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

Form 10-Q

(Mark One)

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

For the quarterly period ended March 31, 2020

or

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

For the transition period from to

Commission File No. 001-33202

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

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

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

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

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

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

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

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

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

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

As of April 30, 2020 there were 188,452,489 shares of Class A Common Stock, 34,450,000 shares of Class B Convertible Common Stock and 231,191,334 Class C Common Stock outstanding.

UNDER ARMOUR, INC.
March 31, 2020
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PART I. FINANCIAL INFORMATION

ITEM 1. FINANCIAL STATEMENTS

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

	March 31, 2020	December 31, 2019	March 31, 2019
Assets			
Current assets			
Cash and cash equivalents	$ 959,318	$ 788,072	$ 288,726
Accounts receivable, net	668,409	708,714	743,677
Inventories	940,236	892,258	875,252
Prepaid expenses and other current assets	300,044	313,165	299,053
Total current assets	2,868,007	2,702,209	2,206,708
Property and equipment, net	726,568	792,148	810,470
Operating lease right-of-use assets	583,418	591,931	590,984
Goodwill	485,672	550,178	548,735
Intangible assets, net	40,490	36,345	40,109
Deferred income taxes	39,576	82,379	114,705
Other long term assets	93,844	88,341	124,361
Total assets	$ 4,837,575	$ 4,843,531	$ 4,436,072
Liabilities and Stockholders' Equity			
Current liabilities			
Revolving credit facility, current	$ 600,000	$ —	$ —
Accounts payable	417,397	618,194	377,401
Accrued expenses	267,115	374,694	268,187
Customer refund liabilities	208,172	219,424	270,612
Operating lease liabilities	129,758	125,900	107,250
Other current liabilities	69,060	83,797	70,562
Total current liabilities	1,691,502	1,422,009	1,094,012
Long term debt, net of current maturities	593,281	592,687	590,431
Operating lease liabilities, non-current	913,754	580,635	594,613
Other long term liabilities	88,858	98,113	107,209
Total liabilities	3,287,395	2,693,444	2,386,265
Commitments and contingencies (See Note 8)			
Stockholders' equity			
Class A Common Stock, $0.0003 1/3 par value; 400,000,000 shares authorized as of March 31, 2020, December 31, 2019 and March 31, 2019; 188,450,989 shares issued and outstanding as of March 31, 2020, 188,289,680 shares issued and outstanding as of December 31, 2019, and 187,979,934 shares issued and outstanding as of March 31, 2019.	62	62	62
Class B Convertible Common Stock, $0.0003 1/3 par value; 34,450,000 shares authorized, issued and outstanding as of March 31, 2020, December 31, 2019 and March 31, 2019.	11	11	11
Class C Common Stock, $0.0003 1/3 par value; 400,000,000 shares authorized as of March 31, 2020, December 31, 2019 and March 31, 2019; 231,150,002 shares issued and outstanding as of March 31, 2020, 229,027,730 shares issued and outstanding as of December 31, 2019, and 228,488,635 shares issued and outstanding as of March 31, 2019.	77	76	76
Additional paid-in capital	985,831	973,717	931,352
Retained earnings	634,452	1,226,986	1,158,482
Accumulated other comprehensive loss	(70,253)	(50,765)	(40,176)
Total stockholders' equity	1,550,180	2,150,087	2,049,807
Total liabilities and stockholders' equity	$ 4,837,575	$ 4,843,531	$ 4,436,072

See accompanying notes.

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

	Three Months Ended March 31, 2020	Three Months Ended March 31, 2019
Net revenues	$ 930,240	$ 1,204,722
Cost of goods sold	499,256	659,935
Gross profit	430,984	544,787
Selling, general and administrative expenses	552,701	509,528
Restructuring and impairment charges	436,463	—
Income (loss) from operations	(558,180)	35,259
Interest expense, net	(5,960)	(4,238)
Other income (expense), net	1,534	(667)
Income (loss) before income taxes	(562,606)	30,354
Income tax expense	21,547	8,131
Income (loss) from equity method investments	(5,528)	254
Net income (loss)	$ (589,681)	$ 22,477
Basic net income (loss) per share of Class A, B and C common stock	$ (1.30)	$ 0.05
Diluted net income (loss) per share of Class A, B and C common stock	$ (1.30)	$ 0.05
Weighted average common shares outstanding Class A, B and C common stock		
Basic	452,871	449,749
Diluted	452,871	453,230

See accompanying notes.

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

	Three Months Ended March 31,	
	2020	2019
Net income (loss)	$ (589,681)	$ 22,477
Other comprehensive income (loss):		
Foreign currency translation adjustment	(47,679)	5,990
Unrealized gain (loss) on cash flow hedge, net of tax benefit (expense) of $11,435 and $2,600 for the three months ended March 31, 2020 and 2019, respectively	32,545	(9,100)
Gain (loss) on intra-entity foreign currency transactions	(4,354)	1,921
Total other comprehensive income (loss)	(19,488)	(1,189)
Comprehensive income (loss)	$ (609,169)	$ 21,288

See accompanying notes.

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

	Class A Common Stock		Class B Convertible Common Stock		Class C Common Stock		Additional Paid-in-Capital	Retained Earnings	Accumulated Other Comprehensive Income (Loss)	Total Equity
	Shares	Amount	Shares	Amount	Shares	Amount				
Balance as of December 31, 2018	187,710	62	34,450	11	226,422	75	916,628	1,139,082	(38,987)	$ 2,016,871
Exercise of stock options	154	—	—	—	178	—	846	—	—	$ 846
Shares withheld in consideration of employee tax obligations relative to stock-based compensation arrangements	(10)	—	—	—	(152)	—	—	(3,077)	—	$ (3,077)
Issuance of Class A Common Stock, net of forfeitures	126	—	—	—	—	—	—	—	—	$ —
Issuance of Class C Common Stock, net of forfeitures	—	—	—	—	2,041	1	1,387	—	—	$ 1,388
Stock-based compensation expense	—	—	—	—	—	—	12,491	—	—	$ 12,491
Comprehensive income (loss)	—	—	—	—	—	—	—	22,477	(1,189)	$ 21,288
Balance as of March 31, 2019	187,980	62	34,450	11	228,489	76	931,352	1,158,482	(40,176)	$ 2,049,807
Balance as of December 31, 2019	188,290	62	34,450	11	229,028	76	973,717	1,226,986	(50,765)	$ 2,150,087
Exercise of stock options	143	—	—	—	131	—	484	—	—	$ 484
Shares withheld in consideration of employee tax obligations relative to stock-based compensation arrangements	(1)	—	—	—	(176)	—	—	(2,853)	—	$ (2,853)
Issuance of Class A Common Stock, net of forfeitures	19	—	—	—	—	—	—	—	—	$ —
Issuance of Class C Common Stock, net of forfeitures	—	—	—	—	2,167	1	1,165	—	—	$ 1,166
Stock-based compensation expense	—	—	—	—	—	—	10,465	—	—	$ 10,465
Comprehensive loss	—	—	—	—	—	—	—	(589,681)	(19,488)	(609,169)
Balance as of March 31, 2020	188,451	62	34,450	11	231,150	77	985,831	634,452	(70,253)	$ 1,550,180

See accompanying notes.

