netherlands. We sell our apparel, footwear and accessories through independent distributors in the Middle East and Africa.

*Asia-Pacific*

We sell our apparel, footwear and accessories products in China, South Korea and Australia through stores operated by our distribution and wholesale partners, along with website operations and stores we operate. We also sell our products to distributors in New Zealand, Taiwan, Hong Kong and other countries in Southeast Asia where we do not have direct sales operations. We distribute our products in Asia-Pacific primarily through a third-party logistics provider based in Hong Kong.

We have a license agreement with Dome Corporation, which produces, markets and sells our branded apparel, footwear and accessories in Japan. Our branded products are sold in Japan to large sporting goods retailers, independent specialty stores and professional sports teams, and through licensee-owned retail stores. We hold an equity method investment in Dome.

*Latin America*

We sell our products in Mexico, Chile, Colombia and Argentina through wholesale customers, website operations and brand and factory house stores. In these countries we operate through third-party distribution facilities. In other Latin American countries we distribute our products through independent distributors which are sourced primarily through our international distribution hub in Panama. On October 1, 2018, we sold our Brazilian Subsidiary. In connection with this sale, we entered into a license and distribution agreement with a third party that will continue to sell our products in Brazil.

*Connected Fitness*

In 2013, we began offering digital fitness subscriptions, along with digital advertising through our MapMyFitness platform. In 2015, we acquired the Endomondo and MyFitnessPal platforms to create our Connected Fitness segment. We plan to engage this community by developing innovative services and other digital solutions to impact how athletes and fitness-minded individuals train, perform and live.

## Seasonality

Historically, we have recognized a majority of our net revenues and a significant portion of our income from operations in the last two quarters of the year, driven primarily by increased sales volume of our products during the fall selling season, including our higher priced cold weather products, along with a larger proportion of higher margin direct to consumer sales. The level of our working capital generally reflects the seasonality and growth in our business. We generally expect inventory, accounts payable and certain accrued expenses to be higher in the second and third quarters in preparation for the fall selling season.

## Product Design and Development

Our products are developed in collaboration with our product development teams and manufactured with technical fabrications produced by third parties. This approach enables us to select and create superior,

technically advanced materials, curated to our specifications, while focusing our product development efforts on style, performance and fit.
With a mission to make athletes better, we seek to deliver superior performance in all products. Our developers proactively identify opportunities to create and improve performance products that meet the evolving needs of our consumer. We design products with consumer-valued technologies, utilizing color, texture and fabrication to enhance our consumers perception and understanding of product use and benefits.

Table of Contents

Our product development team works closely with our sports marketing and sales teams as well as professional and collegiate athletes to identify product trends and determine market needs. For example, these teams worked closely to identify the opportunity and market for our COLDGEAR® Infrared product, which is a ceramic print technology on the inside of our garments that provides athletes with lightweight warmth, and UA HOVR™, a proprietary underfoot cushioning wrapped in a mesh web, equipped with a MapMyRun powered sensor designed to deliver energy return and real-time coaching. In 2017 we also opened our newest center for footwear performance innovation located in Portland, Oregon, bringing together footwear design and development teams into a centralized location.

## Sourcing, Manufacturing and Quality Assurance

Many of the specialty fabrics and other raw materials used in our apparel products are technically advanced products developed by third parties and may be available, in the short term, from a limited number of sources. The fabric and other raw materials used to manufacture our apparel products are sourced by our contracted manufacturers from a limited number of suppliers pre-approved by us. In 2018, approximately 49% of the fabric used in our apparel products came from 5 suppliers. These fabric suppliers have primary locations in Taiwan, Malaysia, Mexico, Vietnam and Turkey. The fabrics used by our suppliers and manufacturers are primarily synthetic and involve raw materials, including petroleum based products that may be subject to price fluctuations and shortages. We also use cotton in some of our apparel products, as a blended fabric and also in our CHARGED COTTON® line. Cotton is a commodity that is subject to price fluctuations and supply shortages. Additionally, our footwear uses raw materials that are sourced from a diverse base of third party suppliers. This includes chemicals and petroleum-based components such as rubber that are also subject to price fluctuations and supply shortages.

Substantially all of our products are manufactured by unaffiliated manufacturers. In 2018, our apparel and accessories products were manufactured by 44 primary contract manufacturers, operating in 16 countries, with approximately 58% of our apparel and accessories products manufactured in Jordan, Vietnam, China and Malaysia. Of our 44 primary contract manufacturers, 10 produced approximately 55% of our apparel and accessories products. In 2018, our footwear products were manufactured by five primary contract manufacturers, operating primarily in China, Vietnam and Indonesia. These five primary contract manufacturers produced approximately 87% of our footwear products.

All manufacturers across all product divisions are evaluated for quality systems, social compliance and financial strength by our internal teams prior to being selected and on an ongoing basis. Where appropriate, we strive to qualify multiple manufacturers for particular product types and fabrications. We also seek out vendors that can perform multiple manufacturing stages, such as procuring raw materials and providing finished products, which helps us to control our cost of goods sold. We enter into a variety of agreements with our contract manufacturers, including non-disclosure and confidentiality agreements, and we require that all of our manufacturers adhere to a code of conduct regarding quality of manufacturing, working conditions and other social concerns. We do not, however, have any long term agreements requiring us to utilize any manufacturer, and no manufacturer is required to produce our products for the long term. We have subsidiaries strategically located near our key partners to support our manufacturing, quality assurance and sourcing efforts for our products. We also manufacture a limited number of products, primarily for high-profile athletes and teams, on-premises in our quick turn, Special Make-Up Shop located at one of our facilities in Maryland.

## Inventory Management

Inventory management is important to the financial condition and operating results of our business. We manage our inventory levels based on existing orders, anticipated sales and the rapid-delivery requirements of our customers. Our inventory strategy is focused on continuing to meet consumer demand while improving our inventory efficiency over the long term by putting systems and processes in place to improve our inventory management. These systems and processes, including our new global operating and financial reporting information technology system, are designed to improve our forecasting and supply planning capabilities. In addition to systems and processes, key areas of focus that we believe will enhance inventory performance are added discipline around the purchasing of product, production lead time reduction, and better planning and execution in selling of excess inventory through our factory house stores and other liquidation channels.

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

Table of Contents

## Intellectual Property

We believe we own the material trademarks used in connection with the marketing, distribution and sale of our products, both domestically and internationally, where our products are currently sold or manufactured. Our major trademarks include the UA Logo and UNDER ARMOUR®, both of which are registered in the United States, Canada, Mexico, the European Union, Japan, China and numerous other countries. We also own trademark registrations for other trademarks including, among others, UA®, ARMOUR®, HEATGEAR®, COLDGEAR®, PROTECT THIS HOUSE®, I WILL®, and many trademarks that incorporate the term ARMOUR such as ARMOURBOX®, ARMOUR® FLEECE, and ARMOUR BRA®. We also own applications to protect new connected fitness branding such as MyFitnessPal®, MapMyFitness® and associated MapMy marks and UNDER ARMOUR CONNECTED FITNESS™. We own domain names for our primary trademarks (most notably underarmour.com and ua.com) and hold copyright registrations for several commercials, as well as for certain artwork. We intend to continue to strategically register, both domestically and internationally, trademarks and copyrights we utilize today and those we develop in the future. We will continue to aggressively police our trademarks and pursue those who infringe, both domestically and internationally.

We believe the distinctive trademarks we use in connection with our products are important in building our brand image and distinguishing our products from those of others. These trademarks are among our most valuable assets. In addition to our distinctive trademarks, we also place significant value on our trade dress, which is the overall image and appearance of our products, and we believe our trade dress helps to distinguish our products in the marketplace.

We traditionally have had limited patent protection on some of the technology, materials and processes used in the manufacture of our products. In addition, patents are increasingly important with respect to our innovative products and new businesses and investments. As we continue to expand and drive innovation in our products, we expect to seek patent protection on products, features and concepts we believe to be strategic and important to our business. We will continue to file patent applications where we deem appropriate to protect our new products, innovations and designs that align with our corporate strategy. We expect the number of applications to increase as our business grows and as we continue to expand our products and innovate.

## Competition

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

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

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

## Employees

As of December 31, 2018, we had approximately 15,000 employees, including approximately 9,600 in our brand and factory house stores and approximately 1,800 at our distribution facilities. Approximately 7,000 of our employees were full-time. Most of our employees are located in the United States. None of our employees in the United States are currently covered by a collective bargaining agreement and there are no material collective bargaining agreements in effect in any of our international locations. We have had no labor-related work stoppages, and we believe our relations with our employees are good.

Table of Contents

## Available Information

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

Table of Contents

## ITEM 1A. RISK FACTORS

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

The forward-looking statements contained in this Form 10-K and the documents incorporated herein by reference reflect our current views about future events and are subject to risks, uncertainties, assumptions and changes in circumstances that may cause events or our actual activities or results to differ significantly from those expressed in any forward-looking statement. Although we believe that the expectations reflected in the forward-looking statements are reasonable, we cannot guarantee future events, results, actions, levels of activity, performance or achievements. Readers are cautioned not to place undue reliance on these forward-looking statements. A number of important factors could cause actual results to differ materially from those indicated by these forward-looking statements, including, but not limited to, those factors described in “Risk Factors” and “Management’s Discussion and Analysis of Financial Condition and Results of Operations.” These factors include without limitation:

- changes in general economic or market conditions that could affect 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;
- 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-K reflect our views and assumptions only as of the date of this Form 10-K. We undertake no obligation to update any forward-looking statement to reflect events or circumstances after the date on which the statement is made or to reflect the occurrence of unanticipated events.

Table of Contents

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

**During a downturn in the economy, consumer purchases of discretionary items are affected, which could materially harm our sales, profitability and financial condition and our prospects for growth.**
Many of our products may be considered discretionary items for consumers. Factors affecting the level of consumer spending for such discretionary items include general economic conditions, unemployment, the availability of consumer credit and consumer confidence in future economic conditions. Uncertainty in global economic conditions continues, and trends in consumer discretionary spending remain unpredictable. However, consumer purchases of discretionary items tend to decline during recessionary periods when disposable income is lower or during other periods of economic instability or uncertainty, which may slow our growth more than we anticipate. A downturn in the economies in markets in which we sell our products, particularly in North America, may materially harm our sales, profitability and financial condition and our prospects for growth.

**We derive a substantial portion of our sales from large wholesale customers. If the financial condition of our customers declines, our financial condition and results of operations could be adversely impacted.**
In 2018, sales through our wholesale channel represented approximately 60% of our net revenues. We extend credit to our wholesale customers based on an assessment of a customer’s financial condition, generally without requiring collateral. We face increased risk of order reduction or cancellation when dealing with financially ailing customers or customers struggling with economic uncertainty. During weak economic conditions, customers may be more cautious with orders or may slow investments necessary to maintain a high quality in-store experience for consumers, which may result in lower sales of our products. In addition, a slowing economy in our key markets or a continued decline in consumer purchases of sporting goods generally could have an adverse effect on the financial health of our customers. From time to time certain of our customers have experienced financial difficulties. To the extent one or more of our customers experience significant financial difficulty, bankruptcy, insolvency or cease operations, this could have a material adverse effect on our sales, our ability to collect on receivables and our financial condition and results of operations.

**A decline in sales to, or the loss of, one or more of our key customers could result in a material loss of net revenues and negatively impact our prospects for growth.**
We generate a significant portion of our wholesale revenues from sales to our largest customers. We currently do not enter into long term sales contracts with our key customers, relying instead on our relationships with these customers and on our position in the marketplace. As a result, we face the risk that these key customers may not increase their business with us as we expect, or may significantly decrease their business with us or terminate their relationship with us. The failure to increase our sales to these customers as much as we anticipate would have a negative impact on our growth prospects and any decrease or loss of these key customers' business could result in a material decrease in our net revenues and net income. In addition, our customers continue to experience ongoing industry consolidation, particularly in the sports specialty sector. As this consolidation continues, it increases the risk that if any one customer significantly reduces their purchases of our products, we may be unable to find sufficient alternative customers to continue to grow our net revenues, or our net revenues may decline.

**We may not successfully execute our long-term strategies, which may negatively impact our results of operations.**

Our ability to execute on our long-term strategies depends, in part, on successfully executing on strategic growth initiatives in key areas, such as our international business, footwear and our global direct to consumer sales channel. Our growth in these areas depends on our ability to continue to successfully expand our global network of brand and factory house stores, grow our e-commerce and mobile application offerings throughout the world and continue to successfully increase our product offerings and market share in footwear. If we are unable to grow net revenues in our international business at the rate we expect, or if our North America business, which represented 72% of our total net revenues in 2018, were to experience significant market disruption, our ability to continue to invest in these growth initiatives would be negatively impacted. In addition, our long-term strategy depends on our



---

Table of Contents

ability to successfully drive expansion of our gross margins, manage our cost structure and drive return on our investments. If we cannot effectively execute our long-term growth strategies while managing costs effectively, our business could be negatively impacted and we may not achieve our expected results of operations.

**We may not fully realize the expected benefits of our restructuring plans or other operating or cost-saving initiatives, which may negatively impact our profitability.**

In 2017 and 2018 we executed restructuring plans designed to more closely align our financial resources against the critical priorities of our business. These plans included initiatives to improve operational efficiencies, and included reductions in our global workforce. We may not achieve our targeted operational improvements and efficiencies, which could adversely impact our results of operations and financial condition. In addition, implementing any restructuring plan presents significant potential risks that may impair our ability to achieve anticipated operating improvements and/or cost reductions. These risks include, among others, higher than anticipated costs in implementing our restructuring plans, management distraction from ongoing business activities, failure to maintain adequate controls and procedures while executing our restructuring plans, damage to our reputation and brand image and workforce attrition beyond planned reductions. If we fail to achieve targeted operating improvements and/or cost reductions, our profitability and results of operations could be negatively impacted, which may be dilutive to our earnings in the short term.

**We must successfully manage the increasingly complex operations of our global business, or our business and results of operations may be negatively impacted.**

We have expanded our business and operations rapidly since our inception and we must continue to successfully manage the operational difficulties associated with expanding our business to meet increased consumer demand throughout the world. We may experience difficulties in obtaining sufficient raw materials and manufacturing capacity to produce our products, as well as delays in production and shipments, as our products are subject to risks associated with overseas sourcing and manufacturing. We must also continually evaluate the need to expand critical functions in our business, including sales and marketing, product development and distribution functions, our management information systems and other processes and technology. To support these functions, we must hire, train and manage an increasing number of employees. We may not be successful in undertaking these types of initiatives cost effectively or at all, and could experience serious operating difficulties if we fail to do so. These growth efforts could also increase the strain on our existing resources. If we experience difficulties in supporting the growth of our business, we could experience an erosion of our brand image and a decrease in net revenues and net income.

**If we are unable to anticipate consumer preferences, successfully develop and introduce new, innovative and updated products or engage our consumers, our net revenues and profitability may be negatively impacted.**

Our success depends on our ability to identify and originate product trends as well as to anticipate and react to changing consumer demands in a timely manner. All of our products are subject to changing consumer preferences that cannot be predicted with certainty. In addition, long lead times for certain of our products may make it hard for us to quickly respond to changes in consumer demands. Our new products may not receive consumer acceptance as consumer preferences could shift rapidly to different types of performance or other sports products or away from these types of products altogether, and our future success depends in part on our ability to anticipate and respond to these changes.

Even if we are successful in anticipating consumer preferences, our ability to adequately react to and address those preferences will in part depend upon our continued ability to develop and introduce innovative, high-quality products. If we fail to introduce technical innovation in our products or design products in the categories and styles that consumers want, demand for our products could decline and our brand image could be negatively impacted. Our failure to anticipate and respond timely to changing consumer preferences or to effectively introduce new products and enter into new product categories that are accepted by consumers could result in a decrease in net revenues and excess inventory levels, which could have a material adverse effect on our financial condition. In addition, if we experience problems with the quality of our products, our brand reputation may be negatively impacted and we may incur substantial expense to remedy the problems, which could negatively impact our results of operations.

Table of Contents

In addition, consumer preferences regarding the shopping experience continue to rapidly evolve. If we or our wholesale customers do not provide consumers with an attractive in-store experience, or if we do not continue to provide an engaging and user-friendly digital commerce platform that attracts consumers, our brand image and results of operations could be negatively impacted.

**Our results of operations could be materially harmed if we are unable to accurately forecast demand for our products.**

To ensure adequate inventory supply, we must forecast inventory needs and place orders with our manufacturers before firm orders are placed by our customers. In addition, a significant portion of our net revenues are generated by at-once orders for immediate delivery to customers, particularly during the last two quarters of the year, which historically has been our peak season. If we fail to accurately forecast customer demand we may experience excess inventory levels or a shortage of product to deliver to our customers.

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

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

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

The difficulty in forecasting demand also makes it difficult to estimate our future results of operations and financial condition from period to period. A failure to accurately predict the level of demand for our products could adversely impact our profitability or cause us not to achieve our expected financial results.

**Sales of performance products may not continue to grow or may decline, which could negatively impact our sales and our ability to grow our business.**

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

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

The market for performance apparel, footwear and accessories is highly competitive and includes many new competitors as well as increased competition from established companies expanding their production and marketing of performance products. Because we own a limited number of fabric or process patents, our current and

Table of Contents
future competitors are able to manufacture and sell products with performance characteristics and fabrications similar to certain of our products. Many of our competitors are large apparel and footwear companies with strong worldwide brand recognition. Due to the fragmented nature of the industry, we also compete with other manufacturers, including those specializing in products similar to ours and private label offerings of certain retailers, including some of our retail customers. Many of our competitors have significant competitive advantages, including greater financial, distribution, marketing and other resources, longer operating histories, better brand recognition among consumers, more experience in global markets and greater economies of scale. In addition, our competitors have long term relationships with our key retail customers that are potentially more important to those customers because of the significantly larger volume and product mix that our competitors sell to them. As a result, these competitors may be better equipped than we are to influence consumer preferences or otherwise increase their market share by:
•quickly adapting to changes in customer requirements or consumer preferences;
•readily taking advantage of acquisition and other opportunities;
•discounting excess inventory that has been written down or written off;
•devoting resources to the marketing and sale of their products, including significant advertising, media placement, partnerships and product endorsement;
•adopting aggressive pricing policies; and
•engaging in lengthy and costly intellectual property and other disputes.
In addition, while one of our growth strategies has been to increase floor space for our products in retail stores and generally expand our distribution to other retailers, retailers have limited resources and floor space, and we must compete with others to develop relationships with them. Increased competition by existing and future competitors could result in reductions in floor space in retail locations, reductions in sales or reductions in the prices of our products, and if retailers have better sell through or earn greater margins from our competitors’ products, they may favor the display and sale of those products. Our inability to compete successfully against our competitors and maintain our gross margin could have a material adverse effect on our business, financial condition and results of operations.

**Our profitability may decline as a result of increasing pressure on pricing.**
Our industry is subject to significant pricing pressure caused by many factors, including intense competition, consolidation in the retail industry, pressure from retailers to reduce the costs of products and changes in consumer demand. These factors may cause us to reduce our prices to retailers and consumers or engage in more promotional activity than we anticipate, which could negatively impact our margins and cause our profitability to decline if we are unable to offset price reductions with comparable reductions in our operating costs. This could have a material adverse effect on our results of operations and financial condition. In addition, ongoing and sustained promotional activities could negatively impact our brand image.

**Fluctuations in the cost of products could negatively affect our operating results.**
The fabrics used by our suppliers and manufacturers are made of raw materials including petroleum-based products and cotton. Significant price fluctuations or shortages in petroleum or other raw materials can materially adversely affect our cost of goods sold. In addition, certain of our manufacturers are subject to government regulations related to wage rates, and therefore the labor costs to produce our products may fluctuate. The cost of transporting our products for distribution and sale is also subject to fluctuation due in large part to the price of oil. Because most of our products are manufactured abroad, our products must be transported by third parties over large geographical distances and an increase in the price of oil can significantly increase costs. Manufacturing delays or unexpected transportation delays can also cause us to rely more heavily on airfreight to achieve timely delivery to our customers, which significantly increases freight costs. Any of these fluctuations may increase our cost of products and have an adverse effect on our profit margins, results of operations and financial condition.

12

Table of Contents

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

Many of the materials used in our products are technically advanced products developed by third parties and may be available, in the short-term, from a very limited number of sources. Substantially all of our products are manufactured by unaffiliated manufacturers, and, in 2018, 10 manufacturers produced approximately 55% of our apparel and accessories products, and five produced approximately 87% of our footwear products. We have no long term contracts with our suppliers or manufacturing sources, and we compete with other companies for fabrics, raw materials, production and import quota capacity.

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

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

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

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

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

A significant element of our future growth strategy depends on our expansion efforts outside of North America. During the year ended December 31, 2018, 72% of our net revenues were earned in our North America segment. We have limited experience with regulatory environments and market practices in certain regions outside of North America, and may face difficulties in expanding to and successfully operating in those markets. International expansion may place increased demands on our operational, managerial and administrative resources and may be more costly than we expect. In addition, in connection with expansion efforts outside of North America, we may face cultural and linguistic differences, differences in regulatory environments, labor practices and market practices and difficulties in keeping abreast of market, business and technical developments and customers' tastes and preferences. We may also encounter difficulty expanding into new markets because of more limited brand recognition leading to delayed acceptance of our products. Failure to successfully grow our business outside North America would negatively impact our ability to achieve our long-term growth targets.

Table of Contents

**Our financial results and ability to grow our business may be negatively impacted by economic, regulatory and political risks beyond our control.**

Substantially all of our manufacturers are located outside of the United States and an increasing amount of our net revenue is generated by sales in our international business. As a result, we are subject to risks associated with doing business abroad, including:

- political or labor unrest, terrorism and economic instability resulting in the disruption of trade from foreign countries in which our products are manufactured;
- currency exchange fluctuations or requirements to transact in specific currencies;
- the imposition of new laws and regulations, including those relating to labor conditions, quality and safety standards, as well as rules and regulations regarding climate change;
- uncertainties and the effects of the United Kingdom's referendum to withdraw from the European Union and the associated financial, legal, tax and trade implications;
- actions of foreign or U.S. governmental authorities impacting trade and foreign investment, particularly during periods of heightened tension between U.S. and foreign governments, including the imposition of new import limitations, duties, anti-dumping penalties, trade restrictions or restrictions on the transfer of funds;
- reduced protection for intellectual property rights in some countries;
- disruptions or delays in shipments; and
- changes in local economic conditions in countries where ourstores, customers, manufacturers and suppliers are located.

These risks could hamper our ability to sell products in international markets, negatively affect the ability of our manufacturers to produce or deliver our products or procure materials and increase our cost of doing business generally, any of which could have an adverse effect on our results of operations, cash flows and financial condition. In the event that one or more of these factors make it undesirable or impractical for us to conduct business in a particular country, our business could be adversely affected.

**If we fail to successfully manage or realize expected results from acquisitions and other significant investments, or if we are required to recognize an impairment of our goodwill, it may have an adverse effect on our results of operations and financial position.**

From time to time we may engage in acquisition opportunities we believe are complementary to our business and brand. Integrating acquisitions can also require significant efforts and resources, which could divert management attention from more profitable business operations. If we fail to successfully integrate acquired businesses, we may not realize the financial benefits or other synergies we anticipated. In addition, in connection with our acquisitions, we may record goodwill or other indefinite-lived intangible assets. We have recognized goodwill impairment charges in the past. If an acquired business does not produce results consistent with financial models used in our analysis of an acquisition, or if reporting units carrying goodwill do not meet our current expectations of future growth rates or market factors outside of our control change significantly, then one or more of our reporting units or intangible assets might become impaired, which could have an adverse effect on our results of operations and financial position.

**Our credit agreement contains financial covenants, and both our credit agreement and debt securities contain other restrictions on our actions, which could limit our operational flexibility or otherwise adversely affect our financial condition.**

We have, from time to time, financed our liquidity needs in part from borrowings made under our credit facility and the issuance of debt securities. Our debt securities limit our ability to, subject to certain significant exceptions, incur secured debt and engage in sale leaseback transactions. Our credit agreement contains negative covenants that, subject to significant exceptions limit our ability, among other things to incur additional indebtedness, make restricted payments, pledge assets as security, make investments, loans, advances, guarantees and acquisitions, undergo fundamental changes and enter into transactions with affiliates. In addition, we must maintain a certain leverage ratio and interest coverage ratio as defined in the credit agreement, and in the past we have amended our credit agreement to increase these ratios in certain quarterly periods Specifically, in 2018 we amended the credit agreement to increase these ratios for the second and third quarters of 2018. Failure to comply with these operating or financial covenants could result from, among other things, changes in our results of operations or general economic conditions. These covenants may restrict our ability to engage in transactions

Table of Contents
that would otherwise be in our best interests. Failure to comply with any of the covenants under the credit agreement or our debt securities could result in a default. In addition, the credit agreement includes a cross default provision whereby an event of default under certain other debt obligations (including our debt securities) will be considered an event of default under the credit agreement. If an event of default occurs, the commitments of the lenders under the credit agreement may be terminated and the maturity of amounts owed may be accelerated. Our debt securities include a cross acceleration provision which provides that the acceleration of certain other debt obligations (including our credit agreement) will be considered an event of default under our debt securities and, subject to certain time and notice periods, give bondholders the right to accelerate our debt securities.

**We may need to raise additional capital required to grow our business, and we may not be able to raise capital on terms acceptable to us or at all.**
Growing and operating our business will require significant cash outlays and capital expenditures and commitments. We have utilized cash on hand and cash generated from operations, accessed our credit facility and issued debt securities as sources of liquidity. If cash on hand and cash generated from operations are not sufficient to meet our cash requirements, we will need to seek additional capital, potentially through debt or equity financing, to fund our growth. Our ability to access the credit and capital markets in the future as a source of liquidity, and the borrowing costs associated with such financing, are dependent upon market conditions and our credit rating and outlook. Our credit ratings have been downgraded previously, and we cannot assure that we will be able to maintain our current ratings, which could increase our cost of borrowing in the future. In addition, equity financing may be on terms that are dilutive or potentially dilutive to our stockholders, and the prices at which new investors would be willing to purchase our securities may be lower than the current price per share of our common stock. The holders of new securities may also have rights, preferences or privileges which are senior to those of existing holders of common stock. If new sources of financing are required, but are insufficient or unavailable, we will be required to modify our growth and operating plans based on available funding, if any, which would harm our ability to grow our business.

**Our operating results are subject to seasonal and quarterly variations in our net revenues and income from operations, which could adversely affect the price of our publicly traded common stock.**
We have experienced, and expect to continue to experience, seasonal and quarterly variations in our net revenues and income from operations. These variations are primarily related to the mix of our products sold during the fall selling season, including our higher price cold weather products, along with a larger proportion of higher margin direct to consumer sales. Our quarterly results may also vary based on the timing of customer orders. The majority of our net revenues were generated during the last two quarters in each of 2018, 2017 and 2016, respectively.
Our quarterly results of operations may also fluctuate significantly as a result of a variety of other factors, including, among other things, the timing of marketing expenses and changes in our product mix. Variations in weather conditions may also have an adverse effect on our quarterly results of operations. For example, warmer than normal weather conditions throughout the fall or winter may reduce sales of our COLDGEAR® line, leaving us with excess inventory and operating results below our expectations.
As a result of these seasonal and quarterly fluctuations, we believe that comparisons of our operating results between different quarters within a single year are not necessarily meaningful and that these comparisons cannot be relied upon as indicators of our future performance. Any seasonal or quarterly fluctuations that we report in the future may not match the expectations of market analysts and investors. This could cause the price of our publicly traded stock to fluctuate significantly.

**Our financial results could be adversely impacted by currency exchange rate fluctuations.**

We generated approximately 26% of our consolidated net revenues outside the United States. As our international business grows, our results of operations could be adversely impacted by changes in foreign currency exchange rates. Revenues and certain expenses in markets outside of the United States are recognized in local foreign currencies, and we are exposed to potential gains or losses from the translation of those amounts into U.S. dollars for consolidation into our financial statements. Similarly, we are exposed to gains and losses resulting from currency exchange rate fluctuations on transactions generated by our foreign subsidiaries in currencies other than their local currencies. In addition, the business of our independent manufacturers may also be disrupted by currency

Table of Contents

exchange rate fluctuations by making their purchases of raw materials more expensive and more difficult to finance. As a result, foreign currency exchange rate fluctuations may adversely impact our results of operations.

**The value of our brand and sales of our products could be diminished if we are associated with negative publicity.**

Our business could be adversely impacted if negative publicity regarding our brand, our company or our business partners diminishes the appeal of our brand to consumers. For example, while we require our suppliers, manufacturers and licensees of our products to operate their businesses in compliance with applicable laws and regulations as well as the social and other standards and policies we impose on them, including our code of conduct, we do not control their practices. A violation, or alleged violation of our policies, labor laws or other laws could interrupt or otherwise disrupt our sourcing or damage our brand image. Negative publicity regarding production methods, alleged practices or workplace or related conditions of any of our suppliers, manufacturers or licensees could adversely affect our reputation and sales and force us to locate alternative suppliers, manufacturers or licensees.

In addition, we have sponsorship contracts with a variety of athletes and feature those athletes in our advertising and marketing efforts, and many athletes and teams use our products, including those teams or leagues for which we are an official supplier. Actions taken by athletes, teams or leagues associated with our products could harm the reputations of those athletes, teams or leagues. These and other types of negative publicity, especially through social media which potentially accelerates and increases the scope of negative publicity, could negatively impact our brand image and result in diminished loyalty to our brand, regardless of whether such claims are accurate. This could have a negative effect on our sales and results of operations.

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

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

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

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

Our international operations are also subject to compliance with the U.S. Foreign Corrupt Practices Act, or FCPA, and other anti-bribery laws applicable to our operations. Although we have policies and procedures to address compliance with the FCPA and similar laws, there can be no assurance that all of our employees, agents and other partners will not take actions in violations of our policies. Any such violation could subject us to sanctions or other penalties that could negatively affect our reputation, business and operating results.

Table of Contents

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

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

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

Our business relies on information technology. Our ability to effectively manage and maintain our inventory and internal reports, and to ship products to customers and invoice them on a timely basis depends significantly on our enterprise resource planning, warehouse management, and other information systems. We also heavily rely on information systems to process financial and accounting information for financial reporting purposes. Any of these information systems could fail or experience a service interruption for a number of reasons, including computer viruses, programming errors, hacking or other unlawful activities, disasters or our failure to properly maintain system redundancy or protect, repair, maintain or upgrade our systems. The failure of our information systems to operate effectively or to integrate with other systems, or a breach in security of these systems could cause delays in product fulfillment and reduced efficiency of our operations, which could negatively impact our financial results. If we experienced any significant disruption to our financial information systems that we are unable to mitigate, our ability to timely report our financial results could be impacted, which could negatively impact our stock price. We also communicate electronically throughout the world with our employees and with third parties, such as customers, suppliers, vendors and consumers. A service interruption or shutdown could have a materially adverse impact on our operating activities. Remediation and repair of any failure, problem or breach of our key information systems could require significant capital investments.

In addition, we interact with many of our consumers through both our e-commerce website and our mobile applications, and these systems face similar risk of interruption or attack. Consumers increasingly utilize these services to purchase our products and to engage with our Connected Fitness community. If we are unable to continue to provide consumers a user-friendly experience and evolve our platform to satisfy consumer preferences, the growth of our e-commerce business and our net revenues may be negatively impacted. The performance of our Connected Fitness business is dependent on reliable performance of its products, applications and services and the underlying technical infrastructure, which incorporate complex software. If this software contains errors, bugs or other vulnerabilities which impede or halt service, this could result in damage to our reputation and brand, loss of users or loss of revenue.

**Data security or privacy breaches could damage our reputation, cause us to incur additional expense, expose us to litigation and adversely affect our business and results of operations.**

We collect sensitive and proprietary business information as well as personally identifiable information in connection with digital marketing, digital commerce, our in-store payment processing systems and our Connected Fitness business. In particular, in our Connected Fitness business we collect and store a variety of information regarding our users, and allow users to share their personal information with each other and

with third parties. We also rely on third parties for the operation of certain of our e-commerce websites, and do not control these service providers. Hackers and data thieves are increasingly sophisticated and operate large scale and complex automated attacks. Any breach of our data security or that of our service providers could result in an unauthorized release or transfer of customer, consumer, vendor, user or employee information, or the loss of valuable business data or cause a disruption in our business. These events could give rise to unwanted media attention, damage our reputation, damage our customer, consumer or user relationships and result in lost sales, fines or lawsuits. We may
17

Table of Contents

also be required to expend significant capital and other resources to protect against or respond to or alleviate problems caused by a security breach, which could negatively impact our results of operations. For example, in early 2018 an unauthorized third party acquired data associated with our Connected Fitness users' accounts for our MyFitnessPal application and website. Approximately 150 million user accounts were affected by this issue, and the affected information included usernames, email addresses and hashed passwords. A consumer class action lawsuit has been filed against us in connection with this incident, and we may face a number of legal claims or investigations by government regulators and agencies. We may also be required to incur additional expense to further enhance our data security infrastructure.

We must also comply with increasingly complex regulatory standards throughout the world enacted to protect personal information and other data. Compliance with existing, proposed and forthcoming laws and regulations can be costly and could negatively impact our profitability. In addition, an inability to maintain compliance with these regulatory standards could result in a violation of data privacy laws and regulations and subject us to litigation or other regulatory proceedings. For example, the European Union adopted a new regulation that became effective in May 2018, called the General Data Protection Regulation ("GDPR"), which requires companies to meet new requirements regarding the handling of personal data, including its use, protection and transfer and the ability of persons whose data is stored to correct or delete such data about themselves. Failure to meet the GDPR requirements could result in penalties of up to 4% of annual worldwide revenue. The GDPR also confers a private right of action on certain individuals and associations. Other jurisdictions are considering adopting similar or stricter measures. Any of these factors could negatively impact our profitability, result in negative publicity and damage our brand image or cause the size of our Connected Fitness community to decline.

**We are in the process of implementing a new operating and information system, which involves risks and uncertainties that could adversely affect our business.**

We are in the process of implementing a global operating and financial reporting information technology system as part of a multi-year plan to integrate and upgrade our systems and processes, which began in 2015 and will continue in phases over the next few years. The first phase of this implementation became operational during 2017 in our North America, EMEA and Connected Fitness operations. The next phase of this implementation is planned to become operational in 2019 in our Asia-Pacific region, and we are in the process of developing an implementation strategy and roll-out plan for our Latin American region. Implementation of new information systems involves risks and uncertainties. Any disruptions, delays, or deficiencies in the design, implementation or application of these systems could result in increased costs, disruptions in our ability to effectively source, sell or ship our products, delays in the collection of payment from our customers or adversely affect our ability to timely report our financial results, all of which could materially adversely affect our business, results of operations, and financial condition.

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

We are subject to income taxes in the United States (federal and state) and numerous foreign jurisdictions. Our effective income tax rate could be adversely affected in the future by a number of factors, including changes in the mix of earnings in countries with differing statutory tax rates, changes in the valuation of deferred tax assets and liabilities, changes in tax laws and regulations or their interpretations and application, the outcome of income tax audits in various jurisdictions around the world, and any repatriation of non-U.S. earnings for which we have not previously provided applicable withholding tax, U.S. state income taxes, or foreign exchange rate impacts.