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

	Three Months Ended March 31,	
	2020	2019
Cash flows from operating activities		
Net income (loss)	$ (589,681)	$ 22,477
Adjustments to reconcile net income (loss) to net cash used in operating activities		
Depreciation and amortization	48,565	46,464
Unrealized foreign currency exchange rate gain (loss)	12,976	(1,725)
Loss on disposal of property and equipment	129	1,008
Impairment charges	437,517	—
Amortization of bond premium	63	63
Stock-based compensation	10,465	12,493
Deferred income taxes	23,253	(1,514)
Changes in reserves and allowances	10,130	(9,655)
Changes in operating assets and liabilities:		
Accounts receivable	27,596	(87,042)
Inventories	(59,701)	156,880
Prepaid expenses and other assets	27,153	54,198
Other non-current assets	(336,357)	21,594
Accounts payable	(192,651)	(178,428)
Accrued expenses and other liabilities	226,315	(99,505)
Customer refund liability	(8,334)	(32,168)
Income taxes payable and receivable	(4,150)	5,071
Net cash used in operating activities	(366,712)	(89,789)
Cash flows from investing activities		
Purchases of property and equipment	(31,498)	(35,911)
Purchases of other assets	—	—
Purchase of businesses	(37,343)	—
Net cash used in investing activities	(68,841)	(35,911)
Cash flows from financing activities		
Proceeds from long term debt and revolving credit facility	700,000	25,000
Payments on long term debt and revolving credit facility	(100,000)	(161,250)
Cash paid for hedge settlement	—	(1,566)
Employee taxes paid for shares withheld for income taxes	(2,732)	(3,077)
Proceeds from exercise of stock options and other stock issuances	1,649	2,232
Payments of debt financing costs	—	(3,024)
Other financing fees	35	50
Net cash provided by (used in) financing activities	598,952	(141,635)
Effect of exchange rate changes on cash, cash equivalents and restricted cash	8,761	(569)
Net increase in (decrease in) cash, cash equivalents and restricted cash	172,160	(267,904)
Cash, cash equivalents and restricted cash		
Beginning of period	796,008	566,060
End of period	$ 968,168	$ 298,156
Non-cash investing and financing activities		
Change in accrual for property and equipment	$ (13,081)	$ (8,979)

See accompanying notes.

Under Armour, Inc. and Subsidiaries

Notes to the Unaudited Consolidated Financial Statements

1. Description of the Business

Under Armour, Inc. and its wholly owned subsidiaries (the "Company") is a developer, marketer and distributor of branded athletic performance apparel, footwear, and accessories. 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 unaudited consolidated financial statements include the accounts of the Company. Certain information in footnote disclosures normally included in annual financial statements was condensed or omitted for the interim periods presented in accordance with the rules and regulations of the Securities and Exchange Commission (the “SEC”) and accounting principles generally accepted in the United States of America ("U.S. GAAP") for interim consolidated financial statements. These consolidated financial statements are presented in U.S. Dollars. In the opinion of management, all adjustments consisting of normal, recurring adjustments considered necessary for a fair statement of the financial position and results of operations were included. Intercompany balances and transactions were eliminated upon consolidation. The consolidated balance sheet as of December 31, 2019 is derived from the audited financial statements included in the Company’s Annual Report on Form 10-K filed with the SEC for the year ended December 31, 2019 (the “2019 Form 10-K”), which should be read in conjunction with these unaudited consolidated financial statements. The unaudited results for the three months ended March 31, 2020, are not necessarily indicative of the results to be expected for the year ending December 31, 2020, or any other portions thereof.

On March 2, 2020, the Company acquired, on a cash free, debt free basis, 100% of Triple Pte. Ltd. ("Triple"), a distributor of the Company's products in Southeast Asia. The results of operations of this acquisition have been consolidated with those of the Company beginning on March 2, 2020. Refer to Note 4 for a discussion of the acquisition.

COVID-19

In March 2020, a novel strain of coronavirus (COVID-19) was declared a global pandemic by the World Health Organization. This pandemic has negatively affected the U.S. and global economies, disrupted global supply chains and financial markets, and led to significant travel and transportation restrictions, including mandatory closures and orders to “shelter-in-place”. During this period, the Company is focused on protecting the health and safety of its teammates, athletes and consumers, working with its customers and suppliers to minimize potential disruptions and supporting the community to address challenges posed by the global pandemic, while managing the Company's business in response to a changing dynamic. The Company's business operations and financial performance for the three months ended March 31, 2020 were materially impacted by COVID-19. These impacts are discussed within these notes to the unaudited consolidated financial statements, including but not limited to discussions related to long-lived asset and goodwill impairment, long term debt, and income taxes.

Further, on March 27, 2020, the Coronavirus Aid, Relief, and Economic Security Act (the “CARES” Act) was signed into law in the United States. The CARES Act includes modifications to income tax provisions, among other items. Refer to Note 12 for discussion of modifications to income tax provisions under the CARES Act. There were no other material impacts to the Company under the CARES Act for the three months ended March 31, 2020, however, the Company is continuing to evaluate the provisions of the CARES Act and how certain decisions may impact the Company's financial position, results of operations, and disclosures in future periods.

Cash, Cash Equivalents and Restricted Cash

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

(In thousands)	March 31, 2020	December 31, 2019	March 31, 2019
Cash and cash equivalents	$ 959,318	$ 788,072	$ 288,726
Restricted cash	8,850	7,936	9,430
Total Cash, cash equivalents and restricted cash	$ 968,168	$ 796,008	$ 298,156

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 wholesale customers. None of the Company's customers accounted for more than 10% of accounts receivable as of March 31, 2020, December 31, 2019 and March 31, 2019, respectively. For the three months ended March 31, 2020 and 2019, no customer accounted for more than 10% of the Company's net revenues. Given the current U.S. and global economic environment and impacts of COVID-19, the Company continuously evaluates the credit risk of the large wholesale customers which make up the majority of the Company's accounts receivable. Refer to the "Credit Losses - Allowance for Doubtful Accounts" for a discussion of the evaluation of credit losses.

Sale of Accounts Receivable

The Company has 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 $140.0 million and $50.0 million, respectively, provided the accounts receivable of certain customers cannot be outstanding simultaneously with both institutions. Our abliity to utilize these agreements, however, may be limited by the credit ratings of our customers. Balances may remain outstanding at any point in time. The Company removes the sold accounts receivable from the unaudited consolidated balance sheets at the time of sale. The Company does not retain any interests in the sold accounts receivable. The Company acts as the collection agent for the outstanding accounts receivable on behalf of the financial institutions.

As of March 31, 2020, December 31, 2019 and March 31, 2019, no amounts remained outstanding under these agreements. The funding fee charged by the financial institutions is included in the other income (expense), net line item in the consolidated statement of operations.

Credit Losses - Allowance for Doubtful Accounts

Credit losses are the risk of financial loss to the Company if a customer or counterparty to a financial instrument fails to meet its contractual obligations. The Company is exposed to credit losses primarily through customer receivables associated with the sales of product within the Company's wholesale, licensing and Connected Fitness channels. Credit is extended to customers based on a credit review. The credit review considers each customer’s financial condition, including review of the customers established credit rating or the Company's assessment of the customer’s creditworthiness based on their financial statements absent a credit rating, local industry practices, and business strategy. A credit limit and terms are established for each customer based on the outcome of this review. The Company actively monitors ongoing credit exposure through review of customer balances against terms and payments against due dates. To mitigate credit risk, the Company may require customers to provide security in the form of guarantees, letters of credit, or prepayment. The Company is also exposed to credit losses through credit card receivables associated with the sales of products within the Company's direct to consumer channel.

The allowance for doubtful accounts is based on the Company’s assessment of the collectibility of customer accounts. The Company makes ongoing estimates relating to the collectibility of accounts receivable and records an allowance for estimated losses resulting from the inability of its customers to make required payments. The Company establishes expected credit losses by evaluating historical levels of credit losses, current economic conditions that may affect a customer’s ability to pay, and creditworthiness of significant customers. These inputs are used to determine a range of expected credit losses and an allowance is recorded within the range. Accounts receivable are written off when there is no reasonable expectation of recovery.

As of March 31, 2020, and December 31, 2019, the allowance for doubtful accounts was $20.6 million and $15.1 million, respectively. The $5.5 million increase within the reserve is primarily due to the evaluation of certain customer account balances in connection with negative developments regarding their credit that represent a higher risk of credit default. Write-offs and recoveries reducing the reserve were not material for the quarter. The allowance for doubtful accounts was established with information available, including reasonable and supportable estimates of future risk, to the Company as of March 31, 2020. There may be further impacts due to COVID-19.