For example, the United States enacted the Tax Cuts and Jobs Act (the "Tax Act") on December 22, 2017, which had a significant impact to our provision for income taxes as of December 31, 2017 and December 31, 2018. The Tax Act requires complex computations to be performed that were not previously required under U.S. tax law, significant judgments to be made in interpretation of the provisions of the Tax Act and significant estimates in calculations, and the preparation and analysis of information not previously relevant or regularly produced. The U.S. Treasury Department, the Internal Revenue Service, U.S. states taxing authorities, and other standard-setting bodies could interpret or issue guidance on how provisions of the Tax Act will be applied or otherwise administered that is different from our interpretation. Additionally, many of the countries in which we do business have or are expected to adopt changes to tax laws as a result of the Base Erosion and Profit Shifting final proposals from the Organization for Economic Co-operation and Development and specific country anti-avoidance initiatives.

Table of Contents

We regularly assess all of these matters to determine the adequacy of our tax provision, which is subject to significant judgment.

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

From time to time, we may invest in business infrastructure, new businesses, and expansion of existing businesses, such as the ongoing expansion of our network of brand and factory house stores and our distribution facilities, the expansion of our corporate headquarters, investments to implement our global operating and financial reporting information technology system, or investments to support our digital strategy. These investments require substantial cash investments and management attention. We believe cost effective investments are essential to business growth and profitability. The failure of any significant investment to provide the returns or synergies we expect could adversely affect our financial results. Infrastructure investments may also divert funds from other potential business opportunities.

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

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

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

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

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

**A number of our fabrics and manufacturing technology are not patented and can be imitated by our competitors.**

The intellectual property rights in the technology, fabrics and processes used to manufacture our products are generally owned or controlled by our suppliers and are generally not unique to us. Our ability to obtain patent protection for our products is limited and we currently own a limited number of fabric or process patents. As a result, our current and future competitors are able to manufacture and sell products with performance characteristics and fabrications similar to certain of our products. Because many of our competitors have significantly greater financial, distribution, marketing and other resources than we do, they may be able to manufacture and sell products based on certain of our fabrics and manufacturing technology at lower prices than we can. If our competitors do sell similar products to ours at lower prices, our net revenues and profitability could be materially adversely affected.

**Our intellectual property rights could potentially conflict with the rights of others and we may be prevented from selling or providing some of our products.**

Our success depends in large part on our brand image. We believe our registered and common law trademarks have significant value and are important to identifying and differentiating our products from those of our competitors and creating and sustaining demand for our products. In addition, patents are increasingly important with respect to our innovative products and new businesses and investments, including our digital business. From

Table of Contents
time to time, we have received or brought claims relating to intellectual property rights of others, and we expect such claims will continue or increase, particularly as we expand our business and the number of products we offer. Any such claim, regardless of its merit, could be expensive and time consuming to defend or prosecute. Successful infringement claims against us could result in significant monetary liability or prevent us from selling or providing some of our products. In addition, resolution of claims may require us to redesign our products, license rights belonging to third parties or cease using those rights altogether. Any of these events could harm our business and have a material adverse effect on our results of operations and financial condition.

**Our failure to protect our intellectual property rights could diminish the value of our brand, weaken our competitive position and reduce our net revenues.**
We currently rely on a combination of copyright, trademark and trade dress laws, patent laws, unfair competition laws, confidentiality procedures and licensing arrangements to establish and protect our intellectual property rights. The steps taken by us to protect our proprietary rights may not be adequate to prevent infringement of our trademarks and proprietary rights by others, including imitation of our products and misappropriation of our brand. In addition, intellectual property protection may be unavailable or limited in some foreign countries where laws or law enforcement practices may not protect our proprietary rights as fully as in the United States, and it may be more difficult for us to successfully challenge the use of our proprietary rights by other parties in these countries. If we fail to protect and maintain our intellectual property rights, the value of our brand could be diminished and our competitive position may suffer.
From time to time, we discover unauthorized products in the marketplace that are either counterfeit reproductions of our products or unauthorized irregulars that do not meet our quality control standards. If we are unsuccessful in challenging a third party’s products on the basis of trademark infringement, continued sales of their products could adversely impact our brand, result in the shift of consumer preferences away from our products and adversely affect our business.
We have licensed in the past, and expect to license in the future, certain of our proprietary rights, such as trademarks or copyrighted material, to third parties. These licensees may take actions that diminish the value of our proprietary rights or harm our reputation.

**We are subject to periodic claims, litigation and investigations that could result in unexpected expenses and have an adverse effect on our business, financial condition and results of operations.**
Given the size and extent of our global operations, we are involved in a variety of litigation, arbitration and other legal proceedings and may be subject to investigations, audits, inquiries and similar actions, including matters related to commercial disputes, intellectual property, employment, securities, tax, accounting, class action and product liability, as well as trade, regulatory and other claims related to our business and our industry. For example, we are subject to an ongoing securities class action proceeding regarding our prior disclosures and derivative complaints regarding related matters, as well as past related party transactions, among other proceedings. We are also party to a consumer class action lawsuit filed in connection with our first quarter 2018 data security incident. Refer to Note 7 to our Consolidated Financial Statements included in Part II, Item 8 of this Annual Report on Form 10-K for additional information regarding these specific matters. Legal proceedings in general, and securities and class action litigation and investigations in particular, can be expensive and disruptive. Any of our legal proceedings could result in damages, fines or other penalties, divert financial and management resources and result in significant legal fees. We cannot predict the outcome of any particular proceeding, and the costs incurred in these matters can be substantial, regardless of the outcome. An unfavorable outcome may have an adverse impact on our business, financial condition and results of operations or our stock price. In addition, any proceeding could negatively impact our reputation among our customers or our shareholders, as well as our brand image.

**The trading prices for our Class A and Class C common stock may differ and fluctuate from time to time.**

The trading prices of our Class A and Class C common stock may differ and fluctuate from time to time in response to various factors, some of which are beyond our control. These factors may include, among others, overall performance of the equity markets and the economy as a whole, variations in our quarterly results of operations or those of our competitors, our ability to meet our published guidance and securities analyst expectations, or recommendations by securities analysts. In addition, our non-voting Class C common stock has traded at a discount to our Class A common stock, and there can be no assurance that this will not continue.

Table of Contents

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

Our Class A common stock has one vote per share, our Class B common stock has 10 votes per share and our Class C common stock has no voting rights (except in limited circumstances). Our Chairman and Chief Executive Officer, Kevin A. Plank, beneficially owns all outstanding shares of Class B common stock. As a result, Mr. Plank has the majority voting control and is able to direct the election of all of the members of our Board of Directors and other matters we submit to a vote of our stockholders. The Class B common stock automatically converts to Class A common stock when Mr. Plank beneficially owns less than 15.0% of the total number of shares of Class A and Class B common stock outstanding and in other limited circumstances. This concentration of voting control may have various effects including, but not limited to, delaying or preventing a change of control or allowing us to take action that the majority of our shareholders do not otherwise support. In addition, we utilize shares of our Class C common stock to fund employee equity incentive programs and may do so in connection with future stock-based acquisition transactions, which could prolong the duration of Mr. Plank's voting control.

## ITEM 1B. UNRESOLVED STAFF COMMENTS

Not applicable.

Table of Contents

## ITEM 2. PROPERTIES

The following includes a summary of the principal properties that we own or lease as of December 31, 2018.

Our principal executive and administrative offices are located at an office complex in Baltimore, Maryland, which includes 400 thousand square feet of office space that we own and 126 thousand square feet that we are leasing. In 2016, we purchased buildings and parcels of land, including approximately 58 acres of land and 130 thousand square feet of office space located close to our corporate office complex, to be utilized to expand our corporate headquarters to accommodate our future growth needs. For our European headquarters, we lease an office in Amsterdam, the Netherlands. For our Latin America headquarters, we lease an office in Panama. For our Greater China headquarters, we lease an office in Shanghai, China and we plan to expand our Hong Kong office to be an Asia Pacific headquarters in 2019. Additionally, we lease space in Austin, Texas and San Francisco, California for our Connected Fitness business.

We lease our primary distribution facilities, which are located in Sparrows Point and Glen Burnie, Maryland, Mount Juliet, Tennessee and Rialto, California. Our Sparrows Point facility is a 1.3 million square foot facility, with options to renew through 2053. Our Glen Burnie facility is a 359 thousand square foot facility, with a lease term through March 2020. Our Mount Juliet facility is a 1.0 million square foot facility, with options to renew the lease term through December 2041. Our Rialto facility is a 1.2 million square foot facility with a lease term through May 2023. We believe our distribution facilities and space available through our third-party logistics providers will be adequate to meet our short term needs.

In addition, as of December 31, 2018, we leased 319 brand and factory house stores located primarily in the United States, Canada, China, Chile and Mexico with lease end dates in 2019 through 2033. We also lease additional office space for sales, quality assurance and sourcing, marketing, and administrative functions. We anticipate that we will be able to extend these leases that expire in the near future on satisfactory terms or relocate to other locations.

## ITEM 3. LEGAL PROCEEDINGS

From time to time, we have been involved in litigation and other proceedings, including matters related to commercial disputes and intellectual property, as well as trade, regulatory and other claims related to our business. Refer to Note 7 to our Consolidated Financial Statements for information on certain legal proceedings, which is incorporated by reference herein.

## Executive Officers of the Registrant

Our executive officers are:

| | | |
|---|---|---|
| Kevin A. Plank | 46 | Chief Executive Officer and Chairman of the Board |
| David E. Bergman | 46 | Chief Financial Officer |
| Colin Browne | 55 | Chief Supply |

| | | |
|---|---|---|
| | | Chain Officer |
| Kevin Eskridge | 42 | Chief Product Officer |
| Paul Fipps | 46 | Chief Digital Officer |
| Patrik Frisk | 56 | President and Chief Operating Officer |
| Jason LaRose | 45 | President of North America |
| Tchernavia Rocker | 45 | Chief People and Culture Officer |
| John Stanton | 58 | General Counsel and Corporate Secretary |

*Kevin A. Plank* has been Chief Executive Officer and Chairman of the Board of Directors since 1996. Mr. Plank also serves on the Board of Directors of the National Football Foundation and College Hall of Fame, Inc. and is a member of the Board of Trustees of the University of Maryland College Park Foundation.

*David E. Bergman* has been Chief Financial Officer since November 2017. Mr. Bergman joined the Company in 2005 and has served in various Finance and Accounting leadership roles for the Company, including Corporate

Table of Contents

Controller from 2006 to October 2014, Vice President of Finance and Corporate Controller from November 2014 to January 2016, Senior Vice President, Corporate Finance from February 2016 to January 2017, and acting Chief Financial Officer from February 2017 to November 2017. Prior to joining the Company, Mr. Bergman worked as a C.P.A. within the audit and assurance practices at Ernst & Young LLP and Arthur Andersen LLP.

*Colin Browne* has been Chief Supply Chain Officer since July 2017. Prior to that, he served as President of Global Sourcing from September 2016 to June 2017. Prior to joining our Company, he served as Vice President and Managing Director for VF Corporation, leading its sourcing and product supply organization in Asia and Africa from November 2013 to August 2016 and as Vice President of Footwear Sourcing from November 2011 to October 2013. Prior thereto, Mr. Browne served as Executive Vice President of Footwear and Accessories for Li and Fung Group LTD from September 2010 to November 2011 and Chief Executive Officer, Asia for Pentland Brands PLC from April 2006 to January 2010. Mr. Browne has over 25 years of experience leading sourcing efforts for large brands.

*Kevin Eskridge* has been Chief Product Officer since May 2017, with oversight of the Company's category management, product, merchandising and design functions. Mr. Eskridge joined our Company in 2009 and has served in various leadership roles including Senior Director, Outdoor from September 2009 to September 2012, Vice President, China from October 2012 to April 2015, Senior Vice President, Global Merchandising from May 2015 to June 2016 and President, Sports Performance from July 2016 to April 2017. Prior to joining our Company, he served as Vice President, Merchandising of Armani Exchange from 2006 to 2009.

*Paul Fipps* has been Chief Digital Officer since April 2018. Prior to that, he served as Chief Technology Officer from July 2017 to March 2018, Chief Information Officer from March 2015 and Executive Vice President of Global Operations from September 2016 to June 2017 and as Senior Vice President of Global Operations from January 2014 to February 2015. Prior to joining our Company, he served as Chief Information Officer and Corporate Vice President of Business Services at The Charmer Sunbelt Group (CSG), a leading distributor of fine wines, spirits, beer, bottled water and other beverages from May 2009 to December 2013, as Vice President of Business Services from January 2007 to April 2009 and in other leadership positions for CSG from 1998 to 2007.

*Patrik Frisk* has been President and Chief Operating Officer since July 2017. Prior to joining our Company, he served as Chief Executive Officer for The ALDO Group from November 2014 to April 2017. Prior thereto, he spent 10 years with VF Corporation where he served as Coalition President of Outdoor Americas with responsibility for The North Face®, Timberland®, JanSport®, lucy® and SmartWool® brands from April 2014 to November 2014, President of Timberland from September 2011 to March 2014, President of Outdoor and Action Sports, EMEA with responsibility for The North Face®, Vans®, JanSport® and Reef® brands from August 2009 to August 2011 and other leadership positions from 2004 to 2009. Before VF Corporation, he ran his own retail business in Scandinavia and held senior positions with Peak Performance and W.L. Gore & Associates.

*Jason LaRose* has been President of North America since October 2016. Prior to that, he served as Senior Vice President of Digital Revenue from April 2015 to September 2016 and Senior Vice President of Global E-Commerce from October 2013 to March 2015. Prior to joining our Company, he served as Senior Vice President of E-Commerce for Express, Inc. from September 2011 to September 2013. Prior thereto, Mr. LaRose served as Vice President of Multi-Channel and International Business for Sears Holding Corporation from January 2007 to September 2011. Mr. LaRose also spent five years at McKinsey & Company where he was an Associate Principal in both the Retail and Consumer Goods practices.

*Tchernavia Rocker* has been Chief People and Culture Officer since February 2019. Prior to joining our Company, she served more than 18 years in Human Resources leadership roles at Harley-Davidson, Inc., most recently as Vice President and Chief Human Resources Officer from June 2016 through January 2019, as General Manager, Human Resources from January 2012 through May 2016, and in various other Human Resources leadership positions since joining the company in 2000. Prior to that, she served in various HR and operations roles at Goodyear Dunlop North America Tire Inc.

*John Stanton* has been General Counsel since March 2013, and Corporate Secretary since February 2008. Prior thereto, he served as Vice President, Corporate Governance and Compliance from October 2007 to February 2013 and Deputy General Counsel from February 2006 to September 2007. Prior to joining our Company, he served in various legal roles at MBNA Corporation from 1993 to 2005, including as Senior Executive Vice President, Corporate Governance and Assistant Secretary. He began his legal career at the law firm Venable, LLP.

Table of Contents

## ITEM 4. MINE SAFETY DISCLOSURES

Not applicable.

Table of Contents

# PART II

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

Under Armour's Class A Common Stock and Class C Common Stock are traded on the New York Stock Exchange ("NYSE") under the symbols "UAA" and "UA", respectively. As of January 31, 2019, there were 1,628 record holders of our Class A Common Stock, 6 record holders of Class B Convertible Common Stock which are beneficially owned by our Chief Executive Officer and Chairman of the Board Kevin A. Plank, and 1,216 record holders of our Class C Common Stock.

Our Class A Common Stock was listed on the NYSE under the symbol "UA" until December 6, 2016 and under the symbol "UAA" since December 7, 2016. Prior to November 18, 2005, there was no public market for our Class A Common Stock. Our Class C Common Stock was listed on the NYSE under the symbol "UA.C" since its initial issuance on April 8, 2016 and until December 6, 2016 and under the symbol "UA" since December 7, 2016.

### Stock Split

On March 16, 2016, the Board of Directors approved the issuance of the Company's new Class C non-voting common stock, referred to as the Class C stock. The Class C stock was issued through a stock dividend on a one-for-one basis to all existing holders of the Company's Class A and Class B common stock. The shares of Class C stock were distributed on April 7, 2016, to stockholders of record of Class A and Class B common stock as of March 28, 2016. Stockholders' equity and all references to share and per share amounts in the accompanying consolidated financial statements have been retroactively adjusted to reflect this one-for-one stock dividend.

### Dividends

No cash dividends were declared or paid during 2018 or 2017 on any class of our common stock. We currently anticipate we will retain any future earnings for use in our business. As a result, we do not anticipate paying any cash dividends in the foreseeable future. In addition, we may be limited in our ability to pay dividends to our stockholders under our credit facility. Refer to "Financial Position, Capital Resources and Liquidity" within Management's Discussion and Analysis and Note 6 to the Consolidated Financial Statements for further discussion of our credit facility.

### Stock Compensation Plans

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

| Plan Category | Number of securities to be issued upon exercise of outstanding options, warrants and rights (a) | Weighted-average exercise price of outstanding options, warrants and rights (b) | Number of securities remaining available for future issuance under equity compensation plans (excluding securities |
|---|---|---|---|

| | | | | | reflected in column (a)) (c) |
|---|---|---|---|---|---|
| Equity compensation plans approved by security holders | Class A | 2,219,460 | $ | 8.35 | 10,668,282 |
| Equity compensation plans approved by security holders | Class C | 12,462,944 | $ | 14.82 | 14,995,355 |
| Equity compensation plans not approved by security holders | Class A | 135,405 | $ | — | — |
| Equity compensation plans not approved by security holders | Class C | 136,362 | $ | — | — |

The number of securities to be issued upon exercise of outstanding options, warrants and rights issued under equity compensation plans approved by security holders includes 1.4 million Class A and 10.5 million Class C restricted stock units and deferred stock units issued to employees, non-employees and directors of Under Armour; these restricted stock units and deferred stock units are not included in the weighted average exercise price calculation above. The number of securities remaining available for future issuance includes 8.0 million shares of our Class A Common Stock and 12.2 million shares of our Class C Common Stock under our Second Amended and Restated 2005 Omnibus Long-Term Incentive Plan ("2005 Stock Plan"). The number of securities remaining available for future issuance under our Employee Stock Purchase Plan includes 2.7 million of our Class A Common Stock and 2.8 million shares of our Class C Common Stock. In addition to securities issued upon the exercise of stock options, warrants and rights, the 2005 Stock Plan authorizes the issuance of restricted and unrestricted

Table of Contents

shares of our Class A and C Common Stock and other equity awards. Refer to Note 12 to the Consolidated Financial Statements for information required by this Item regarding the material features of each plan.

The number of securities issued upon exercise of outstanding options, warrants and rights issued under equity compensation plans not approved by security holders includes 135.4 thousand shares of our Class A Common Stock and 136.4 thousand shares of our Class C Common Stock issued in connection with the delivery of shares pursuant to deferred stock units granted to certain of our marketing partners. These deferred stock units are not included in the weighted average exercise price calculation above.

The deferred stock units are issued to certain of our marketing partners in connection with their entering into endorsement and other marketing services agreements with us. The terms of each agreement set forth the number of deferred stock units to be granted and the delivery dates for the shares, which range from a 1 to 10 year period, depending on the contract. The deferred stock units are non-forfeitable.

## Stock Performance Graph

The stock performance graph below compares cumulative total return on Under Armour, Inc. Class A Common Stock to the cumulative total return of the S&P 500 Index and S&P 500 Apparel, Accessories and Luxury Goods Index from December 31, 2013 through December 31, 2018. The graph assumes an initial investment of $100 in Under Armour and each index as of December 31, 2013 and reinvestment of any dividends. The performance shown on the graph below is not intended to forecast or be indicative of possible future performance of our common stock.

| | | | | | | |
|---|---|---|---|---|---|---|
| Under Armour, Inc. | $ 100.00 | $ 155.57 | $ 184.66 | $128.82 | $ 63.99 | $ 78.36 |
| S&P 500 | $ 100.00 | $ 113.69 | $ 115.26 | $ 129.05 | $ 157.22 | $ 150.33 |
| S&P 500 Apparel, Accessories & Luxury Goods | $ 100.00 | $ 100.99 | $ 76.98 | $ 68.29 | $ 82.26 | $ 69.30 |

26

Table of Contents

# ITEM 6. SELECTED FINANCIAL DATA

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

| | | | | | |
|---|---|---|---|---|---|
| Net revenues | $ 5,193,185 | $ 4,989,244 | $ 4,833,338 | $ 3,963,313 | $ 3,084,370 |
| Cost of goods sold | 2,852,714 | 2,737,830 | 2,584,724 | 2,057,766 | 1,572,164 |
| Gross profit | 2,340,471 | 2,251,414 | 2,248,614 | 1,905,547 | 1,512,206 |
| Selling, general and administrative expenses | 2,182,339 | 2,099,522 | 1,831,143 | 1,497,000 | 1,158,251 |
| Restructuring and impairment charges | 183,149 | 124,049 | — | — | — |
| Income (loss) from operations | (25,017) | 27,843 | 417,471 | 408,547 | 353,955 |
| Interest expense, net | (33,568) | (34,538) | (26,434) | (14,628) | (5,335) |
| Other expense, net | (9,203) | (3,614) | (2,755) | (7,234) | (6,410) |
| Income (loss) before income taxes | (67,788) | (10,309) | 388,282 | 386,685 | 342,210 |
| Income tax | (20,552) | 37,951 | 131,303 | 154,112 | 134,168 |

| | | | | | |
|---|---|---|---|---|---|
| expense (benefit) | | | | | |
| Income from equity method investment | 934 | — | — | — | — |
| Net income (loss) | (46,302) | (48,260) | 256,979 | 232,573 | 208,042 |
| Adjustment payment to Class C capital stockholders | — | — | 59,000 | — | — |
| Net income (loss) available to all stockholders | $ (46,302) | $ (48,260) | $ 197,979 | $ 232,573 | $ 208,042 |
| **Net income available per common share** | | | | | |
| Basic net income (loss) per share of Class A and B common stock | $ (0.10) | $ (0.11) | $ 0.45 | $ 0.54 | $ 0.49 |
| Basic net income (loss) per share | $ (0.10) | $ (0.11) | $ 0.72 | $ 0.54 | $ 0.49 |

| | | | | | | | | | | |
|---|---|---|---|---|---|---|---|---|---|---|
| of Class C common stock | | | | | | | | | | |
| Diluted net income (loss) per share of Class A and B common stock | $ | (0.10) | $ | (0.11) | $ | 0.45 | $ | 0.53 | $ | 0.47 |
| Diluted net income (loss) per share of Class C common stock | $ | (0.10) | $ | (0.11) | $ | 0.71 | $ | 0.53 | $ | 0.47 |
| **Weighted average common shares outstanding Class A and B common stock** | | | | | | | | | | |
| Basic | | 221,001 | | 219,254 | | 217,707 | | 215,498 | | 213,227 |
| Diluted | | 221,001 | | 219,254 | | 221,944 | | 220,868 | | 219,380 |
| **Weighted average common shares outstanding Class C common stock** | | | | | | | | | | |
| Basic | | 224,814 | | 221,475 | | 218,623 | | 215,498 | | 213,227 |
| Diluted | | 224,814 | | 221,475 | | 222,904 | | 220,868 | | 219,380 |
| Dividends declared | $ | — | $ | — | $ | 59,000 | $ | — | $ | — |

| | | | | | | | | | | |
|---|---|---|---|---|---|---|---|---|---|---|
| Cash and cash equivalents | $ | 557,403 | $ | 312,483 | $ | 250,470 | $ | 129,852 | $ | 593,175 |
| Working capital (1) | | 1,277,651 | | 1,277,304 | | 1,279,337 | | 1,019,953 | | 1,127,772 |

| | | | | | |
|---|---|---|---|---|---|
| Inventories | 1,019,496 | 1,158,548 | 917,491 | 783,031 | 536,714 |
| Total assets | 4,245,022 | 4,006,367 | 3,644,331 | 2,865,970 | 2,092,428 |
| Total debt, including current maturities | 728,834 | 917,046 | 817,388 | 666,070 | 281,546 |
| Total stockholders' equity | $ 2,016,871 | $ 2,018,642 | $ 2,030,900 | $ 1,668,222 | $ 1,350,300 |

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

27

Table of Contents

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

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

## Overview

We are a leading developer, marketer and distributor of branded performance apparel, footwear and accessories. The brand's moisture-wicking fabrications are engineered in many different designs and styles for wear in nearly every climate to provide a performance alternative to traditional products. Our products are sold worldwide and worn by athletes at all levels, from youth to professional, on playing fields around the globe, as well as by consumers with active lifestyles. The Under Armour Connected Fitness 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 full year 2018 as compared to the prior year period include:

- Net revenues increased 4%.
- Wholesale and Direct-to-Consumer revenues increased 3% and 4%, respectively.
- Apparel revenue increased 5% compared to the prior year. Footwear revenue increased 2% and accessories revenue decreased 5%.
- Revenue in our North America segment declined 2%. Revenue in our Asia-Pacific, EMEA and Latin America segments grew 29%, 25% and 5%, respectively, with 18% growth in our Connected Fitness segment.
- Selling, general and administrative expense increased 4%.
- Gross margin was unchanged at 45.1%.

A large majority of our products are sold in North America; however, we believe our products appeal to athletes and consumers with active lifestyles around the globe. Internationally, our net revenues are generated primarily from a mix of sales to retailers and distributors in our wholesale channel and sales through our direct to consumer channel in Europe, Latin America, and Asia-Pacific.

We believe there is an increasing recognition of the health benefits of an active lifestyle. We believe this trend provides us with an expanding consumer base for our products. We also believe there is a continuing shift in consumer demand from traditional non-performance products to performance products, which are intended to provide better performance by wicking perspiration away from the skin, helping to regulate body temperature and enhancing comfort. We believe that these shifts in consumer preferences and lifestyles are not unique to the United States, but are occurring in a number of markets globally, thereby increasing our opportunities to introduce our performance products to new consumers. We plan to continue to grow our business over the long term through increased sales of our apparel, footwear and accessories, expansion of our wholesale distribution, growth in our direct to consumer sales channel and expansion in international markets.

Although we believe these trends will facilitate our growth, we also face potential challenges that could limit our ability to take advantage of these opportunities or negatively impact our financial results, including, among others, the risk of general economic or market conditions that could affect consumer spending and the financial health of our retail customers. Additionally, we may not be able to successfully execute on our long-term strategies, or successfully manage the increasingly complex operations of our global business effectively. Although we have implemented restructuring plans, we may not fully realize the expected benefits of these plans or other operating or cost-saving initiatives. In addition, we may not consistently be able to anticipate consumer preferences and develop new and innovative products that meet changing preferences in a timely manner. Furthermore, our industry is very competitive, and competition pressures could cause us to reduce the prices of our products or otherwise affect our profitability. We also rely on third-party suppliers and manufacturers outside the U.S. to provide fabrics and to

Table of Contents
produce our products, and disruptions to our supply chain could harm our business. For a more complete discussion of the risks facing our business, refer to the “Risk Factors” section included in Item 1A.

*Restructuring Plans*

As previously announced, in both 2017 and 2018, our Board of Directors approved restructuring plans (the "2018 restructuring plan" and "2017 restructuring plan") designed to more closely align our financial resources with the critical priorities of our business and optimize operations. We recognized approximately $203.9 million of pre-tax charges in connection with our 2018 restructuring plan and approximately $129.1 million of pre-tax charges in connection with our 2017 restructuring plan, inclusive of $28.6 million of restructuring related goodwill impairment charges for our Connected Fitness business.

The summary of the costs incurred during the years ended December 31, 2018 and 2017, in connection with the 2018 and 2017 restructuring plans, respectively, are as follows:

| | | | | |
|---|---|---|---|---|
| Costs recorded in cost of goods sold: | | | | |
| Inventory write-offs | $ | 20,801 | $ | 5,077 |
| Total cost recorded in cost of goods sold | 20,801 | | 5,077 | |
| Costs recorded in restructuring and impairment charges: | | | | |
| Impairment | 12,146 | | 71,378 | |
| Employee related costs | 9,949 | | 14,572 | |
| Contract exit costs | 114,126 | | 12,029 | |
| Other restructuring costs | 46,927 | | 26,070 | |
| Total costs recorded in restructuring and impairment charges | 183,148 | | 124,049 | |
| Total restructuring, impairment | $ | 203,949 | $ | 129,126 |

and
restructuring
related costs

*2017 Tax Act*

The United States enacted the Tax Cuts and Jobs Act (the “Tax Act”) on December 22, 2017. We included reasonable estimates of the income tax effects of the changes in tax law and tax rate in our 2017 financial results. These changes include a one-time mandatory transition tax on indefinitely reinvested foreign earnings and a re-measuring of deferred tax assets. As of December 31, 2018, we have completed our accounting for the tax effects of enactment of the Tax Act. Refer to Note 10 to the Consolidated Financial Statements for further detail.

## 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 from licensees in exchange for the use of our trademarks on their products. Our Connected Fitness revenues consist of digital advertising 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. The fabrics in many of our products are made primarily of petroleum-based synthetic materials. Therefore our product costs, as well as our inbound and outbound freight costs, could be affected by long term pricing trends of oil. In general, as a percentage of net revenues, we expect cost of goods sold associated with our apparel and accessories to be lower than that of our footwear. A limited portion of cost of goods sold is associated with license and Connected Fitness 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 $91.8 million, $101.5 million and $89.9 million for the years ended December 31, 2018, 2017 and 2016, respectively.

Table of Contents

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, which includes 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, print ads, league, team, player and event sponsorships and depreciation expense specific to our in-store fixture program.

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.

Table of Contents

## Results of Operations

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

| | | | |
|---|---|---|---|
| Net revenues | $ 5,193,185 | $ 4,989,244 | $ 4,833,338 |
| Cost of goods sold | 2,852,714 | 2,737,830 | 2,584,724 |
| Gross profit | 2,340,471 | 2,251,414 | 2,248,614 |
| Selling, general and administrative expenses | 2,182,339 | 2,099,522 | 1,831,143 |
| Restructuring and impairment charges | 183,149 | 124,049 | — |
| Income (loss) from operations | (25,017) | 27,843 | 417,471 |
| Interest expense, net | (33,568) | (34,538) | (26,434) |
| Other expense, net | (9,203) | (3,614) | (2,755) |
| Income (loss) before income taxes | (67,788) | (10,309) | 388,282 |
| Income tax expense (benefit) | (20,552) | 37,951 | 131,303 |
| Income from equity method investment | 934 | — | — |
| Net income (loss) | (46,302) | (48,260) | 256,979 |
| Adjustment payment to Class C capital stockholders | — | — | 59,000 |
| Net income (loss) available to all stockholders | $ (46,302) | $ (48,260) | $ 197,979 |

| | | | |
|---|---|---|---|
| Net revenues | 100.0 % | 100.0 % | 100.0 % |

| | | | |
|---|---|---|---|
| Cost of goods sold | 54.9 | 54.9 | 53.5 |
| Gross profit | 45.1 | 45.1 | 46.5 |
| Selling, general and administrative expenses | 42.0 | 42.1 | 37.9 |
| Restructuring and impairment charges | 3.5 | 2.5 | — |
| Income (loss) from operations | (0.4) | 0.5 | 8.6 |
| Interest expense, net | (0.7) | (0.7) | (0.5) |
| Other expense, net | (0.2) | (0.1) | (0.1) |
| Income (loss) before income taxes | (1.3) | (0.2) | 8.0 |
| Income tax expense (benefit) | (0.4) | 0.8 | 2.7 |
| Income from equity method investment | — | — | — |
| Net income (loss) | (0.9) | (1.0) | 5.3 |
| Adjustment payment to Class C capital stockholders | — | — | 1.2 |
| Net income (loss) available to all stockholders | (0.9)% | (1.0)% | 4.1% |

Table of Contents

# Consolidated Results of Operations

**Year Ended December 31, 2018 Compared to Year Ended December 31, 2017**

*Net revenues* increased $203.9 million, or 4.1%, to $5,193.2 million in 2018 from $4,989.2 million in 2017. Net revenues by product category are summarized below:

| | | | | |
|---|---|---|---|---|
| Apparel | $ 3,462,372 | $ 3,287,121 | $ 175,251 | 5.3% |
| Footwear | 1,063,175 | 1,037,840 | 25,335 | 2.4 |
| Accessories | 422,496 | 445,838 | (23,342) | (5.2) |
| Total net sales | 4,948,043 | 4,770,799 | 177,244 | 3.7 |
| License | 124,785 | 116,575 | 8,210 | 7.0 |
| Connected Fitness | 120,357 | 101,870 | 18,487 | 18.1 |
| Total net revenues | $ 5,193,185 | $ 4,989,244 | $ 203,941 | 4.1% |

The increase in net sales was driven primarily by:

- Apparel unit sales growth driven by the train category; and
- Footwear unit sales growth, led by the run category.

The increase was partially offset by unit sales decline in accessories.

License revenues increased $8.2 million, or 7.0%, to $124.8 million in 2018 from $116.6 million in 2017.

Connected Fitness revenue increased $18.5 million, or 18.1%, to $120.4 million in 2018 from $101.9 million in 2017 primarily driven by increased subscribers on our fitness applications.

*Gross profit* increased $89.1 million to $2,340.5 million in 2018 from $2,251.4 million in 2017. Gross profit as a percentage of net revenues, or gross margin, was unchanged at 45.1% in 2018 compared to 2017. Gross profit percentage was favorably impacted by lower promotional activity, improvements in product cost, lower air freight, higher proportion of international and Connected Fitness revenue and changes in foreign currency; these favorable impacts were offset by channel mix including higher sales to our off-price channel and restructuring related charges.

With the exception of improvements in product input costs and air freight improvements, we do not expect these trends to have a material impact on the full year 2019.

*Selling, general and administrative expenses* increased $82.8 million to $2,182.3 million in 2018 from $2,099.5 million in 2017. As a percentage of net revenues, selling, general and administrative expenses decreased slightly to 42.0% in 2018 from 42.1% in 2017. Selling, general and administrative expense was impacted by the following:

- Marketing costs decreased $21.3 million to $543.8 million in 2018 from $565.1 million in 2017. This decrease was primarily due to restructuring efforts, resulting in lower compensation and contractual sports marketing. This decrease was partially offset by higher costs in connection with brand marketing campaigns and increased marketing investments with the growth of our international business. As a percentage of net revenues, marketing costs decreased to 10.5% in 2018 from 11.3% in 2017.
- Other costs increased $104.1 million to $1,638.5 million in 2018 from $1,534.4 million in 2017. This increase was primarily due to higher incentive compensation expense and higher costs incurred for the continued expansion of our direct to consumer distribution channel and international business. As a percentage of net revenues, other costs increased to 31.6% in 2018 from 30.8% in 2017.

*Restructuring and impairment charges* increased $59.1 million to $183.1 million from $124.0 million in 2017. Refer to the Restructuring Plans section above for a summary of charges.

*Income (loss) from operations* decreased $52.8 million, or 189.9%, to a loss of $25.0 million in 2018 from income of $27.8 million in 2017. As a percentage of net revenues, Income from operations decreased to a loss of 0.4% in 2018 from income of 0.5% in 2017. Income from operations for the year ended December 31, 2018 was negatively impacted by $203.9 million of restructuring, impairment and related charges in connection with the 2018 restructuring plan. Income from operations for the year ended December 31, 2017 was negatively impacted by $129.1 million of restructuring, impairment and related charges in connection with the 2017 restructuring plan.

*Interest expense, net* decreased $0.9 million to $33.6 million in 2018 from $34.5 million in 2017.

Table of Contents

*Other expense, net* increased $5.6 million to $9.2 million in 2018 from $3.6 million in 2017. This increase was due to higher net loss on the combined foreign currency exchange rate changes on transactions denominated in foreign currencies as compared to the prior period.

*Provision for income taxes* decreased $58.6 million to a benefit of $20.6 million in 2018 from an expense of $38.0 million in 2017. Our effective tax rate was 30.3% in 2018 compared to (368.2)% in 2017. Our effective tax rate for 2018, as compared to 2017, was positively impacted by a one-time tax benefit recorded in 2018 for an intercompany intangible asset sale and the decrease in a one-time tax charges due to the US Tax Act. These positive impacts were partially offset by the impact of the decrease in the U.S. federal rate applied to U.S. pre-tax losses in 2018.