As of March 31, 2019, the allowance for doubtful accounts was $21.0 million.

Revenue Recognition

The Company recognizes revenue pursuant to Accounting Standards Codification 606 ("ASC 606"). Net revenues consist of net sales of apparel, footwear and accessories, license and Connected Fitness revenue. The Company recognizes revenue when it satisfies its performance obligations by transferring control of promised products or services to its customers, which occurs either at a point in time or over time, depending on when the customer obtains the ability to direct the use of and obtain substantially all of the remaining benefits from the products or services. The amount of revenue recognized considers terms of sale that create variability in the amount of consideration that the Company ultimately expects to be entitled to in exchange for the products or services and is subject to an overall constraint that a significant revenue reversal will not occur in future periods. Sales taxes imposed on the Company’s revenues from product sales are presented on a net basis on the consolidated statements of operations, and therefore do not impact net revenues or costs of goods sold.

Revenue transactions associated with the sale of apparel, footwear, and accessories, comprise a single performance obligation, which consists of the sale of products to customers either through wholesale or direct to consumer channels. The Company satisfies the performance obligation and records revenues when transfer of control has passed to the customer, based on the terms of sale. In the Company’s wholesale channel, transfer of control 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. The Company may also ship product directly from its supplier to wholesale customers and recognize revenue when the product is delivered to and accepted by the customer. In the Company’s direct to consumer channel, transfer of control takes place at the point of sale for brand and factory house customers and upon shipment to substantially all e-commerce customers. Payment terms for wholesale transactions are established in accordance with local and industry practices. Payment is generally required within 30 to 60 days of shipment to or receipt by the wholesale customer in the United States, and generally within 60 to 90 days of shipment to or receipt by the wholesale customer internationally. The Company has provided extensions to standard payment terms for certain customers in connection with COVID-19. Payment is generally due at the time of sale for direct to consumer transactions.

Gift cards issued to customers by the Company are recorded as contract liabilities until they are redeemed, at which point revenue is recognized. The Company also estimates and recognizes revenue for gift card balances not expected to ever be redeemed ("breakage") to the extent that it does not have a legal obligation to remit the value of such unredeemed gift cards to the relevant jurisdiction as unclaimed or abandoned property. Such estimates are based upon historical redemption trends, with breakage income recognized in proportion to the pattern of actual customer redemptions.

Revenue from the Company's licensing arrangements is recognized over time during the period that licensees are provided access to the Company's trademarks and benefit from such access through their sales of licensed products. These arrangements require licensees to pay a sales-based royalty, which for most arrangements may be subject to a contractually guaranteed minimum royalty amount. Payments are generally due quarterly. The Company recognizes revenue for sales-based royalty arrangements (including those for which the royalty exceeds any contractually guaranteed minimum royalty amount) as licensed products are sold by the licensee. If a sales-based royalty is not ultimately expected to exceed a contractually guaranteed minimum royalty amount, the minimum is recognized as revenue over the contractual period. This sales-based output measure of progress and pattern of recognition best represents the value transferred to the licensee over the term of the arrangement, as well as the amount of consideration that the Company is entitled to receive in exchange for providing access to its trademarks.

Revenue from Connected Fitness subscriptions is recognized on a gross basis and is recognized over the term of the subscription. The Company receives payments in advance of revenue recognition for subscriptions and these payments are recorded as contract liabilities in the Company's consolidated balance sheet. Related commission cost is included in selling, general and administrative expense in the consolidated statement of operations. Revenue from Connected Fitness digital advertising is recognized as the Company satisfies performance obligations pursuant to customer insertion orders.

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. The Company reviews and refines these estimates on at least a quarterly basis. As of March 31, 2020, December 31, 2019 and March 31, 2019, there were $208.2 million, $219.4 million and $270.6 million, respectively, in reserves for returns, allowances, markdowns and discounts within customer refund liability and $63.3 million, $61.1 million and $91.8 million, respectively, as the estimated value of inventory associated with the reserves for sales returns within prepaid expenses and other current assets on the unaudited consolidated balance sheet.

Contract Liabilities

Contract liabilities are recorded when a customer pays consideration, or the Company has a right to an amount of consideration that is unconditional, before the transfer of a good or service to the customer, and thus represent the Company's obligation to transfer the good or service to the customer at a future date. The Company's contract liabilities primarily consist of payments received in advance of revenue recognition for subscriptions for the Company's Connected Fitness applications and royalty arrangements, included in other current liabilities, and gift cards, included in accrued expenses, on the Company's unaudited consolidated balance sheets. As of March 31, 2020, December 31, 2019, and March 31, 2019, contract liabilities were $58.5 million, $60.4 million and $55.6 million, respectively.

For the three months ended March 31, 2020, the Company recognized $20.3 million of revenue that was previously included in contract liabilities as of December 31, 2019. For the three months ended March 31, 2019, the Company recognized $19.2 million of revenue that was previously included in contract liabilities as of December 31, 2018. The change in the contract liabilities balance primarily results from the timing differences between the Company's satisfaction of performance obligations and the customer's payment. Commissions related to subscription revenue are capitalized and recognized over the subscription period.

Shipping and Handling Costs

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

The Company also incurs outbound handling costs associated with preparing goods to ship to customers and certain costs to operate the Company's distribution facilities. These costs are recorded as a component of selling, general and administrative expenses and were $14.9 million and $21.7 million for the three months ended March 31, 2020 and 2019, respectively,

Equity Method Investment

The Company has a common stock investment of 29.5% in Dome Corporation ("Dome"), the Company's Japanese licensee. The Company accounts for its investment in Dome under the equity method, given it has the ability to exercise significant influence, but not control, over Dome.

The Company performed a qualitative assessment of potential impairment indicators for its investment in Dome and determined that indicators of impairment exist due to impacts from COVID-19. The Company performed a valuation of its investment in Dome and determined that the fair value of its investment is less than its carrying value by $3.7 million. The Company determined this decline in value to be other-than-temporary considering Dome's near and long-term financial forecast. As a result, the Company recorded a $3.7 million impairment of the Company's equity method investment in Dome for the three months ended March 31, 2020. The impairment charge was recorded within income (loss) from equity method investment on the unaudited consolidated statements of operations and as a reduction to the invested balance within other long term assets on the unaudited consolidated balance sheets. The Company calculated fair value using the discounted cash flows model, which indicates the fair value of the investment based on the present value of the cash flows that it expects the investment to generate in the future.

For the three months ended March 31, 2020 and 2019, the Company recorded the allocable share of Dome's net loss of $1.4 million and net income of $0.3 million, respectively, within income (loss) from equity method investment on the unaudited consolidated statements of operations and as an adjustment to the invested balance within other long term assets on the unaudited consolidated balance sheets. As of March 31, 2020, there was no carrying value associated with the Company's equity investment in Dome. As of March 31, 2019, the carrying value of the Company's equity investment in Dome was $53.1 million.

In addition to the investment in Dome, the Company has a license agreement with Dome. The Company recorded license revenues from Dome of $6.7 million and $6.5 million for the three months ended March 31, 2020 and 2019, respectively. As of March 31, 2020, December 31, 2019, and March 31, 2019, the Company had $7.0 million, $15.6 million, and $6.5 million, respectively, in licensing receivables outstanding, recorded in the prepaid expenses and other current assets line item within the Company's unaudited consolidated balance sheets.

On March 2, 2020, as part of the Company's acquisition of Triple, the Company assumed 49.5% of common stock ownership in UA Sports (Thailand) Co., Ltd. ("UA Sports Thailand"). The Company accounts for its investment in UA Sports Thailand under the equity method, given it has the ability to exercise significant influence, but not control, over UA Sports Thailand. For the three months ended March 31, 2020, the Company recorded the allocable share of UA Sports Thailand's net loss of $0.4 million within income (loss) from equity method investment on the unaudited consolidated statements of operations and as an adjustment to the invested balance within other long term assets on the unaudited consolidated balance sheets. As of March 31, 2020, the carrying value of the Company's total investment in UA Sports Thailand was $4.7 million. Refer to Note 4 for discussion of the acquisition.