As of December 31, 2018, we have completed our accounting for the one-time tax effects of the enactment of the Tax Act, which resulted in a $1.5 million charge to income tax expense. This was comprised of $12.0 million of income tax expense related to the transition tax and $10.5 million of income tax benefit for the re-measurement of deferred tax assets for the reduction in the U.S. corporate income tax rate from 35% to 21%.

**Year Ended December 31, 2017 Compared to Year Ended December 31, 2016**

*Net revenues* increased $155.9 million, or 3.2%, to $4,989.2 million in 2017 from $4,833.3 million in 2016. Net revenues by product category are summarized below:

| | | | | |
|---|---|---|---|---|
| Apparel | $ 3,287,121 | $ 3,229,142 | $ 57,979 | 1.8 % |
| Footwear | 1,037,840 | 1,010,693 | 27,147 | 2.7 |
| Accessories | 445,838 | 406,614 | 39,224 | 9.6 |
| Total net sales | 4,770,799 | 4,646,449 | 124,350 | 2.7 |
| License revenues | 116,575 | 99,849 | 16,726 | 16.8 |
| Connected Fitness | 101,870 | 88,450 | 13,420 | 15.2 |
| Intersegment Eliminations | — | (1,410) | 1,410 | (100.0) % |
| Total net revenues | $ 4,989,244 | $ 4,833,338 | $ 155,906 | 3.2 % |

The increase in net sales was driven primarily by:

•Apparel unit sales growth in multiple categories led by train and golf; and

•Accessories unit sales growth in multiple categories led bytrain; and

•Footwear unit sales growth in multiple categories led by run.

License revenues increased $16.7 million, or 16.8%, to $116.6 million in 2017 from $99.8 million in 2016. This increase in license revenues was driven primarily by increased distribution of our licensed products in North America.

Connected Fitness revenue increased $13.4 million, or 15.2%, to $101.9 million in 2017 from $88.5 million in 2016 primarily driven by increased subscribers on our fitness applications and higher licensing revenue.

*Gross profit* increased $2.8 million to $2,251.4 million in 2017 from $2,248.6 million in 2016. Gross profit as a percentage of net revenues, or gross margin, decreased 140 basis points to 45.1% in 2017 compared to 46.5% in 2016. The decrease in gross margin percentage was primarily driven by the following:

•an approximate 190 basis point decrease due to inventory management efforts including higher promotions and increased air freight; and

•an approximate 20 basis point decrease due to our international business representing a higher percentage of sales;

The above decreases were partially offset by:

•an approximate 50 basis point increase driven primarily by favorable product input costs; and

•an approximate 30 basis point increase driven primarily by favorable channel mix with increased sales in our direct-to-consumer channel.

*Selling, general and administrative expenses* increased $268.4 million to $2,099.5 million in 2017 from $1,831.1 million in 2016. As a percentage of net revenues, selling, general and administrative expenses increased to 42.1% in 2017 from 37.9% in 2016. Selling, general and administrative expense was impacted by the following:

33

Table of Contents

•Marketing costsincreased $87.6 million to $565.1 million in 2017 from $477.5 million in 2016. This increase was primarily due to increased marketing spend in connection with the growth of our international business and in connection with our collegiate and professional athlete sponsorships. As a percentage of net revenues, marketing costs increased to 11.4% in 2017 from 9.9% in 2016.
•Other costsincreased $180.8 million to $1,534.4 million in 2017 from $1,353.6 million in 2016. This increase was primarily driven by higher costs incurred for the continued expansion of our direct to consumer distribution channel and international business. This increase was partially offset by savings from our 2017 restructuring plan. As a percentage of net revenues, other costs increased to 30.8% in 2017 from 28.0% in 2016.

*Restructuring and impairment charges* was $124.0 million in 2017 and there were no charges in 2016. Refer to the Restructuring Plans section above for a summary of charges.

*Income from operations* decreased $389.6 million, or 93.3%, to $27.8 million in 2017 from $417.5 million in 2016. Income from operations as a percentage of net revenues decreased to 0.6% in 2017 from 8.6% in 2016. Income from operations for the year ended December 31, 2017 was negatively impacted by $124.0 million of restructuring and impairment charges in connection with the 2017 restructuring plan.

*Interest expense, net* increased $8.1 million to $34.5 million in 2017 from $26.4 million in 2016. This increase was primarily due to interest on the net increase of $99.7 million in total debt outstanding.

*Other expense, net* increased $0.9 million to $3.6 million in 2017 from $2.8 million in 2016. This increase was due to lower net gains on the combined foreign currency exchange rate changes on transactions denominated in foreign currencies and our derivative financial instruments as compared to the prior period.

*Provision for income taxes* decreased $93.3 million to $38.0 million in 2017 from $131.3 million in 2016. Our effective tax rate was (368.2)% in 2017 compared to 33.8% in 2016. Our effective tax rate for 2017 was lower than the effective tax rate for 2016 primarily due to the significant decrease in income before taxes, the impact of tax benefits recorded for our challenged U.S. results, and reductions in our total liability for unrecognized tax benefits as a result of a lapse in the statute of limitations during the current period. These benefits were partially offset by the impact of the Tax Act, non-deductible goodwill impairment charges, and the recording of certain valuation allowances.

Our provision for income taxes in 2017 included $38.8 million of income tax expense as a result of the Tax Act, including a $13.9 million charge for our provisional estimate of the transition tax and $24.9 million for the provisional re-measurement of our deferred tax assets for the reduction in the U.S. corporate income tax rate from 35% to 21%.

Table of Contents

## Segment Results of Operations

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

**Year Ended December 31, 2018 Compared to Year Ended December 31, 2017**

*Net revenues* by segment are summarized below:

| | | | | |
|---|---|---|---|---|
| North America | $ 3,735,293 | $ 3,802,406 | $ (67,113) | (1.8)% |
| EMEA | 588,580 | 469,996 | 118,584 | 25.2 |
| Asia-Pacific | 558,160 | 433,648 | 124,512 | 28.7 |
| Latin America | 190,795 | 181,324 | 9,471 | 5.2 |
| Connected Fitness | 120,357 | 101,870 | 18,487 | 18.1 |
| Total net revenues | $ 5,193,185 | $ 4,989,244 | $ 203,941 | 4.1% |

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

- Net revenues in our North America operating segment decreased $67.1 million to $3,735.3 million in 2018 from $3,802.4 million in 2017 primarily due to lower sales driven by lower demand, partially offset by increased off-price sales, in each case within our wholesale channel.
- Net revenues in our EMEA operating segment increased $118.6 million to $588.6 million in 2018 from $470.0 million in 2017 primarily due to unit sales growth in our wholesale channel in the United Kingdom, Italy and Spain.
- Net revenues in our Asia-Pacific operating segment increased $124.5 million to $558.2 million in 2018 from $433.6 million in 2017 primarily due to unit sales growth in our direct to consumer channel and our wholesale channel in China.
- Net revenues in our Latin America operating segment increased $9.5 million to $190.8 million in 2018 from $181.3 million in 2017 primarily due to unit sales growth in our wholesale channel in Mexico and Chile, partially offset by a decrease in unit sales due a change in our business model in Brazil from a subsidiary to a license and distributor model.
- Net revenues in our Connected Fitness operating segment increased $18.5 million to $120.4 million in 2018 from $101.9 million in 2017 primarily driven by additional subscription revenue on our fitness applications.

*Operating income (loss)* by segment is summarized below:

| | | | | |
|---|---|---|---|---|
| North America | $ (66,305) | $ 20,179 | $ (86,484) | (428.6)% |
| EMEA | (9,379) | 17,976 | (27,355) | (152.2) |
| Asia-Pacific | 95,128 | 82,039 | 13,089 | 16.0 |
| Latin America | (48,470) | (37,085) | (11,385) | (30.7) |
| Connected Fitness | 4,009 | (55,266) | 59,275 | 107.3 |
| Total operating | $ (25,017) | $ 27,843 | $ (52,860) | (189.9)% |

income

The decrease in total operating income was driven by the following:

- Operatingincome in our North America operating segment decreased $86.5 million to a loss of $66.3 million in 2018 from income of $20.2 million in 2017 primarily due to $75.7 million increase in restructuring, impairment and related costs, and decreases in sales discussed above.
- Operatingincome in our EMEA operating segment decreased $27.4 million to a loss of $9.4 million in 2018 from income of $18.0 million in 2017 primarily due to $32.7 million increase in restructuring, impairment and related costs, along with a reserve related to a commercial dispute and increased marketing. The decrease is partially offset by the increase in net sales discussed above.

Table of Contents

•Operating income in our Asia-Pacific operating segment increased $13.1 million to $95.1 million in 2018 from $82.0 million in 2017 primarily due to sales growth discussed above. This increase was partially offset by higher investments in our direct-to-consumer business.

•Operating loss in our Latin America operating segment increased $11.4 million to $48.5 million in 2018 from $37.1 million in 2017 primarily due to a $12.8 million increase in restructuring, impairment and related costs.

•Operating loss in our Connected Fitness segment decreased $59.3 million to income of $4.0 million in 2018 from a loss of $55.3 million in 2017 primarily driven by $46.3 million of lower restructuring and impairment charges and increased sales growth discussed above.

**Year Ended December 31, 2017 Compared to Year Ended December 31, 2016**

*Net revenues* by segment are summarized below:

| | | | | |
|---|---|---|---|---|
| North America | $ 3,802,406 | $ 4,005,314 | $ (202,908) | (5.1)% |
| EMEA | 469,996 | 330,584 | 139,412 | 42.2 |
| Asia-Pacific | 433,648 | 268,607 | 165,041 | 61.4 |
| Latin America | 181,324 | 141,793 | 39,531 | 27.9 |
| Connected Fitness | 101,870 | 88,450 | 13,420 | 15.2 |
| Intersegment Eliminations | — | (1,410) | 1,410 | (100.0) |
| Total net revenues | $ 4,989,244 | $ 4,833,338 | $ 155,906 | 3.2% |

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

•Net revenues in our North America operating segment decreased $202.9 million to $3,802.4 million in 2017 from $4,005.3 million in 2016 primarily due to lower sales in our wholesale channel driven by lower demand.

•Net revenues in our EMEA operating segment increased $139.4 million to $470.0 million in 2017 from $330.6 million in 2016 primarily due to unit sales growth to wholesale partners in Germany and the United Kingdom and our first full year of sales in Russia.

•Net revenues in our Asia-Pacific operating segment increased $165.0 million to $433.6 million in 2017 from $268.6 million in 2016 primarily due to growth in our direct-to-consumer channel.

•Net revenues in our Latin America operating segment increased $39.5 million to $181.3 million in 2017 from $141.8 million in 2016 primarily due to unit sales growth to wholesale partners and through our direct to consumer channels in Mexico, Chile, and Brazil.

•Net revenues in our Connected Fitness operating segment increased $13.4 million to $101.9 million in 2017 from $88.5 million in 2016 primarily driven by increased subscribers on our fitness applications and higher licensing revenue.

*Operating income (loss)* by segment is summarized below:

| | | | | |
|---|---|---|---|---|
| North America | $ 20,179 | $ 408,424 | $ (388,245) | (95.1)% |
| EMEA | 17,976 | 11,420 | 6,556 | 57.4 |
| Asia-Pacific | 82,039 | 68,338 | 13,701 | 20.0 |
| | (37,085) | (33,891) | (3,194) | (9.4) |

| | | | | |
|---|---|---|---|---|
| Latin America | | | | |
| Connected Fitness | (55,266) | (36,820) | (18,446) | (50.1) |
| Total operating income | $ 27,843 | $ 417,471 | $ (389,628) | (93.3)% |

The decrease in total operating income was driven by the following:

•Operating income in our North America operating segment decreased $388.2 million to $20.2 million in 2017 from $408.4 million in 2016 primarily due to the decreases in net sales and gross margins discussed above and $63.2 million in restructuring and impairment charges.

Table of Contents

•Operating income in our EMEA operating segment increased \$6.6 million to \$18.0 million in 2017 from \$11.4 million in 2016 primarily due to sales growth discussed above, which was partially offset by continued investment in operations.
•Operating income in our Asia-Pacific operating segment increased \$13.7 million to \$82.0 million in 2017 from \$68.3 million in 2016 primarily due to sales growth discussed above. This increase was offset by investments in our direct to consumer business and entry into new territories.
•Operating loss in our Latin America operating segment increased \$3.2 million to \$37.1 million in 2017 from \$33.9 million in 2016 primarily due to \$11.5 million in restructuring and impairment charges. This increase in operating loss was offset by sales growth discussed above.
•Operating loss in our Connected Fitness segment increased \$18.4 million to \$55.3 million in 2017 from \$36.8 million in 2016 primarily due to \$47.8 million in restructuring and impairment charges. This increase in operating loss was offset by sales growth discussed above and savings from our 2017 restructuring plan.

## Seasonality

Historically, we have recognized a majority of our net revenues and a significant portion of our income from operations in the last two quarters of the year, driven primarily by increased sales volume of our products during the fall selling season, including our higher priced cold weather products, along with a larger proportion of higher margin direct to consumer sales. The level of our working capital generally reflects the seasonality and growth in our business. We generally expect inventory, accounts payable and certain accrued expenses to be higher in the second and third quarters in preparation for the fall selling season. The following table sets forth certain financial information for the periods indicated. The data is prepared on the same basis as the audited consolidated financial statements included elsewhere in this Form 10-K. All recurring, necessary adjustments are reflected in the data below:

| | | | | | | | | |
|---|---|---|---|---|---|---|---|---|
| Net revenues | \$ 1,119,845 | \$ 1,091,192 | \$ 1,408,991 | \$ 1,369,216 | \$ 1,185,370 | \$ 1,174,859 | \$ 1,442,976 | \$ 1,389,980 |
| Gross profit | 507,937 | 501,193 | 648,726 | 593,558 | 523,453 | 526,584 | 665,207 | 625,227 |
| Marketing SG&A expenses | 128,336 | 136,071 | 143,919 | 156,800 | 127,436 | 141,472 | 127,771 | 147,559 |
| Other SG&A expenses | 372,064 | 366,809 | 357,629 | 437,894 | 387,198 | 411,147 | 399,869 | 439,887 |
| Restructuring and impairment charges | — | 3,098 | 84,998 | 35,952 | 37,480 | 78,840 | 18,601 | 48,228 |
| Income (loss) from operations | \$ 7,536 | \$ (4,785) | \$ 62,180 | \$ (37,088) | \$ (28,661) | \$ (104,875) | \$ 118,966 | \$ (10,447) |
| ***(As a percentage of annual totals)*** | | | | | | | | |
| Net revenues | 22.4% | 21.9% | 28.2% | 27.4% | 22.8% | 22.6% | 27.8% | 26.8% |
| Gross profit | 22.6% | 22.3% | 28.8% | 26.4% | 22.4% | 22.5% | 28.4% | 26.7% |
| Marketing SG&A expenses | 22.7% | 24.1% | 25.5% | 27.7% | 23.4% | 26.0% | 23.5% | 27.1% |

| | | | | | | | | |
|---|---|---|---|---|---|---|---|---|
| Other SG&A expenses | 24.2 % | 23.9 % | 23.3 % | 28.5 % | 23.6 % | 25.1 % | 24.4 % | 26.9 % |
| Restructuring and impairment charges | — % | 2.5 % | 68.5 % | 29.0 % | 20.5 % | 43.0 % | 10.2 % | 26.3 % |
| Income (loss) from operations | 27.1 % | (17.2 )% | 223.3 % | (133.2 )% | 114.6 % | 419.2 % | (475.5 )% | 41.8 % |

## 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, borrowings available under our credit and long term debt facilities and the issuance of debt securities. Our working capital requirements generally reflect the seasonality and growth in our business as we recognize the majority of our net revenues in the back half of the year. Our capital investments have included expanding our in-store fixture and branded concept shop program, improvements and expansion of our distribution and corporate facilities to support our growth, leasehold improvements to our new 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

Table of Contents

management. These systems and processes, including our new global operating and financial reporting information technology system, are designed to improve our forecasting and supply planning capabilities. In addition to systems and processes, key areas of focus that we believe will enhance inventory performance are 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, borrowings available to us under our credit agreement and other financing instruments and our ability to access the capital markets are adequate to meet our liquidity needs and capital expenditure requirements for at least the next twelve months. 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 (refer to the “Risk Factors” section included in Item 1A). In addition, instability in or tightening of the capital markets could adversely affect our ability to obtain additional capital to grow our business on terms acceptable to us or at all.

At December 31, 2018, $165.1 million, or approximately 29.6%, of cash and cash equivalents was held by our foreign subsidiaries. Based on the capital and liquidity needs of our foreign operations, we intend to indefinitely reinvest these funds outside the United States. In addition, our United States operations do not require the repatriation of these funds to meet our currently projected liquidity needs. Should we require additional capital in the United States, we may elect to repatriate indefinitely reinvested foreign funds or raise capital in the United States.

The Tax Act provided for a one-time transition tax on indefinitely reinvested foreign earnings to transition U.S. international taxation from a worldwide system to a modified territorial system. We have completed our accounting and recorded all related tax liabilities for the one-time transition tax on our indefinitely reinvested foreign earnings. If we were to repatriate indefinitely reinvested foreign funds, we would not be subject to additional U.S. federal income tax, however, we would be required to accrue and pay any applicable withholding tax and U.S. state income tax liabilities and record foreign exchange rate impacts. Determination of the unrecorded deferred tax liability that would be incurred if such amounts were repatriated is not practicable.

## Cash Flows

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

| | | | |
|---|---|---|---|
| Net cash provided by (used in): | | | |
| Operating activities | $ 628,230 | $ 237,460 | $ 366,623 |
| Investing activities | (202,904) | (282,987) | (381,139) |
| Financing activities | (189,868) | 106,759 | 146,114 |
| Effect of exchange rate changes on cash and cash equivalents | 12,467 | 4,178 | (8,725) |

| | | | | | | |
|---|---|---|---|---|---|---|
| Net increase in cash and cash equivalents | $ | 247,925 | $ | 65,410 | $ | 122,873 |

*Operating Activities*

Operating activities consist primarily of net income adjusted for certain non-cash items. Adjustments to net income for non-cash items include depreciation and amortization, unrealized foreign currency exchange rate gains and losses, losses on disposals of property and equipment, stock-based compensation, deferred income taxes and changes in reserves and allowances. In addition, operating cash flows include the effect of changes in operating assets and liabilities, principally inventories, accounts receivable, income taxes payable and receivable, prepaid expenses and other assets, accounts payable and accrued expenses.

Cash flows provided by operating activities increased $390.8 million to $628.2 million in 2018 from $237.5 million in 2017. The increase was due to increased net cash inflows from operating assets and liabilities of $489.6 million.

The increase in cash inflows related to changes in operating assets and liabilities period over period was primarily driven by the following:

•an increase in cash provided by accounts receivable of $265.9 million in 2018 as compared to 2017, primarily due to timing of shipments within the fourth quarter; and

•an increase in cash provided by inventory of $332.3 million in 2018 as compared to 2017, primarily due to increased sales to our off-price channel and improved inventory management efforts.

Table of Contents

This was partially offset by a decrease in net income adjusted for non-cash items of $100.8 million year over year.

Cash flows provided by operating activities decreased $129.2 million to $237.5 million of cash provided by operating activities in 2017 from $366.6 million of cash provided by operating activities in 2016. The decrease in cash from operating activities was primarily due to a decrease in net income of $305.2 million. This decrease was partially offset by a smaller decrease in accounts receivable of $170.1 million.

*Investing Activities*

Cash used in investing activities decreased $80.1 million to $202.9 million in 2018 from $283.0 million in 2017, primarily due to lower capital expenditures in 2018, partially offset by the purchase of an additional 10% common stock ownership in Dome Corporation ("Dome"), our Japanese licensee.

Cash used in investing activities decreased $98.2 million to $283.0 million in 2017 from $381.1 million in 2016, primarily due to lower capital expenditures in 2017.

Total capital expenditures were $154.3 million, $274.9 million, and $405.0 million in 2018, 2017 and 2016, respectively. Capital expenditures for 2019 are expected to be approximately $210.0 million.

*Financing Activities*

Cash used in financing activities increased $296.6 million to $189.9 million in 2018 from cash provided by financing activities of $106.8 million in 2017. This increase was primarily due to higher net repayments on our credit facility in the current period compared to the prior period, along with the early repayment of our recourse loan related to our Corporate headquarters.

Cash provided by financing activities decreased $39.4 million to $106.8 million in 2017 from $146.1 million in 2016. This decrease was primarily due to repayments on our revolving credit facility.

## Credit Facility

We are party to a credit agreement that provides revolving commitments for up to $1.25 billion of borrowings, as well as term loan commitments, in each case maturing in January 2021. As of December 31, 2018 there were no amounts outstanding under our revolving credit facility and $136.3 million of term loan borrowings remained outstanding. 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, revolving and or term loan borrowings may be increased by up to $300.0 million in aggregate, subject to certain conditions as set forth in the credit agreement, as amended. 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 $4.6 million of letters of credit outstanding as of December 31, 2018.

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 is not permitted to allow the ratio of consolidated total indebtedness to consolidated EBITDA to be greater than 3.25 to 1.00 ("consolidated leverage ratio"). As of December 31, 2018, we were in compliance with these ratios. In the past, we have amended our credit agreement to increase these ratios in certain quarterly periods. Specifically, in 2018 we amended the credit agreement to increase these ratios for the second and third quarters of 2018. 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. The weighted average interest rate under the outstanding term loans was 3.2% and 2.2% during

39

Table of Contents

the years ended December 31, 2018 and 2017, respectively. The weighted average interest rate under the revolving credit facility borrowings was 3.0% and 2.2% during the years ended December 31, 2018 and 2017, 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 December 31, 2018, the commitment fee was 15 basis points. Since inception, we incurred and deferred $3.9 million in financing costs in connection with the credit agreement.

## 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. On or after 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 100% of the principal amount of the Notes to be redeemed, 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. We incurred and deferred $5.3 million in financing costs in connection with the Notes.

## 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, without penalties, using borrowings under our revolving credit facility. As of December 31, 2017, the outstanding balance on the loan was $40.0 million.

Interest expense, net was $33.6 million, $34.5 million, and $26.4 million for the years ended December 31, 2018, 2017 and 2016, 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. Amortization of deferred financing costs was $1.5 million, $1.3 million, and $1.2 million for the years ended December 31, 2018, 2017 and 2016, respectively.

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

We lease warehouse space, office facilities, space for our brand and factory house stores and certain equipment under non-cancelable operating leases. The leases expire at various dates through 2033, excluding extensions at our option, and include provisions for rental adjustments. In addition, this table includes executed lease agreements for brand and factory house stores that we did not yet occupy as of December 31, 2018. The operating leases generally contain renewal provisions for varying periods of time.

Our significant contractual obligations and commitments as of December 31, 2018 as well as significant agreements entered into during the period after December 31, 2018 through the date of this report are summarized in the following table:

| | | Less Than 1 Year | | | More Than 5 Years |
|---|---|---|---|---|---|
| **Contractual obligations** | | | | | |
| Long term debt obligations (1) | $ 746,250 | $ 19,500 | $ 39,000 | $ 39,000 | $ 648,750 |
| Lease obligations (2) | 1,413,826 | 142,648 | 302,612 | 269,304 | 699,262 |
| Product purchase obligations (3) | 707,512 | 707,512 | — | — | — |
| Sponsorships and other (4) | 734,869 | 126,221 | 208,324 | 189,690 | 210,634 |
| Total | $ 3,602,457 | $ 995,881 | $ 549,936 | $ 497,994 | $ 1,558,646 |

Table of Contents

(1) Includes estimated interest payments based on applicable fixed and currently effective floating interest rates as of December 31, 2018, timing of scheduled payments, and the term of the debt obligations. In January 2019, we prepaid the full outstanding balance of $136.3 million on our term loan, without penalty.
(2) Includes the minimum payments for lease obligations. The lease obligations do not include any contingent rent expense we may incur at our brand and factory house stores based on future sales above a specified minimum or payments made for maintenance, insurance and real estate taxes. Contingent rent expense was $13.0 million for the year ended December 31, 2018.
(3) We generally place orders with our manufacturers at least three to four months in advance of expected future sales. The amounts listed for product purchase obligations primarily represent our open production purchase orders with our manufacturers for our apparel, footwear and accessories, including expected inbound freight, duties and other costs. These open purchase orders specify fixed or minimum quantities of products at determinable prices. The product purchase obligations also includes fabric commitments with our suppliers, which secure a portion of our material needs for future seasons. The reported amounts exclude product purchase liabilities included in accounts payable as of December 31, 2018.
(4) Includes sponsorships with professional teams, professional leagues, colleges and universities, individual athletes, athletic events and other marketing commitments in order to promote our brand. Some of these sponsorship agreements provide for additional performance incentives and product supply obligations. It is not possible to determine how much we will spend on product supply obligations on an annual basis as contracts generally do not stipulate specific cash amounts to be spent on products. The amount of product provided to these sponsorships depends on many factors including general playing conditions, the number of sporting events in which they participate and our decisions regarding product and marketing initiatives. In addition, it is not possible to determine the performance incentive amounts we may be required to pay under these agreements as they are primarily subject to certain performance based and other variables. The amounts listed above are the fixed minimum amounts required to be paid under these sponsorship agreements. Additionally, these amounts include minimum guaranteed royalty payments to endorsers and licensors based upon a predetermined percent of sales of particular products.

The table above excludes a liability of $52.5 million for uncertain tax positions, including the related interest and penalties, recorded in accordance with applicable accounting guidance, as we are unable to reasonably estimate the timing of settlement. Refer to Note 10 to the Consolidated Financial Statements for a further discussion of our uncertain tax positions.

## Off-Balance Sheet Arrangements

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

## Critical Accounting Policies and Estimates

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

Our significant accounting policies are described in Note 2 of the audited consolidated financial statements. We consider 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. There were no significant changes to our critical accounting policies during the year ended December 31, 2018.

Table of Contents

*Revenue Recognition*

We recognize revenue pursuant to Accounting Standards Codification 606 ("ASC 606"). Net revenues consist of net sales and 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 our brand and factory house stores. We may also ship product directly from our supplier to the customer and recognize revenue when the product is delivered to and accepted by the customer. License revenue is primarily recognized based upon shipment of licensed products sold by our licensees. Sales taxes imposed on our revenues from product sales are presented on a net basis on the consolidated statements of income, and therefore do not impact net revenues or costs of goods sold.

We record reductions to revenue at the time of the transaction for estimated customer returns, allowances, markdowns and discounts. We base these estimates on historical rates of customer returns and allowances as well as the specific identification of outstanding returns, markdowns and allowances that have not yet been received by us. The actual amount of customer returns and allowances, which are inherently uncertain, may differ from our estimates. If we determine that actual or expected returns or allowances are significantly higher or lower than the reserves we established, we would record a reduction or increase, as appropriate, to net sales in the period in which we make such a determination. Provisions for customer specific discounts are based on contractual obligations with certain major customers. Reserves for returns, allowances, markdowns and discounts are 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. As of December 31, 2018 there were $301.4 million in reserves for returns, allowances, markdowns and discounts within customer refund liability and $113.9 million as the estimated value of inventory associated with the reserves for sales returns within prepaid expenses and other current assets on the consolidated balance sheet. As of December 31, 2017, there were $246.6 million in reserves for customer returns, allowances, markdowns and discounts within accounts receivable, net. Refer to Note 2 to the Consolidated Financial Statements for a further discussion of revenue recognition.

*Allowance for Doubtful Accounts*

We make ongoing estimates relating to the collectability of accounts receivable and maintain an allowance for estimated losses resulting from the inability of our customers to make required payments. In determining the amount of the reserve, we consider historical levels of credit losses and significant economic developments within the retail environment that could impact the ability of our customers to pay outstanding balances and make judgments about the creditworthiness of significant customers based on ongoing credit evaluations. Because we cannot predict future changes in the financial stability of our customers, actual future losses from uncollectible accounts may differ from estimates. If the financial condition of customers were to deteriorate, resulting in their inability to make payments, a larger reserve might be required. In the event we determine a smaller or larger reserve is appropriate, we would record a benefit or charge to selling, general and administrative expense in the period in which such a determination was made. As of December 31, 2018 and 2017, the allowance for doubtful accounts was $22.2 million and $19.7 million, respectively.

*Inventory Valuation and Reserves*

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

*Goodwill, Intangible Assets and Long-Lived Assets*

Goodwill and intangible assets are recorded at their estimated fair values at the date of acquisition and are allocated to the reporting units that are expected to receive the related benefits. Goodwill and indefinite lived intangible assets are not amortized and are required to be tested for impairment at least annually or sooner whenever events or changes in circumstances indicate that the assets may be impaired. In conducting an annual impairment test, we first review qualitative factors to determine whether it is more likely than not that the fair value of

Table of Contents

the reporting unit is less than its carrying amount. If factors indicate that is the case, we perform the goodwill impairment test. We compare the fair value of the reporting unit with its carrying amount. We calculate fair value using the discounted cash flows model, which indicates the fair value of the reporting unit based on the present value of the cash flows that we expect the reporting unit to generate in the future. Our significant estimates in the discounted cash flows model include: our weighted average cost of capital, long-term rate of growth and profitability of the reporting unit's business, and working capital effects. If the carrying amount exceeds its fair value, goodwill is impaired to the extent that the carrying value exceeds the fair value of the reporting unit. We perform our annual impairment testing in the fourth quarter of each year. As of our annual impairment test, no impairment of goodwill was identified and the fair value of each reporting unit substantially exceeded its carrying value, with the exception of our Latin America reporting unit. The fair value of the Latin America reporting unit exceeded its carrying value by 14%. Holding all other assumptions used in the fair value measurement of the Latin America reporting unit constant, a 1% point increase in the weighted-average cost of capital would eliminate the headroom; whereas, a reduction in the growth rate of revenue by 1% point would still result in excess fair value over carrying value. No events occurred during the period ended December 31, 2018 that indicated it was more likely than not that goodwill was impaired. In 2017, we recorded goodwill impairment of $28.6 million related to our Connected Fitness reporting unit. Refer to Note 5 to the Consolidated Financial Statements for a further discussion of goodwill.

We continually evaluate whether events and circumstances have occurred that indicate the remaining estimated useful life of long-lived assets may warrant revision or that the remaining balance may not be recoverable. These factors may include a significant deterioration of operating results, changes in business plans, or changes in anticipated cash flows. When factors indicate that an asset should be evaluated for possible impairment, we review long-lived assets to assess recoverability from future operations using undiscounted cash flows. If future undiscounted cash flows are less than the carrying value, an impairment is recognized in earnings to the extent that the carrying value exceeds fair value.In 2017, we recorded impairment charges of $12.1 million related to our Connected Fitness reporting unit.

*Equity Method Investment*

On April 23, 2018, we invested ¥4.2 billion or $39.2 million in exchange for an additional 10% common stock ownership in Dome Corporation ("Dome"), our Japanese licensee. This additional investment brings our total investment in Dome's common stock to 29.5%, from 19.5%. We accounted for our investment in Dome under the equity method, given that we have the ability to exercise significant influence, but not control, over Dome.

As of December 31, 2018, the carrying value of our total investment in Dome was $52.8 million. Our proportionate share of Dome's net assets exceeded our total investment by $63.8 million and is not amortized. For the year ended December 31, 2018, we recorded the allocable share of Dome’s net income in our consolidated statements of operations and as an adjustment to the invested balance.

In addition to the investment in Dome, we have a license agreement with Dome. We recorded license revenues from Dome of $35.6 million for the year ended December 31, 2018. As of December 31, 2018, we have$13.1 million in licensing receivables outstanding, recorded in the prepaid expenses and other current assets line item within our consolidated balance sheet.

*Income Taxes*

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

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

assets, which increase income tax expense in the period when such a determination is made.
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 pre-tax earnings in the United States. Due to our challenged results in the United States we incurred significant pre-tax losses in these jurisdictions in 2017 and 2018. Based on these factors, we have evaluated our ability to utilize these deferred tax assets in future years. In evaluating the recoverability of these deferred tax assets at December 31, 2018, we have considered all available evidence, both positive and negative, including but not limited to the following:

Table of Contents

Positive
•2018 taxable income in the U.S. and certain state jurisdictions;
•No material definite lived tax attributes subject to future expiration;
•No history of U.S. federal and state tax attributes expiring unused;
•Three year cumulative U.S. federal and state pre-tax income plus tax permanent differences;
•Relatively low values of pre-tax income required to realize deferred tax assets relative to historic income levels;
•Restructuring plans undertaken in 2017 and 2018 to improve future profitability;
•Availability of prudent and feasible tax planning strategies.
•Reversal of deferred tax liabilities and timing thereof

Negative
•Inherent challenges in forecasting future pre-tax earnings which rely, in part, on improved profitability from our restructuring efforts;
•The continuing challenge of changes in the U.S. consumer retail business environment;

As of December 31, 2018, we believe that the weight of the positive evidence outweighs the negative evidence regarding the realization of the majority of the net deferred tax assets. We will continue to evaluate our ability to realize our net deferred tax assets on a quarterly basis.

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

*Stock-Based Compensation*

We account for stock-based compensation in accordance with accounting guidance that requires all stock-based compensation awards granted to employees and directors to be measured at fair value and recognized as an expense in the financial statements. As of December 31, 2018, we had $99.0 million of unrecognized compensation expense expected to be recognized over a weighted average period of 2.76 years. This unrecognized compensation expense does not include any expense related to performance-based restricted stock units and stock options for which the performance targets have not been deemed probable as of December 31, 2018.

The assumptions used in calculating the fair value of stock-based compensation awards represent management’s best estimates, but the estimates involve inherent uncertainties and the application of management judgment. In addition, compensation expense for performance-based awards is recorded over the related service period when achievement of the performance targets are deemed probable, which requires management judgment. The achievement of operating income targets related to the performance-based restricted stock units and stock options granted in 2018 were deemed probable as of December 31, 2018. Refer to Note 2 and Note 12 to the Consolidated Financial Statements for a further discussion on stock-based compensation.

## Recently Issued Accounting Standards

Refer to Note 2 to the Consolidated Financial Statements included in this Form 10-K for our assessment of recently issued accounting standards.

Table of Contents

## ITEM 7A. QUANTITATIVE AND QUALITATIVE DISCLOSURE ABOUT MARKET RISK

*Foreign Currency Risk*

We currently generate a majority of our consolidated net revenues in the United States, and the reporting currency for our consolidated financial statements is the U.S. dollar. As our net revenues and expenses generated outside of the United States increase, our results of operations could be adversely impacted by changes in foreign currency exchange rates. For example, as we recognize foreign revenues in local foreign currencies and if the U.S. dollar strengthens, it could have a negative impact on our foreign revenues upon translation of those results into the U.S. dollar upon consolidation of our financial statements. In addition, we are exposed to gains and losses resulting from fluctuations in foreign currency exchange rates on transactions generated by our foreign subsidiaries in currencies other than their local currencies. These gains and losses are primarily driven by intercompany transactions and inventory purchases denominated in currencies other than the functional currency of the purchasing entity. These exposures are included in other expense, net on the consolidated statements of operations.

From time to time, we may elect to use foreign currency contracts to reduce the risk from exchange rate fluctuations primarily on intercompany transactions and projected inventory purchases for our international subsidiaries. As we expand our international business, we anticipate expanding our current hedging program to include additional currency pairs and instruments. We do not enter into derivative financial instruments for speculative or trading purposes.