Management Estimates

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

Further, the full impact of COVID-19 cannot reasonably be estimated. The Company has made appropriate accounting estimates and assumptions based on the facts and circumstances available as of the reporting date. The Company may experience further impacts based on long-term effects on the Company's customers and the countries in which the Company operates. As a result of these uncertainties, actual results could differ from those estimates and assumptions.

Recently Adopted Accounting Standards

In December 2019, the Financial Accounting Standards Board ("FASB") issued ASU 2019-12 to simplify the accounting for income taxes. The ASU impacts various topic areas within ASC 740, including accounting for taxes under hybrid tax regimes, accounting for increases in goodwill, allocation of tax amounts to separate company financial statements within a group that files a consolidated tax return, intraperiod tax allocation, interim period accounting, and accounting for ownership changes in investments, among other minor codification improvements. The guidance in this ASU becomes effective for fiscal years, and interim periods within those fiscal years, beginning after December 15, 2020 and may be early adopted. The Company has elected to early adopt this standard as of January 1, 2020. The adoption of this ASU does not have a material impact on the unaudited consolidated financial statements or disclosures for the first quarter 2020. The aspect of this ASU which may have the most significant impact to the Company in future periods is the removal of a limit on the tax benefit recognized on pre-tax losses in interim periods that exceeds the anticipated tax benefit for the full year.

In June 2016, the FASB issued ASU 2016-13 - Financial Instruments – Credit Losses: Measurement of Credit Losses on Financial Instruments. This ASU amends the impairment model to utilize an expected loss methodology in place of the currently used incurred loss methodology, which will result in more timely recognition of losses. The new standard applies to financial assets measured at amortized cost basis, including receivables that result from revenue transactions. The Company adopted this ASU on January 1, 2020 and there was no material impact to the consolidated financial statements as of the date of adoption. Results for reporting periods as of January 1, 2020 are presented under the new standard, while prior results continue to be reported under the previous standard.

3. Restructuring and Related Impairment Charges

On March 31, 2020, the Company's Board of Directors approved the previously announced restructuring plan ("2020 Restructuring") designed to rebalance the Company's cost base to further improve profitability and cash flow generation. This restructuring plan was developed prior to assessing the potential impacts of the COVID-19 pandemic on the Company's business and the Company continues to evaluate what actions may be necessary related to the pandemic.

In connection with the restructuring plan, the Company expects to incur total estimated pre-tax restructuring and related charges in the range of $475 million to $525 million during 2020 primarily consisting of up to approximately:

- $175 million of cash restructuring charges, comprised of up to: $55 million in facility and lease termination costs, $25 million in employee severance and benefit costs, and $95 million in contract termination and other restructuring costs; and
- $350 million of non-cash charges comprised of an impairment of $290 million related to the Company's New York City flagship store and $60 million of intangibles and other asset related impairments.

The Company recorded $301.1 million of restructuring and related impairment charges as of March 31, 2020, including the right of use asset ("ROU") impairment related to its New York City flagship store. The summary of the costs recorded during the three months ended March 31, 2020, as well as the Company's current estimates of the amount expected to be incurred during the remainder of 2020 in connection with the 2020 restructuring plan is as follows:

	Restructuring and Related Impairment Charges Recorded	Estimated Restructuring and Related Impairment Charges to be Incurred (1)	
(In thousands)	Three Months Ended March 31, 2020	Nine Months Ending December 31, 2020	Year Ending December 31, 2020
Costs recorded in cost of goods sold:			
Contract-based royalties	$ —	$ 11,000	$ 11,000
Total costs recorded in cost of goods sold	—	11,000	11,000
Costs recorded in restructuring and related impairment charges:			
Property and equipment impairment	7,094	36,906	44,000
ROU asset impairment	290,813	—	290,813
Employee related costs	—	25,000	25,000
Contract exit costs	—	115,000	115,000
Other restructuring costs	3,182	35,818	39,000
Total costs recorded in restructuring and related impairment charges	301,089	212,724	513,813
Total restructuring and related impairment and restructuring related costs	$ 301,089	$ 223,724	$ 524,813

(1) Estimated restructuring and related impairment charges to be incurred reflect the high-end of the range of the estimated remaining charges expected to be taken by the Company during 2020 in connection with the restructuring plan.

All restructuring and related impairment charges are included in the Company's Corporate Other non-operating segment, of which $297.9 million are North America related for the three months ended March 31, 2020.

The lease for the Company's New York City flagship store commenced on March 1, 2020 and an operating lease ROU asset and corresponding operating lease liability of $344.8 million was recorded on the Company's unaudited consolidated balance sheet. As a part of the 2020 Restructuring, the Company made the strategic decision to forgo the opening of its New York City flagship store and the property is actively being marketed for sublease. The Company recognized a ROU asset impairment of $290.8 million for the three months ended March 31, 2020, reducing the carrying value of the lease asset to its estimated fair value. Fair value was estimated using an income-approach based on management's forecast of future cash flows expected to be derived from the property based on current sublease market rent. Rent expense or sublease income related to this lease will be recorded within other income (expense) on the unaudited consolidated statements of operations.

These charges require the Company to make certain judgements and estimates regarding the amount and timing of restructuring and related impairment charges or recoveries. The estimated liability could change subsequent to its recognition, requiring adjustments to the expense and the liability recorded. On a quarterly basis, the Company conducts an evaluation of the related liabilities and expenses and revises its assumptions and estimates as appropriate as new or updated information becomes available.

A summary of the activity in the restructuring reserve related to the Company's 2020, 2018 and 2017 restructuring plans is as follows:

(In thousands)	Employee Related Costs	Contract Exit Costs	Other Restructuring Related Costs
Balance at January 1, 2020	$ 462	$ 17,843	$ —
Additions charged to expense	—	—	3,182
Cash payments charged against reserve	—	(240)	—
Changes in reserve estimate	—	—	—
Balance at March 31, 2020	$ 462	$ 17,603	$ 3,182

4. Acquisition

On March 2, 2020, the Company acquired, on a cash free, debt free basis, 100% of Triple Pte. Ltd. ("Triple"), a distributor of the Company's products in Southeast Asia. The purchase price for the acquisition was $32.9 million in cash, net of $8.9 million of cash acquired that was held by Triple at closing and settlement of $5.1 million in pre-existing trade receivables due from Triple prior to the acquisition. The results of operations of this acquisition have been consolidated with those of the Company beginning on March 2, 2020.

The Company recognized $0.7 million in acquisition related costs that were expensed during the three months ended March 31, 2020. These costs are included in selling, general and administrative expenses within the unaudited consolidated statement of operations. Pro forma results are not presented, as the acquisition was not considered material to the consolidated Company.

5. Long-Lived Asset and Goodwill Impairment

Long-Lived Asset Impairment

As a result of the impacts of COVID-19, the Company determined that sufficient indicators existed to trigger the performance of an interim long-lived asset impairment analysis as of March 31, 2020. Accordingly, the Company performed an undiscounted cash flow analyses on it's long-lived assets, including retail stores at an individual store level. Based on these undiscounted cash flow analyses, the Company determined that certain long-lived assets had net carrying values that exceeded their estimated undiscounted future cash flows. The Company estimates the fair values of these long-lived assets based on their discounted cash flows or market rent assessments. The Company compared these estimated fair values to the net carrying values. As a result, the Company recognized $83.8 million of long-lived asset impairment charges for the three months ended March 31, 2020. The long-lived impairment charge was recorded within restructuring and impairment charges on the unaudited consolidated statements of operations and as a reduction to the related asset balances on the unaudited consolidated balance sheets. The long-lived asset impairment charges are included within the Company's operating segments as follows: $43.4 million recorded in North America, $25.5 million recorded in Asia-Pacific, $12.8 million recorded in Latin America, and $2.1 million recorded in EMEA for the three months ended March 31, 2020.

The significant estimates, all of which are considered Level 3 inputs, used in the fair value methodology include: the Company's expectations for future operations and projected cash flows, including net revenue, gross profit and operating expenses and market conditions.

Additionally, the Company recognized $290.8 million of long-lived asset impairment charges related to the Company's New York City flagship store, which was recorded in connection with the Company's 2020 Restructuring Plan. Refer to Note 3 for further discussion of the restructuring and related impairment charges.

Goodwill Impairment

As a result of the impacts of COVID-19, the Company determined that sufficient indicators existed to trigger the performance of an interim goodwill impairment analysis for all of the Company’s reporting units as of March 31, 2020. The Company performed discounted cash flow analyses and determined that the estimated fair values of the Latin America reporting unit and the Canada reporting unit, within the North America operating segment, no longer exceeded its carrying value, resulting in an impairment of goodwill. The Company recognized goodwill impairment charges of $51.6 million for these reporting units for the three months ended March 31, 2020. The goodwill impairment charge was recorded within restructuring and impairment charges on the unaudited consolidated statements of operations and as a reduction to the goodwill balance within goodwill on the unaudited consolidated balance sheets.

The determination of the Company’s reporting units' fair value includes assumptions that are subject to various risks and uncertainties. The significant estimates, all of which are considered Level 3 inputs, used in the discounted cash flow analyses include: the Company’s weighted average cost of capital, adjusted for the risk attributable to the geographic regions of the reporting unit's business, long-term rate of growth and profitability of the reporting unit's business, working capital effects, and changes in market conditions, consumer trends or strategy.

The fair value of each of the Company's other reporting units substantially exceeded its carrying value with the exception of the EMEA reporting unit. The fair value of the EMEA reporting unit exceeded its carrying value by 16%. Holding all other assumptions used in the fair value measurement of the EMEA reporting unit constant, a reduction in the growth rate of revenue by 1.5 percentage points or a reduction in the growth rate of net income by 2.3 percentage points would eliminate the headroom. No events occurred during the period ended March 31, 2020 that indicated it was more likely than not that goodwill was impaired for this reporting unit.

The following table summarizes changes in the carrying amount of the Company’s goodwill by reportable segment as of the periods indicated:

(In thousands)	North America	EMEA	Asia-Pacific	Latin America	Connected Fitness	Total
Balance as of December 31, 2019	318,288	106,066	79,168	46,656	—	550,178
Effect of currency translation adjustment	(1,573)	(4,354)	3,422	(10,426)	—	(12,931)
Impairment	(15,345)	—	—	(36,230)	—	(51,575)
Balance as of March 31, 2020	$ 301,370	$ 101,712	$ 82,590	$ —	$ —	$ 485,672

6. Leases

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

The Company accounts for a contract as a lease when it has the right to direct the use of the asset for a period of time while obtaining substantially all of the asset’s economic benefits. The Company determines the initial classification and measurement of its right-of-use ("ROU") assets and lease liabilities at the lease commencement date and thereafter if modified. ROU assets represent the Company’s right to control the underlying assets under lease, over the contractual term. ROU assets and lease liabilities are recognized on the consolidated balance sheets based on the present value of future minimum lease payments to be made over the lease term. ROU assets and lease liabilities are established on the consolidated balance sheets for leases with an expected term greater than one year. Short-term lease payments were not material for the quarter ended March 31, 2020.

As the rate implicit in the lease is not readily determinable, the Company uses its secured incremental borrowing rate to determine the present value of the lease payments. The Company calculates the incremental borrowing rate based on the current market yield curve and adjusts for foreign currency for international leases.

Fixed lease costs are included in the recognition of ROU assets and lease liabilities. Variable lease costs are not included in the measurement of the lease liability. These variable lease payments are recognized in the consolidated statements of operations in the period in which the obligation for those payments is incurred. Variable lease payments primarily consist of payments dependent on sales in brand and factory house stores. The Company has elected to combine lease and non-lease components in the determination of lease costs for its leases. The lease liability includes lease payments related to options to extend or renew the lease term only if the Company is reasonably certain to exercise those options.

The Company recognizes lease expense on a straight-line basis over the lease term. Included in selling, general and administrative expenses were operating lease costs of $37.9 million and $37.1 million for the three months ended March 31, 2020 and 2019, respectively, including $2.0 million and $2.2 million in variable lease payments, for the three months ended March 31, 2020 and 2019, respectively, under non-cancelable operating lease agreements.

There are no residual value guarantees that exist, and there are no restrictions or covenants imposed by leases. The Company rents or subleases excess office facilities and warehouse space to third parties. Sublease income is not material.

Supplemental balance sheet information related to leases was as follows:

	Three months ended March 31, 2020	Three months ended March 31, 2019
Weighted average remaining lease term (in years)	9.64	7.35
Weighted average discount rate	3.99	4.30

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

(In thousands)		Three months ended March 31, 2020		Three months ended March 31, 2019
Cash paid for amounts included in the measurement of lease liabilities				
Operating cash outflows from operating leases	$	36,547	$	17,563
Leased assets obtained in exchange for new operating lease liabilities	$	72,963	$	3,344

Maturities of lease liabilities are as follows:

(In thousands)		
2020	$	125,108
2021		169,446
2022		157,176
2023		138,031
2024		121,336
2025 and thereafter		560,783
Total lease payments	$	1,271,880
Less: Interest		228,368
Total present value of lease liabilities (1)	$	1,043,512

(1) Amounts above reflect lease liabilities associated with the Company's New York City flagship store lease, which commenced on March 1, 2020. However, refer to Note 3 for discussion of the impairment of the associated ROU lease asset.

As of March 31, 2020, the Company has additional operating lease obligations that have not yet commenced of approximately $9.2 million which are not reflected in the table above.

7. Long Term Debt

Credit Facility

In March 2019, the Company entered into an amended and restated credit agreement by and among the Company, as borrower, JPMorgan Chase Bank, N.A., as administrative agent, PNC Bank, National Association, as syndication agent and the other lenders and arrangers party thereto (the "credit agreement"), amending and restating the Company's prior credit agreement. The credit agreement has a term of five years, maturing in March 2024, with permitted extensions under certain circumstances, and provides revolving credit commitments of up to $1.25 billion of borrowings, but no term loan borrowings, which were provided for under the prior credit agreement. During the three months ended March 31, 2020, the Company borrowed up to $700 million under the credit agreement as a precautionary measure in order to increase its cash position and preserve liquidity given the ongoing uncertainty in global markets resulting from the COVID-19 outbreak. As of March 31, 2020, there was $600 million outstanding under the revolving credit facility. As of March 31, 2019, there were no amounts outstanding under the revolving credit facility. In April 2020, the Company borrowed an additional $100 million under the revolving credit facility.

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

Borrowings under the revolving credit facility have maturities of less than one year. Up to $50.0 million of the facility may be used for the issuance of letters of credit. There were $5.0 million, $5.0 million and $4.6 million of letters of credit outstanding as of March 31, 2020, December 31, 2019 and March 31, 2019, respectively.