As of December 31, 2018, the aggregate notional value of our outstanding foreign currency contracts was $671.2 million, which was primarily comprised of Canadian Dollar/U.S. Dollar, Pound Sterling/U.S. Dollar, Euro/U.S. Dollar, Mexican Peso/U.S. Dollar and Chinese Renminbi/U.S. Dollar currency pairs with contract maturities of one to fourteen months. The majority of our foreign currency contracts are not designated as cash flow hedges, and accordingly, changes in their fair value are recorded in earnings. We enter 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, is recorded in other comprehensive income until net income is affected by the variability in cash flows of the hedged transaction. The effective portion is generally released to net income after the maturity of the related derivative and is classified in the same manner as the underlying exposure. During the years ended December 31, 2018 and 2017, we reclassified $1.3 million and $0.4 million from other comprehensive income to cost of goods sold related to foreign currency contracts designated as cash flow hedges, respectively. The fair value of our foreign currency contracts was an asset of $19.5 million as of December 31, 2018 and was included in other current assets on the consolidated balance sheet. The fair value of our foreign currency contracts was a liability of $6.8 million as of December 31, 2017 and was included in other current liabilities on the consolidated balance sheet. Refer to Note 9 to the Consolidated Financial Statements for a discussion of the fair value measurements. Included in other expense, net were the following amounts related to changes in foreign currency exchange rates and derivative foreign currency contracts:

| | | | | | | |
|---|---|---|---|---|---|---|
| Unrealized foreign currency | $ | 14,023 | $ | 29,246 | $ | (12,627) |

| | | | |
|---|---|---|---|
| exchange rate gains (losses) | | | |
| Realized foreign currency exchange rate gains (losses) | 11,462 | 611 | (6,906) |
| Unrealized derivative gains (losses) | (109) | (1,217) | 729 |
| Realized derivative gains (losses) | (14,712) | (26,537) | 15,192 |

We enter into foreign currency contracts with major financial institutions with investment grade credit ratings and are exposed to credit losses in the event of non-performance by these financial institutions. This credit risk is generally limited to the unrealized gains in the foreign currency contracts. However, we monitor the credit quality of these financial institutions and consider the risk of counterparty default to be minimal.
Although we have entered into foreign currency contracts to minimize some of the impact of foreign currency exchange rate fluctuations on future cash flows, we cannot be assured that foreign currency exchange rate fluctuations will not have a material adverse impact on our financial condition and results of operations.
*Interest Rate Risk*
In order to maintain liquidity and fund business operations, we enter into long term debt arrangements with various lenders which bear a range of fixed and variable rates of interest. The nature and amount of our long-term debt can be expected to vary as a result of future business requirements, market conditions and other factors. We may elect to enter into interest rate swap contracts to reduce the impact associated with interest rate fluctuations.
45

Table of Contents

We utilize 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 and accordingly, the effective portion of the changes in fair value are recorded in other comprehensive income and reclassified into interest expense over the life of the underlying debt obligation.

As of December 31, 2018, the notional value of our outstanding interest rate swap contracts was $118.1 million. During the years ended December 31, 2018 and 2017, we recorded a $0.4 million decrease and $0.9 million increase in interest expense, respectively, representing the effective portion of the contracts reclassified from accumulated other comprehensive income. The fair value of the interest rate swap contracts was an asset of $1.6 million and $1.1 million as of December 31, 2018 and 2017, respectively, and were included in other long term assets on the consolidated balance sheet. In January 2019, we settled our interest rate swap contract in connection with the prepayment of our term loan.

*Credit Risk*

We are exposed to credit risk primarily on our accounts receivable. We provide credit to customers in the ordinary course of business and perform ongoing credit evaluations. We believe that our exposure to concentrations of credit risk with respect to trade receivables is largely mitigated by our customer base. We believe that our allowance for doubtful accounts is sufficient to cover customer credit risks as of December 31, 2018. Refer to "Management's Discussion and Analysis of Financial Condition and Results of Operations - Critical Accounting Policies and Estimates - Allowance for Doubtful Accounts" for further discussion on our policies.

*Inflation*

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

Table of Contents

# ITEM 8. FINANCIAL STATEMENTS AND SUPPLEMENTARY DATA

**Report of Management on Internal Control Over Financial Reporting**

Management is responsible for establishing and maintaining adequate internal control over financial reporting for the Company. We conducted an evaluation of the effectiveness of our internal control over financial reporting based on the framework in *Internal Control—Integrated Framework* issued by the Committee of Sponsoring Organizations of the Treadway Commission (COSO) in 2013. This evaluation included review of the documentation of controls, evaluation of the design effectiveness of controls, testing of the operating effectiveness of controls and a conclusion on this evaluation. Based on our evaluation, we have concluded that our internal control over financial reporting was effective as of December 31, 2018.

The effectiveness of our internal control over financial reporting as of December 31, 2018, has been audited by PricewaterhouseCoopers LLP, an independent registered public accounting firm, as stated in their report which appears herein.

| | |
|---|---|
| /s/ KEVIN A. PLANK | Chairman of the Board of Directors and Chief Executive Officer |
| **Kevin A. Plank** | |
| /s/ DAVID E. BERGMAN | Chief Financial Officer |
| **David E. Bergman** | |

Dated: February 22, 2019

Table of Contents

# Report of Independent Registered Public Accounting Firm

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

***Opinions on the Financial Statements and Internal Control over Financial Reporting***

We have audited the accompanying consolidated balance sheets of Under Armour, Inc. and its subsidiaries (the “Company”) as of December 31, 2018 and 2017, and the related consolidated statements of operations, comprehensive income (loss), stockholders’ equity and of cash flows for each of the three years in the period ended December 31, 2018, including the related notes and financial statement schedule listed in the index appearing under Item 15(a)(2) (collectively referred to as the “consolidated financial statements”). We also have audited the Company's internal control over financial reporting as of December 31, 2018, based on criteria established in *Internal Control - Integrated Framework* (2013) issued by the Committee of Sponsoring Organizations of the Treadway Commission (COSO).

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the financial position of the Company as of December 31, 2018 and 2017, and the results of its operations and its cash flows for each of the three years in the period ended December 31, 2018 in conformity with accounting principles generally accepted in the United States of America. Also in our opinion, the Company maintained, in all material respects, effective internal control over financial reporting as of December 31, 2018, based on criteria established in *Internal Control - Integrated Framework* (2013) issued by the COSO.

*Change in Accounting Principle*

As discussed in Note 2 to the consolidated financial statements, the Company changed the manner in which it accounts for revenues from contracts with customers in 2018.

***Basis for Opinions***

The Company's management is responsible for these consolidated financial statements, for maintaining effective internal control over financial reporting, and for its assessment of the effectiveness of internal control over financial reporting, included in the accompanying Report of Management on Internal Control over Financial Reporting. Our responsibility is to express opinions on the Company’s consolidated financial statements and on the Company's internal control over financial reporting based on our audits. We are a public accounting firm registered with the Public Company Accounting Oversight Board (United States) ("PCAOB") and are required to be independent with respect to the Company in accordance with the U.S. federal securities laws and the applicable rules and regulations of the Securities and Exchange Commission and the PCAOB.

We conducted our audits in accordance with the standards of the PCAOB. Those standards require that we plan and perform the audits to obtain reasonable assurance about whether the consolidated financial statements are free of material misstatement, whether due to error or fraud, and whether effective internal control over financial reporting was maintained in all material respects.

Our audits of the consolidated financial statements included performing procedures to assess the risks of material misstatement of the consolidated financial statements, whether due to error or fraud, and performing procedures that respond to those risks. Such procedures included examining, on a test basis, evidence regarding the amounts and disclosures in the consolidated financial statements. Our audits also included evaluating the accounting principles used and significant estimates made by management, as well as evaluating the overall presentation of the consolidated financial statements. Our audit of internal control over financial reporting included obtaining an understanding of internal control over financial reporting, assessing the risk that a material weakness exists, and testing and evaluating the design and operating effectiveness of internal control based on the assessed risk. Our audits also included performing such other procedures as we considered necessary in the circumstances. We believe that our audits provide a reasonable basis for our opinions.

***Definition and Limitations of Internal Control over Financial Reporting***

A company's internal control over financial reporting is a process designed to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles. A company's internal control over financial reporting includes those policies and procedures that (i) pertain to the maintenance of records that, in reasonable detail, accurately and fairly reflect the transactions and dispositions of the assets of the company; (ii) provide reasonable

Table of Contents

assurance that transactions are recorded as necessary to permit preparation of financial statements in accordance with generally accepted accounting principles, and that receipts and expenditures of the company are being made only in accordance with authorizations of management and directors of the company; and (iii) provide reasonable assurance regarding prevention or timely detection of unauthorized acquisition, use, or disposition of the company's assets that could have a material effect on the financial statements.

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

/s/ PricewaterhouseCoopers LLP
Baltimore, Maryland
February 22, 2019

We have served as the Company's auditor since 2003.

Table of Contents

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

| | | | | |
|---|---|---|---|---|
| **Assets** | | | | |
| Current assets | | | | |
| Cash and cash equivalents | $ | 557,403 | $ | 312,483 |
| Accounts receivable, net | 652,546 | | 609,670 | |
| Inventories | 1,019,496 | | 1,158,548 | |
| Prepaid expenses and other current assets | 364,183 | | 256,978 | |
| Total current assets | 2,593,628 | | 2,337,679 | |
| Property and equipment, net | 826,868 | | 885,774 | |
| Goodwill | 546,494 | | 555,674 | |
| Intangible assets, net | 41,793 | | 46,995 | |
| Deferred income taxes | 112,420 | | 82,801 | |
| Other long term assets | 123,819 | | 97,444 | |
| Total assets | $ | 4,245,022 | $ | 4,006,367 |
| **Liabilities and Stockholders' Equity** | | | | |
| Current liabilities | | | | |
| Revolving credit facility, current | $ | — | $ | 125,000 |
| Accounts payable | 560,884 | | 561,108 | |
| Accrued expenses | 340,415 | | 296,841 | |
| Customer refund liability | 301,421 | | — | |
| Current maturities of long term debt | 25,000 | | 27,000 | |
| Other current liabilities | 88,257 | | 50,426 | |

| | | |
|---|---|---|
| Total current liabilities | 1,315,977 | 1,060,375 |
| Long term debt, net of current maturities | 703,834 | 765,046 |
| Other long term liabilities | 208,340 | 162,304 |
| Total liabilities | 2,228,151 | 1,987,725 |
| Commitments and contingencies (see Note 7) | | |
| Stockholders' equity | | |
| Class A Common Stock, \$0.0003 1/3 par value; 400,000,000 shares authorized as of December 31, 2018, and 2017; 187,710,319 shares issued and outstanding as of December 31, 2018, and 185,257,423 shares issued and outstanding as of December 31, 2017. | 62 | 61 |
| Class B Convertible Common Stock, \$0.0003 1/3 par value; 34,450,000 shares authorized, issued and outstanding as of December 31, 2018 and 2017. | 11 | 11 |
| Class C Common Stock, \$0.0003 1/3 par value; | 75 | 74 |

| | | | | |
|---|---|---|---|---|
| 400,000,000 shares authorized as of December 31, 2018 and 2017; 226,421,963 shares issued and outstanding as of December 31, 2018, and 222,375,079 shares issued and outstanding as of December 31, 2017. | | | | |
| Additional paid-in capital | 916,628 | | 872,266 | |
| Retained earnings | 1,139,082 | | 1,184,441 | |
| Accumulated other comprehensive loss | (38,987) | | (38,211) | |
| Total stockholders' equity | 2,016,871 | | 2,018,642 | |
| Total liabilities and stockholders' equity | $ | 4,245,022 | $ | 4,006,367 |

See accompanying notes.
50

Table of Contents

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

| | | | | | | |
|---|---|---|---|---|---|---|
| Net revenues | $ | 5,193,185 | $ | 4,989,244 | $ | 4,833,338 |
| Cost of goods sold | 2,852,714 | | 2,737,830 | | 2,584,724 | |
| Gross profit | 2,340,471 | | 2,251,414 | | 2,248,614 | |
| Selling, general and administrative expenses | 2,182,339 | | 2,099,522 | | 1,831,143 | |
| Restructuring and impairment charges | 183,149 | | 124,049 | | — | |
| Income (loss) from operations | (25,017) | | 27,843 | | 417,471 | |
| Interest expense, net | (33,568) | | (34,538) | | (26,434) | |
| Other expense, net | (9,203) | | (3,614) | | (2,755) | |
| Income (loss) before income taxes | (67,788) | | (10,309) | | 388,282 | |
| Income tax expense (benefit) | (20,552) | | 37,951 | | 131,303 | |
| Income from equity method investment | 934 | | — | | — | |
| Net income (loss) | (46,302) | | (48,260) | | 256,979 | |
| Adjustment payment to Class C capital stockholders | — | | — | | 59,000 | |
| **Net income (loss) available to all stockholders** | $ | (46,302) | $ | (48,260) | $ | 197,979 |
| Basic net income (loss) per share of Class A and B | $ | (0.10) | $ | (0.11) | $ | 0.45 |

| | | | | | | |
|---|---|---|---|---|---|---|
| common stock | | | | | | |
| Basic net income (loss) per share of Class C common stock | $ | (0.10) | $ | (0.11) | $ | 0.72 |
| Diluted net income (loss) per share of Class A and B common stock | $ | (0.10) | $ | (0.11) | $ | 0.45 |
| Diluted net income (loss) per share of Class C common stock | $ | (0.10) | $ | (0.11) | $ | 0.71 |
| **Weighted average common shares outstanding Class A and B common stock** | | | | | | |
| Basic | 221,001 | | 219,254 | | 217,707 | |
| Diluted | 221,001 | | 219,254 | | 221,944 | |
| **Weighted average common shares outstanding Class C common stock** | | | | | | |
| Basic | 224,814 | | 221,475 | | 218,623 | |
| Diluted | 224,814 | | 221,475 | | 222,904 | |

See accompanying notes.

Table of Contents

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

| | | | | | | |
|---|---|---|---|---|---|---|
| Net income (loss) | $ | (46,302) | $ | (48,260) | $ | 256,979 |
| Other comprehensive income (loss): | | | | | | |
| Foreign currency translation adjustment | (18,535) | | 23,357 | | (13,798) | |
| Unrealized gain (loss) on cash flow hedge, net of tax benefit (expense) of $(7,936), $5,668 and $(3,346) for the years ended December 31, 2018, 2017, and 2016, respectively. | 22,800 | | (16,624) | | 9,084 | |
| Gain (loss) on intra-entity foreign currency transactions | (5,041) | | 7,199 | | (2,416) | |
| Total other comprehensive income (loss) | (776) | | 13,932 | | (7,130) | |
| Comprehensive income (loss) | $ | (47,078) | $ | (34,328) | $ | 249,849 |

See accompanying notes.

Table of Contents

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

| | | | | | | | | | | |
|---|---|---|---|---|---|---|---|---|---|---|
| **Balance as of December 31, 2015** | 181,630 | $ 61 | 34,450 | $ 11 | 216,080 | 72 | $ 636,558 | $ 1,076,533 | $ (45,013) | $ 1,668,222 |
| Exercise of stock options | 792 | — | — | — | 971 | — | 6,203 | — | — | 6,203 |
| Shares withheld in consideration of employee tax obligations relative to stock-based compensation arrangements | (199) | — | — | — | (276) | — | — | (15,098) | — | (15,098) |
| Issuance of Class A Common Stock, net of forfeitures | 1,592 | — | — | — | — | — | 7,884 | — | — | 7,884 |
| Issuance of Class C Common Stock, net of forfeitures | — | — | — | — | 1,852 | 1 | 25,834 | — | — | 25,835 |
| Issuance of Class C dividend | — | — | — | — | 1,547 | — | 56,073 | (59,000) | — | (2,927) |
| Stock-based compensation expense | — | — | — | — | — | — | 46,149 | — | — | 46,149 |
| Net excess tax benefits from stock-based compensation arrangements | — | — | — | — | — | — | 44,783 | — | — | 44,783 |
| Comprehensive income (loss) | — | — | — | — | — | — | — | 256,979 | (7,130) | 249,849 |

| | | | | | | | | | | |
|---|---|---|---|---|---|---|---|---|---|---|
| **Balance as of 12/31/2016** | 183,815 | 61 | 34,450 | 11 | 220,174 | 73 | 823,484 | 1,259,414 | (52,143) | 2,030,900 |
| Exercise of stock options | 609 | — | — | — | 556 | — | 3,664 | — | — | 3,664 |
| Shares withheld in consideration of employee tax obligations relative to stock-based compensation arrangements | (65) | — | — | — | (78) | — | — | (2,781) | — | (2,781) |
| Issuance of Class A Common Stock, net of forfeitures | 898 | — | — | — | — | — | — | — | — | — |
| Issuance of Class C Common Stock, net of forfeitures | — | — | — | — | 1,723 | 1 | 7,852 | — | — | 7,853 |
| Impact of adoption of accounting standard updates | — | — | — | — | — | — | (2,666) | (23,932) | — | (26,598) |
| Stock-based compensation expense | — | — | — | — | — | — | 39,932 | — | — | 39,932 |
| Comprehensive income (loss) | — | — | — | — | — | — | — | (48,260) | 13,932 | (34,328) |
| **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 and warrants | 2,084 | 1 | — | — | 2,127 | — | 6,747 | — | — | 6,748 |
| Shares withheld in consideration of employee tax | (23) | — | — | — | (140) | — | — | (2,564) | — | (2,564) |

| | | | | | | | | | | |
|---|---|---|---|---|---|---|---|---|---|---|
| obligations relative to stock-based compensation arrangements | | | | | | | | | | |
| Issuance of Class A Common Stock, net of forfeitures | 392 | — | — | — | | — | — | — | — | — |
| Issuance of Class C Common Stock, net of forfeitures | — | — | — | — | 2,060 | 1 | (4,168) | — | — | (4,167) |
| Impact of adoption of accounting standard updates | — | — | — | — | — | — | — | 3,507 | — | 3,507 |
| Stock-based compensation expense | — | — | — | — | — | — | 41,783 | — | — | 41,783 |
| Comprehensive income (loss) | — | — | — | — | — | — | — | (46,302) | (776) | (47,078) |
| **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 |

See accompanying notes.