The credit agreement contains negative covenants that limit the Company's ability to engage in certain transactions, as well as financial covenants that require the Company to comply with specific consolidated leverage and interest coverage ratios. As of March 31, 2020, the Company was in compliance with these ratios. The Company is in the final stages of amending it's credit agreement, which the Company expects to execute after the filing of this Quarterly Report on Form 10-Q. The Company expects this amendment to provide relief under our financial covenants for specified future periods and provide the Company with better access to liquidity during those periods. However, based on the potential impact of the COVID-19 pandemic, in the unlikely event that the Company is unable to amend its credit agreement, then in future quarters the Company would need to repay the amounts already borrowed under our credit agreement, and would not be able to access additional borrowings under that agreement. In that event, the Company would need to take actions to further reduce its expenditures, including reductions to discretionary spending and changes to investment strategies, negotiating payment terms with its customers and vendors, reductions in compensation costs, including through temporary reductions in pay and layoffs, and limiting certain marketing expenditures. In addition the Company would seek alternative sources of liquidity, including but not limited to accessing the capital markets, sale leaseback transactions or other sales of assets, or other alternative financing measures.

In addition, the credit agreement contains events of default that are customary for a facility of this nature, and includes a cross default provision whereby an event of default under other material indebtedness, as defined in the credit agreement, will be considered an event of default under the credit agreement.

Borrowings under the credit agreement bear interest at a rate per annum equal to, at the Company's option, either (a) an alternate base rate, or (b) a rate based on the rates applicable for deposits in the interbank market for U.S. Dollars or the applicable currency in which the loans are made ("adjusted LIBOR"), plus in each case an applicable margin. The applicable margin for loans will be adjusted by reference to a grid (the "Pricing Grid") based on the consolidated leverage ratio and ranges between 1.00% to 1.25% for adjusted LIBOR loans and 0.00% to 0.25% for alternate base rate loans. The weighted average interest rate under the revolving credit facility borrowings was 3.2% and 3.6% during the three months ended March 31, 2020 and 2019, respectively. The Company pays a commitment fee on the average daily unused amount of the revolving credit facility and certain fees with respect to letters of credit. As of March 31, 2020, the commitment fee was 15.0 basis points. The Company incurred and deferred $3.4 million in financing costs in connection with the credit agreement.

3.250% Senior Notes

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

Interest Expense

Interest expense, net, was $6.0 million and $4.2 million for the three months ended March 31, 2020 and 2019, respectively. Interest expense includes the amortization of deferred financing costs, bank fees, capital and built-to-suit lease interest and interest expense under the credit and other long term debt facilities.

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

8. Commitments and Contingencies

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

In re Under Armour Securities Litigation

On March 23, 2017, three separate securities cases previously filed against the Company in the United States District Court for the District of Maryland (the “District Court”) were consolidated under the caption *In re Under Armour Securities Litigation*, Case No. 17-cv-00388-RDB (the “Consolidated Action”). On August 4, 2017, the lead plaintiff in the Consolidated Action, North East Scotland Pension Fund, joined by named plaintiff Bucks County Employees Retirement Fund, filed a consolidated amended complaint (the “Amended Complaint”) against the Company, the Company’s then-Chief Executive Officer, Kevin Plank, and former Chief Financial Officers Lawrence Molloy and Brad Dickerson. The Amended Complaint alleges violations of Section 10(b) (and Rule 10b-5) of the Securities Exchange Act of 1934, as amended (the “Exchange Act”) and Section 20(a) control person liability under the Exchange Act against the officers named in the Amended Complaint, claiming that the defendants made material misstatements and omissions regarding, among other things, the Company's growth and consumer demand for certain of the Company's products. The class period identified in the Amended Complaint is September 16, 2015 through January 30, 2017. The Amended Complaint also asserts claims under Sections 11 and 15 of the Securities Act of 1933, as amended (the “Securities Act”), in connection with the Company’s public offering of senior unsecured notes in June 2016. The Securities Act claims are asserted against the Company, the Mr. Plank, Mr. Molloy, the Company’s directors who signed the registration statement pursuant to which the offering was made and the underwriters that participated in the offering. The Amended Complaint alleges that the offering materials utilized in connection with the offering contained false and/or misleading statements and omissions regarding, among other things, the Company’s growth and consumer demand for certain of the Company’s products.

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

In September 2019, plaintiffs filed an appeal in the United States Court of Appeals for the Fourth Circuit challenging the decisions by the District Court on September 19, 2018 and August 19, 2019 (the “Appeal”). The Appeal was fully briefed as of January 16, 2020. On November 18, 2019, before briefing on the Appeal was complete, the lead plaintiff filed in the District Court a motion for an indicative ruling under Federal Rule of Civil Procedure 62.1 (the “Rule 62.1 Motion”) seeking relief from the final judgment pursuant to Federal Rule of Civil Procedure 60(b). The Rule 62.1 Motion alleged that purported newly discovered evidence entitled the lead plaintiff to relief from the District Court’s final judgment. On January 22, 2020, the District Court granted the Rule 62.1 motion and indicated that it would grant a motion for relief from the final judgment and provide the lead plaintiff with the opportunity to file a third amended complaint if the Fourth Circuit remands for that purpose. The District Court further stated that it would, upon remand, consolidate the matter with *Patel v. Under Armour, Inc.* and *Waronker v. Under Armour Inc.*, described below, and appoint the lead plaintiff of *In re Under Armour Securities Litigation* as the lead plaintiff over the consolidated cases.

The Company continues to believe that the claims are without merit and intends to defend the lawsuit vigorously. However, because of the inherent uncertainty as to the outcome of this proceeding, the Company is unable at this time to estimate the possible impact of this matter.

Patel v. Under Armour, Inc. and *Waronker v. Under Armour, Inc.*

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

On December 17, 2019, a purported shareholder of the Company filed a securities case in the United States District Court for the District of Maryland against the Company and Mr. Plank, Mr. Bergman and Mr. Frisk, as well as two former Chief Financial Officers of the Company (captioned *Waronker v. Under Armour, Inc.*, No. 1:19-cv-03581-RDB). Like the *Patel* complaint, the *Waronker* complaint alleges violations of Section 10(b) (and Rule 10b-5) of the Exchange Act, against all defendants, and Section 20(a) control person liability under the Exchange Act against the current and former officers named in the complaint. The complaint claims that the defendants' disclosures and statements supposedly misrepresented or omitted that the Company was purportedly shifting sales between quarterly periods allegedly to appear healthier and that the Company was under investigation by and cooperating with the United States Department of Justice and the United States Securities and Exchange Commission since July 2017. The class period identified in the complaint is September 16, 2015 through November 1, 2019, inclusive.

The Court has not consolidated these cases or appointed a lead plaintiff and the Company has no pending deadline to respond to the complaint in either of these actions. As described above, the Court indicated in a January 22, 2020 decision in the *In re Under Armour Securities Litigation* case that it anticipated consolidating that matter with these cases and appointing the lead plaintiff in *In re Under Armour Securities Litigation* as the lead plaintiff over the consolidated cases, in the event that the Fourth Circuit remands the *In re Under Armour Securities Litigation* case.

The Company believes that the claims are without merit and intends to defend the lawsuits vigorously. However, because of the inherent uncertainty as to the outcome of these proceedings, the Company is unable at this time to estimate the possible impact of these matters.

Olin Derivative Complaint

On December 26, 2019, Dale Olin, a purported shareholder of the Company, filed a shareholder derivative lawsuit in state court in Baltimore, Maryland, captioned *Olin v. Under Armour, Inc.*, *et al.*, No. 24-C-19-006850 (Md. Cir. Ct.). The complaint was brought against Mr. Plank, Mr. Bergman and Mr. Frisk, and certain other members of the Company's Board of Directors and names the Company as a nominal defendant. The complaint alleged that the defendants breached their fiduciary duties between August 2016 and November 2019 by (i) failing to disclose or take appropriate action regarding alleged shifting of sales between quarterly periods to appear healthier, (ii) failing to "adhere to accepted accounting principles regarding revenue recognition, which resulted in materially false and misleading public statements by the Company," (iii) failing to disclose that the Company was under investigation by and cooperating with the United States Department of Justice and the United States Securities and Exchange Commission, and (iv) exposing the Company to the aforementioned investigations and to a securities fraud class action. Prior to the filing of the derivative complaint in *Olin v. Under Armour, Inc.*, *et al.*, the purported stockholder did not make a demand that the Company pursue claims similar to the claims asserted in the complaint.