53

Table of Contents

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

| | | | |
|---|---|---|---|
| **Cash flows from operating activities** | | | |
| Net income (loss) | $ (46,302) | $ (48,260) | $ 256,979 |
| Adjustments to reconcile net income (loss) to net cash provided by operating activities | | | |
| Depreciation and amortization | 181,768 | 173,747 | 144,770 |
| Unrealized foreign currency exchange rate (gains) losses | 14,023 | (29,247) | 12,627 |
| Impairment charges | 9,893 | 71,378 | — |
| Amortization of bond premium | 254 | 254 | — |
| Loss on disposal of property and equipment | 4,256 | 2,313 | 1,580 |
| Stock-based compensation | 41,783 | 39,932 | 46,149 |
| Excess tax benefit (loss) from stock-based compensation arrangements | — | (75) | 44,783 |
| Deferred income taxes | (38,544) | 55,910 | (43,004) |
| Changes in reserves and allowances | (234,998) | 108,757 | 70,188 |
| Changes in operating assets and liabilities: | | | |
| Accounts receivable | 186,834 | (79,106) | (249,853) |
| Inventories | 109,919 | (222,391) | (148,055) |
| Prepaid expenses and other assets | (107,855) | (52,106) | (23,029) |
| Accounts payable | 26,413 | 145,695 | 202,446 |
| Accrued expenses and other liabilities | 134,594 | 109,823 | 67,754 |
| Customer refund liability | 305,141 | — | — |
| Income taxes payable and receivable | 41,051 | (39,164) | (16,712) |
| Net cash provided by operating activities | 628,230 | 237,460 | 366,623 |
| **Cash flows from investing** | | | |

| | | | |
|---|---|---|---|
| **activities** | | | |
| Purchases of property and equipment | (170,385) | (281,339) | (316,458) |
| Sale of property and equipment | 11,285 | — | — |
| Purchases of property and equipment from related parties | — | — | (70,288) |
| Purchase of equity method investment | (39,207) | — | — |
| Purchases of available-for-sale securities | — | — | (24,230) |
| Sales of available-for-sale securities | — | — | 30,712 |
| Purchases of other assets | (4,597) | (1,648) | (875) |
| Net cash used in investing activities | (202,904) | (282,987) | (381,139) |
| **Cash flows from financing activities** | | | |
| Proceeds from long term debt and revolving credit facility | 505,000 | 763,000 | 1,327,601 |
| Payments on long term debt and revolving credit facility | (695,000) | (665,000) | (1,170,750) |
| Employee taxes paid for shares withheld for income taxes | (2,743) | (2,781) | (15,098) |
| Proceeds from exercise of stock options and other stock issuances | 2,580 | 11,540 | 15,485 |
| Other financing fees | 306 | — | — |
| Payments of debt financing costs | (11) | — | (6,692) |
| Cash dividends paid | — | — | (2,927) |
| Contingent consideration payments for acquisitions | — | — | (1,505) |
| Net cash provided by (used in) financing activities | (189,868) | 106,759 | 146,114 |
| Effect of exchange rate changes on cash, cash equivalents and restricted cash | 12,467 | 4,178 | (8,725) |
| Net increase in cash, cash equivalents and restricted cash | 247,925 | 65,410 | 122,873 |

| | | | |
|---|---|---|---|
| **Cash, cash equivalents and restricted cash** | | | |
| Beginning of period | 318,135 | 252,725 | 129,852 |
| End of period | $ 566,060 | $ 318,135 | $ 252,725 |
| **Non-cash investing and financing activities** | | | |
| Change in accrual for property and equipment | $ (14,611) | $ 10,580 | $ 16,973 |
| Non-cash dividends | — | — | (56,073) |
| **Other supplemental information** | | | |
| Cash paid for income taxes, net of refunds | (16,738) | 36,921 | 135,959 |
| Cash paid for interest, net of capitalized interest | 28,586 | 29,750 | 21,412 |

See accompanying notes.

54

Table of Contents

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

## 1. Description of the Business

Under Armour, Inc. is a developer, marketer and distributor of branded performance apparel, footwear, and accessories. The Company creates products engineered to solve problems and make athletes better, as well as digital health and fitness apps built to connect people and drive performance. The Company's products are made, sold and worn worldwide.

## 2. Summary of Significant Accounting Policies

*Basis of Presentation*

The accompanying consolidated financial statements include the accounts of Under Armour, Inc. and its wholly owned subsidiaries (the “Company”). All intercompany balances and transactions have been eliminated. The accompanying consolidated financial statements were prepared in accordance with accounting principles generally accepted in the United States of America.

On June 3, 2016, the Board of Directors approved the payment of a $59.0 million dividend to the holders of the Company's Class C stock in connection with shareholder litigation related to the creation of the Class C stock. The Company's Board of Directors approved the payment of this dividend in the form of additional shares of Class C stock, with cash in lieu of any fractional shares. This dividend was distributed on June 29, 2016, in the form of 1,470,256 shares of Class C stock and $2.9 million in cash.

The Company identified an immaterial prior period error in the presentation of premium subscriptions in its 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 $12.7 million and $8.0 million for the years ended December 31, 2017 and 2016, respectively. There was 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 and Cash Equivalents*

The Company considers all highly liquid investments with an original maturity of three months or less at date of inception to be cash and cash equivalents. 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 sheets to the consolidated statements of cash flows.

| | | | | |
|---|---|---|---|---|
| Cash and cash equivalents | $ | 557,403 | $ | 312,483 |
| Restricted cash | 8,657 | | 5,652 | |
| Total cash, cash equivalents and restricted cash | $ | 566,060 | $ | 318,135 |

*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 the customer’s financial condition and collateral is not required. None of the Company's customers accounted for more than 10% of accounts receivable as of December 31, 2018. The Company's largest customer in North America accounted for 12% of accounts receivable as of December 31, 2017. For the years ended December 31, 2018 and 2017, no customer accounted for more than 10% of net revenues. The Company's largest customer accounted for 10% of net revenues for the year ended December 31, 2016.

Table of Contents

*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. Under each agreement, the Company may sell up to $150.0 million and $140.0 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 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 December 31, 2018, there were no amounts outstanding in connection with these arrangements. The funding fee charged by the financial institutions is included in the other expense, net line item in the consolidated statement of operations.

*Allowance for Doubtful Accounts*

The Company makes ongoing estimates relating to the collectability of accounts receivable and maintains an allowance for estimated losses resulting from the inability of its customers to make required payments. In determining the amount of the reserve, the Company considers historical levels of credit losses and significant economic developments within the retail environment that could impact the ability of its customers to pay outstanding balances and makes judgments about the creditworthiness of significant customers based on ongoing credit evaluations. Because the Company cannot predict future changes in the financial stability of its customers, actual future losses from uncollectible accounts may differ from estimates. If the financial condition of customers were to deteriorate, resulting in their inability to make payments, a larger reserve might be required. In the event the Company determines a smaller or larger reserve is appropriate, it would record a benefit or charge to selling, general and administrative expense in the period in which such a determination was made. As of December 31, 2018 and 2017, the allowance for doubtful accounts was $22.2 million and $19.7 million, respectively.

*Inventories*

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

*Income Taxes*

Income taxes are accounted for under the asset and liability method. Deferred income tax assets and liabilities are established for temporary differences between the financial reporting basis and the tax basis of the Company’s assets and liabilities at tax rates expected to be in effect when such assets or liabilities are realized or settled. Deferred income tax assets are reduced by valuation allowances when necessary. Assessing whether deferred tax assets are realizable requires significant judgment. The Company considers all available positive and negative evidence, including historical operating performance and expectations of future operating performance. The ultimate realization of deferred tax assets is often dependent upon future taxable income and therefore can be uncertain. To the extent the Company believes it is more likely than not that all or some portion of the asset will not be realized, valuation allowances are established against the Company’s deferred tax assets, which increase income tax expense in the period when such a determination is made.

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

Table of Contents

*Goodwill, Intangible Assets and Long-Lived Assets*

Goodwill and intangible assets are recorded at their estimated fair values at the date of acquisition and are allocated to the reporting units that are expected to receive the related benefits. Goodwill and indefinite lived intangible assets are not amortized and are required to be tested for impairment at least annually or sooner whenever events or changes in circumstances indicate that the assets may be impaired. In conducting an annual impairment test, the Company first reviews qualitative factors to determine whether it is more likely than not that the fair value of the reporting unit is less than its carrying amount. If factors indicate that is the case, the Company performs the goodwill impairment test. The Company compares the fair value of the reporting unit with its carrying amount. The Company calculates fair value using the discounted cash flows model, which indicates the fair value of the reporting unit based on the present value of the cash flows that the Company expects the reporting unit to generate in the future. The Company's significant estimates in the discounted cash flows model include: the Company's weighted average cost of capital, long-term rate of growth and profitability of the reporting unit's business, and working capital effects. If the carrying amount exceeds its fair value, goodwill is impaired to the extent that the carrying value exceeds the fair value of the reporting unit. The Company performs its annual impairment testing in the fourth quarter of each year. As of the Company's annual impairment test, no impairment of goodwill was identified and the fair value of each reporting unit substantially exceeded its carrying value, with the exception of the Latin America reporting unit. No events occurred during the period ended December 31, 2018 that indicated it was more likely than not that goodwill was impaired. In 2017, the Company recorded goodwill impairment of $28.6 million related to the Connected Fitness reporting unit. Refer to Note 5 for a further discussion on goodwill.

The Company continually evaluates whether events and circumstances have occurred that indicate the remaining estimated useful life of long-lived assets may warrant revision or that the remaining balance may not be recoverable. These factors may include a significant deterioration of operating results, changes in business plans, or changes in anticipated cash flows. When factors indicate that an asset should be evaluated for possible impairment, the Company reviews long-lived assets to assess recoverability from future operations using undiscounted cash flows. If future undiscounted cash flows are less than the carrying value, an impairment is recognized in earnings to the extent that the carrying value exceeds fair value. In 2017, the Company recorded impairment charges of $12.1 million related to the Connected Fitness reporting unit.

*Accrued Expenses*

At December 31, 2018, accrued expenses primarily included $130.8 million and $60.1 million of accrued compensation and benefits and marketing expenses, respectively. At December 31, 2017, accrued expenses primarily included $92.7 million and $47.0 million of accrued compensation and benefits and marketing expenses, respectively.

*Foreign Currency Translation and Transactions*

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

*Derivatives and Hedging Activities*

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

Currently, the majority of the Company's foreign currency contracts are not designated as cash flow hedges, and accordingly, changes in their fair value are included in other expense, net on the consolidated statements of income. For foreign currency contracts designated as cash flow hedges, changes in fair value, excluding any

57

Table of Contents

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. Additionally, the Company has designated its interest rate swap contract as a cash flow hedge and accordingly, the effective portion of changes in fair value are recorded in other comprehensive income and reclassified into interest expense over the life of the underlying debt obligation. The ineffective portion, if any, is recognized in current period earnings. The Company does not enter into derivative financial instruments for speculative or trading purposes.

*Revenue Recognition*

The Company recognizes revenue pursuant to Accounting Standards Codification 606 ("ASC 606"). Net revenues consist of net sales and 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 negotiated arrangements 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. As of December 31, 2018 there were $301.4 million in reserves for returns, allowances, markdowns and discounts within customer refund liability and $113.9 million as the estimated value of inventory associated with the reserves for sales returns within prepaid expenses and other current assets on the consolidated balance sheet. As of December 31, 2017, there were $246.6 million in reserves for customer returns, allowances, markdowns and discounts within accounts receivable, net.

*Contract Liability*

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 contract liabilities consist of payments received in advance of revenue recognition for subscriptions for the Company's Connected Fitness applications, gift cards and royalty arrangements. Contract liabilities are included in other liabilities on the Company's consolidated balance sheet. As of December 31, 2018, contract liability was $55.0 million.

For the year ended December 31, 2018, the Company recognized $41.1 million of revenue that was previously included in contract liability as of December 31, 2017. The change in the contract liability 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. The Company has also elected to exclude from the measurement of the transaction price all taxes assessed, such as sales and use tax. 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.

Table of Contents

*Advertising Costs*

Advertising costs are charged to selling, general and administrative expenses. Advertising production costs are expensed the first time an advertisement related to such production costs is run. Media (television, print and radio) placement costs are expensed in the month during which the advertisement appears, and costs related to event sponsorships are expensed when the event occurs. In addition, advertising costs include sponsorship expenses. Accounting for sponsorship payments is based upon specific contract provisions and the payments are generally expensed uniformly over the term of the contract after recording expense related to specific performance incentives once they are deemed probable. Advertising expense, including amortization of in-store marketing fixtures and displays, was $543.8 million, $565.1 million and $477.5 million for the years ended December 31, 2018, 2017 and 2016, respectively. At December 31, 2018 and 2017, prepaid advertising costs were $20.8 million and $41.2 million, respectively.

*Shipping and Handling Costs*

The Company charges certain customers shipping and handling fees. These fees are recorded in net revenues. The Company includes the majority of outbound handling costs as a component of selling, general and administrative expenses. Outbound handling costs include costs associated with preparing goods to ship to customers and certain costs to operate the Company's distribution facilities. These costs, included within selling, general and administrative expenses, were $91.8 million, $101.5 million and $89.9 million for the years ended December 31, 2018, 2017 and 2016, respectively. The Company includes outbound freight costs associated with shipping goods to customers as a component of cost of goods sold.

*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 December 31, 2018, the carrying value of the Company's total investment in Dome was $52.8 million. The Company's proportionate share of Dome's net assets exceeded its total investment by $63.8 million and is not amortized. For the year ended December 31, 2018, the Company recorded the allocable share of Dome's net income 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 $35.6 million for the year ended December 31, 2018. As of December 31, 2018, the Company has $13.1 million in licensing receivables outstanding, recorded in the prepaid expenses and other current assets line item within the Company's consolidated balance sheet.

*Earnings per Share*

Basic earnings per common share is computed by dividing net income available to common stockholders for the period by the weighted average number of common shares outstanding during the period. Any stock-based compensation awards that are determined to be participating securities, which are stock-based compensation awards that entitle the holders to receive dividends prior to vesting, are included in the calculation of basic earnings per share using the two class method. Diluted earnings per common share is computed by dividing net income available to common stockholders for the period by the diluted weighted average common shares outstanding during the period. Diluted earnings per share reflects the potential dilution from common shares issuable through stock options, warrants, restricted stock units and other equity awards. Refer to Note 11 for further discussion of earnings per share.

*Stock-Based Compensation*

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

The Company uses the Black-Scholes option-pricing model to estimate the fair market value of stock-based compensation awards. The Company uses the “simplified method” to estimate the expected life of options, as permitted by accounting guidance. The “simplified method” calculates the expected life of a stock option equal to the

Table of Contents

time from grant to the midpoint between the vesting date and contractual term, taking into account all vesting tranches. The risk free interest rate is based on the yield for the U.S. Treasury bill with a maturity equal to the expected life of the stock option. Expected volatility is based on the Company's historical average. Compensation expense is recognized net of forfeitures on a straight-line basis over the total vesting period, which is the implied requisite service period. Compensation expense for performance-based awards is recorded over the implied requisite service period when achievement of the performance target is deemed probable.

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

*Management Estimates*

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

*Fair Value of Financial Instruments*

The carrying amounts shown for the Company’s cash and cash equivalents, accounts receivable and accounts payable approximate fair value because of the short term maturity of those instruments. The fair value of the Company's Senior Notes was $500.1 million and $526.3 million as of December 31, 2018 and 2017. The fair value of the Company's other long term debt approximates its carrying value based on the variable nature of interest rates and current market rates available to the Company. The fair value of foreign currency contracts is based on the net difference between the U.S. dollars to be received or paid at the contracts’ settlement date and the U.S. dollar value of the foreign currency to be sold or purchased at the current exchange rate. The fair value of the interest rate swap contract is based on the net difference between the fixed interest to be paid and variable interest to be received over the term of the contract based on current market rates.

*Recently Issued Accounting Standards*

In 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. This ASU is effective 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.

In February 2016, the FASB issued ASU 2016-02, 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 will require 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 will not restate prior periods. The Company has implemented a new lease system in connection with the adoption of this ASU. The Company estimates the adoption of ASU 2016-02 will result in the recognition of right-of-use assets of approximately $500 million to $700 million and lease liabilities for operating leases of approximately $600 million to $800 million on its consolidated balance sheets as of the date of adoption. The difference between the leased assets and 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. The Company does not expect a material impact to its consolidated statements of operations.

*Recently Adopted Accounting Standards*
In June 2018, the FASB issued ASU 2018-07, Compensation-Stock Compensation (Topic 718): Improvements to Nonemployee 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. The Company

Table of Contents

elected to early adopt ASU 2018-07 effective October 1, 2018. There was no impact to the 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, subject to an accounting policy election, taxes on GILTI inclusions can either be accounted for in deferred taxes or treated as period costs. The Company has elected to treat taxes on GILTI inclusions as period costs and recognized income tax expense of $4.0 million on GILTI inclusions for the period ended December 31, 2018.

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 cash equivalents. Restricted cash was $5.7 million and $2.3 million as of December 31, 2017, and 2016, respectively, and therefore resulted in an increase to the cash flows from operating activities section to the Consolidated Statement of Cash Flows of $3.4 million and $2.3 million for the years ended December 31, 2017, and 2016, respectively.

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.

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 December 31, 2018, its consolidated statement of operations for the year ended December 31, 2018, and its consolidated statement of cash flows for the year ended December 31, 2018 would have been presented as follows:

| | | | | | | |
|---|---|---|---|---|---|---|
| **Assets** | | | | | | |
| Current assets | | | | | | |
| Cash and cash equivalents | $ | 557,403 | $ | —$ | | 557,403 |
| Accounts receivable, net | 652,546 | | (188,963) | 463,583 | | |
| Inventories | 1,019,496 | | 2,174 | 1,021,670 | | |
| Prepaid expenses and other current assets | | | | | | |