The Company and the defendants filed a motion to dismiss the complaint in the *Olin* action on March 12, 2020. On March 30, 2020, the plaintiff filed a notice of voluntary dismissal with the court, dismissing its complaint without prejudice.

Sagamore Derivative Complaints

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

Prior to the filing of these derivative complaints, each of the purported stockholders had sent the Company's Board of Directors a letter demanding that the Company pursue claims similar to the claims asserted in the derivative complaints. Following an investigation, a majority of disinterested and independent directors of the Company determined that the claims should not be pursued by the Company and informed each of these purported stockholders of that determination.

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

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

The Company and the defendants filed a motion to dismiss the consolidated complaint on July 2, 2019. On March 30, 2020, the court granted the motion and dismissed the consolidated complaint in its entirety.

Disclosure-related Derivative Complaints

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

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

Prior to the filing of the derivative complaints in *Kenney v. Plank, et al.*, *Luger v. Plank, et al.*, and *Andersen v. Plank et al.*, each of the purported stockholders had sent the Company's Board of Directors a letter demanding that the Company pursue claims similar to the claims asserted in the derivative complaints. Following an investigation, a majority of disinterested and independent directors of the Company determined that the claims should not be pursued by the Company and informed each of these purported stockholders of that determination.

The Company believes that the claims asserted in the derivative complaints are without merit and intends to defend these matters vigorously. However, because of the inherent uncertainty as to the outcome of these proceedings, the Company is unable at this time to estimate the possible impact of the outcome of these matters.

Data Incident

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

9. Fair Value Measurements

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

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

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

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

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

	March 31, 2020			December 31, 2019			March 31, 2019		
(In thousands)	Level 1	Level 2	Level 3	Level 1	Level 2	Level 3	Level 1	Level 2	Level 3
Derivative foreign currency contracts (see Note 11)	$ —	$ 35,971	$ —	$ —	$ (7,151)	$ —	$ —	$ 9,385	$ —
TOLI policies held by the Rabbi Trust	—	5,471	—	—	6,543	—	—	5,877	—
Deferred Compensation Plan obligations	—	(10,443)	—	—	(10,839)	—	—	(9,598)	—

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

As of March 31, 2020, December 31, 2019, and March 31, 2019, the fair value of the Company's Senior Notes was $551.5 million, $587.5 million and $548.2 million, respectively. The carrying value of the Company's other long term debt approximated its fair value as of March 31, 2020, December 31, 2019 and March 31, 2019. The fair value of long term debt is estimated based upon quoted prices for similar instruments or quoted prices for identical instruments in inactive markets (Level 2).

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

10. Stock Based Compensation

Performance-Based Equity Compensation

The Company grants a combination of time-based and performance-based restricted stock units and stock options as part of its incentive compensation. Certain senior executives are eligible to receive performance-based awards. The Company did not grant any performance-based restricted stock units or stock options during the three months ended March 31, 2020. During 2019, the Company granted performance-based restricted stock units or stock options with vesting conditions tied to the achievement of revenue and operating income targets for 2019 and 2020. As of March 31, 2020, the Company deemed the achievement of these revenue and operating income targets improbable. As such the Company recorded a reversal of $2.9 million of expense for the performance-based restricted stock units and stock options during the three months ended March 31, 2020.

11. Risk Management and Derivatives

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

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

The Company's foreign exchange risk management program consists of designated cash flow hedges and undesignated hedges. As of March 31, 2020, the Company has hedge instruments, primarily for U.S. Dollar/Chinese Renminbi, British Pound/U.S. Dollar, U.S. Dollar/Canadian Dollar, Euro/U.S. Dollar, U.S. Dollar/Japanese Yen, and U.S. Dollar/Mexican Peso currency pairs. All derivatives are recognized on the unaudited consolidated balance sheets at fair value and classified based on the instrument's maturity date.

The following table presents the fair values of derivative instruments within the unaudited consolidated balance sheets. Refer to Note 9 for a discussion of the fair value measurements.

(In thousands)	Balance Sheet Classification	March 31, 2020	December 31, 2019	March 31, 2019
Derivatives designated as hedging instruments under ASC 815				
Foreign currency contracts	Other current assets	$ 35,087	$ 4,040	$ 10,185
Foreign currency contracts	Other long term assets	4,791	24	273
Interest rate swap contracts	Other long term assets	—	—	—
Total derivative assets designated as hedging instruments		$ 39,878	$ 4,064	$ 10,458
Foreign currency contracts	Other current liabilities	$ 789	$ 8,772	$ 1,973
Foreign currency contracts	Other long term liabilities	—	$ 2,443	$ 307
Total derivative liabilities designated as hedging instruments		$ 789	$ 11,215	$ 2,280
Derivatives not designated as hedging instruments under ASC 815				
Foreign currency contracts	Other current assets	$ 8,582	$ 2,337	$ 4,611
Total derivative assets not designated as hedging instruments		$ 8,582	$ 2,337	$ 4,611
Foreign currency contracts	Other current liabilities	$ 1,740	$ 9,510	$ 840
Total derivative liabilities not designated as hedging instruments		$ 1,740	$ 9,510	$ 840

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

(In thousands)	Three months ended March 31, 2020 Total	Three months ended March 31, 2020 Amount of Gain (Loss) on Cash Flow Hedge Activity	2019 Total	2019 Amount of Gain (Loss) on Cash Flow Hedge Activity
Net revenues	$ 930,240	$ 1,788	$ 1,204,722	$ 3,792
Cost of goods sold	499,256	1,117	659,935	740
Interest expense, net	(5,960)	(9)	(4,238)	1,625
Other income (expense), net	1,534	21	(667)	640

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

(In thousands)	Balance as of December 31, 2019	Amount of gain (loss) recognized in other comprehensive income (loss) on derivatives	Amount of gain (loss) reclassified from other comprehensive income (loss) into income	Balance as of March 31, 2020
Derivatives designated as cash flow hedges				
Foreign currency contracts	(6,005)	46,876	2,905	37,965
Interest rate swaps	(577)	—	(9)	(568)
Total designated as cash flow hedges	$ (6,582)	$ 46,876	$ 2,896	$ 37,397

(In thousands)	Balance as of December 31, 2018	Amount of gain (loss) recognized in other comprehensive income (loss) on derivatives	Amount of gain (loss) reclassified from other comprehensive income (loss) into income	Balance as of March 31, 2019
Derivatives designated as cash flow hedges				
Foreign currency contracts	21,908	(4,971)	5,172	11,766
Interest rate swaps	954	68	1,625	(604)
Total designated as cash flow hedges	$ 22,862	$ (4,903)	$ 6,797	$ 11,162

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

(In thousands)	Three months ended March 31, 2020 Total	Three months ended March 31, 2020 Amount of Gain (Loss) on Fair Value Hedge Activity	2019 Total	2019 Amount of Gain (Loss) on Fair Value Hedge Activity
Other income (expense), net	$ 1,534	$ (2,826)	$ (667)	$ (449)

Cash Flow Hedges

The Company is exposed to gains and losses resulting from fluctuations in foreign currency exchange rates relating to transactions generated by its international subsidiaries in currencies other than their local currencies. These gains and losses are driven by non-functional currency generated revenue, non-functional currency inventory purchases, investments in U.S. Dollar denominated available-for-sale debt securities, and certain other intercompany transactions. The Company enters into foreign currency contracts to reduce the risk associated with the foreign currency exchange rate fluctuations on these transactions. Certain contracts are designated as cash flow hedges. As of March 31, 2020, December 31, 2019 and March 31, 2019, the aggregate notional value of the Company's outstanding cash flow hedges was $681.5 million, $879.8 million and $507.6 million, respectively, with contract maturities ranging from one to twenty-four months.

The Company may enter into long term debt arrangements with various lenders which bear a range of fixed and variable rates of interest. The nature and amount of the Company's long term debt can be expected to vary as a result of future business requirements, market conditions and other factors. The Company may elect to enter into interest rate swap contracts to reduce the impact associated with interest rate fluctuations. The interest rate swap contracts are accounted for as cash flow hedges. Refer to Note 7 for a discussion of long term debt. As of March 31, 2020, the Company had no outstanding interest rate swap contracts.

For contracts designated as cash flow hedges, the changes in fair value are reported as other comprehensive income (loss) and are recognized in current earnings in the period or periods during which the hedged transaction affects current earnings. Effective hedge results are classified in the unaudited consolidated statements of operations in the same manner as the underlying exposure.

The Company evaluated the probability of certain hedged forecasted transactions and determined certain transactions, against which hedges were designated, were no longer probable of occurring by the end of the originally specified time period, as a result of the impacts of COVID-19. The amounts recorded in other income (expense), previously recorded in accumulated other comprehensive income, as a result of the discontinuance of cash flow hedges was not material for the three months ended March 31, 2020.

Undesignated Derivative Instruments

The Company may elect to enter into foreign exchange forward contracts to mitigate the change in fair value of specific assets and liabilities on the unaudited consolidated balance sheets. These undesignated instruments are recorded at fair value as a derivative asset or liability on the unaudited consolidated balance sheets with their corresponding change in fair value recognized in other expense, net, together with the re-measurement gain or loss from the hedged balance sheet position. As of March 31, 2020, December 31, 2019 and March 31, 2019, the total notional value of the Company's outstanding undesignated derivative instruments was $303.0 million, $304.2 million and $497.4 million, respectively.

Credit Risk

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

12. Provision for Income Taxes

Provision for Income Taxes

The effective rates for income taxes were (3.8)% and 26.8% for the three months ended March 31, 2020 and 2019, respectively. The change in the Company's effective tax rate was primarily driven by the proportion of earnings subject to tax in the United States as compared to foreign jurisdictions in each period. The effective tax rate for the three months ended March 31, 2020 includes the impact of recording valuation allowances against the majority of incurred and forecasted 2020 losses in the United States, against all 2020 losses incurred and forecasted in China, and discrete items, including the recording of valuation allowances on certain previously recognized deferred tax assets in the United States and China.

Cares Act

On March 27, 2020 the United States enacted the CARES Act to combat the negative economic impact of the COVID-19 pandemic. The CARES Act includes several provisions aimed at assisting corporate taxpayers, including the allowance of a five-year carryback for net operating losses originating in the 2018, 2019, and 2020 tax years; removal of the taxable income limitation on net operating loss utilization for tax years before 2021; loosening of the interest deduction limitation in the 2019 and 2020 tax years; and correcting the drafting error from the Tax Cuts and Jobs Act related to the tax life for qualified improvement property.

In addition, the Company’s effective tax rate for the three months ended March 31, 2020 includes the income tax accounting impacts of the CARES Act. More specifically, the effective tax rate includes a benefit for the portion of forecasted 2020 net operating losses in the United States federal jurisdiction able to be carried back to offset taxable income in the five-year carryback period. This benefit partially offsets the impact of recording valuation allowances against the majority of the Company’s deferred tax assets in the United States federal jurisdiction.

Valuation Allowance

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

As noted in the Company's Annual Report on Form 10-K, a significant portion of the Company's deferred tax assets relate to United States federal and state taxing jurisdictions. Realization of these deferred tax assets is dependent on future United States pre-tax earnings. As of December 31, 2019 the Company believed the weight of the positive evidence outweighed the negative evidence regarding the realization of the Company's United States federal deferred tax assets and no valuation allowance was recorded. However, the weight of the negative evidence outweighed the positive evidence regarding the realization of the majority of the Company's United States state deferred tax assets and a valuation allowance was recorded.

Based on developments during the first quarter of 2020, including the negative economic impact of the COVID-19 pandemic and an increase in the range of pre-tax charges forecasted to be incurred in connection with the 2020 Restructuring Plan, the Company no longer believes it is more likely than not that a majority of the Company's U.S. federal deferred tax assets will be realized. As such, we have recorded a valuation allowance on the portion which are not forecasted to be utilized with the 2020 net operating loss carryback. Additionally, based on similar factors, the Company no longer believes it is more likely than not that the China deferred tax assets will be realized and therefore, we have recorded a valuation allowance on these deferred tax assets. We will continue to evaluate the Company's ability to realize the deferred tax assets on a quarterly basis.

13. Earnings per Share

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

	Three Months Ended March 31,	
(In thousands, except per share amounts)	2020	2019
Numerator		
Net income (loss)	$ (589,681)	$ 22,477
Denominator		
Weighted average common shares outstanding Class A, B and C	452,871	449,749
Effect of dilutive securities Class A, B, and C	—	3,481
Weighted average common shares and dilutive securities outstanding Class A, B, and C	452,871	453,230
Basic net income (loss) per share of Class A, B and C common stock	$ (1.30)	$ 0.05
Diluted net income (loss) per share of Class A, B and C common stock	$ (1.30)	$ 0.05

Effects of potentially dilutive securities are presented only in periods in which they are dilutive. Due to the Company being in a net loss position for the three months ended March 31, 2020, there were no warrants, stock options, or restricted stock units included in the computation of diluted earnings per share, as their effect would have been anti-dilutive. Stock options and restricted stock units representing 4.1 million shares of Class A and C common stock outstanding for the three months ended March 31, 2019 were excluded from the computation of diluted earnings per share because their effect would have been anti-dilutive.

14. Segment Data and Disaggregated Revenue

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

The Company excludes certain corporate costs from its segment profitability measures. The Company reports costs within Corporate Other, which is designed to provide increased transparency and comparability of the Company's operating segments' performance. Corporate Other consists largely of general and administrative expenses not allocated to an operating segment, including expenses associated with centrally managed departments such as global marketing, global IT, global supply chain, innovation and other corporate support functions; costs related to the Company's global assets and global marketing, costs related to the Company's headquarters; restructuring and restructuring related charges; and certain foreign currency hedge gains and losses.

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

	Three Months Ended March 31,	
(In thousands)	2020	2019
Net revenues		
North America	$ 608,980	$ 843,249
EMEA	137,904	134,104
Asia-Pacific	95,686	144,285
Latin America	53,088	49,188
Connected Fitness	32,794	30,104
Corporate Other (1)	1,788	3,792
Total net revenues	$ 930,240	$ 1,204,722

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

	Three Months Ended March 31,	
(In thousands)	2020	2019
Operating income (loss)		
North America	$ (3,773)	$ 160,273
EMEA	3,704	12,218
Asia-Pacific	(36,841)	19,803
Latin America	(48,184)	(359)
Connected Fitness	3,700	1,069
Corporate Other	(476,786)	(157,745)
Total operating income (loss)	(558,180)	35,259
Interest expense, net	(5,960)	(4,238)
Other income (expense), net	1,534	(667)
Income (loss) before income taxes	$ (562,606)	$ 30,354

Net revenues by product category are as follows:

(In thousands)	Three Months Ended March 31, 2020	2019
Apparel	$ 598,287	$ 774,630
Footwear	209,688	292,547
Accessories	67,748	81,992
Net Sales	875,723	1,149,169
License revenues	19,935	21,657
Connected Fitness	32,794	30,104
Corporate Other (1)	1,788	3,792
Total net revenues	$ 930,240	$ 1,204,722

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

Net revenues by distribution channel are as follows:

(In thousands)	Three Months Ended March 31, 2020	2019
Wholesale	$ 591,772	$ 817,931
Direct to Consumer	283,951	331,238
Net Sales	875,723	1,149,169
License revenues	19,935	21,657
Connected Fitness	32,794	30,104
Corporate Other (1)	1,788	3,792
Total net revenues	$ 930,240	$ 1,204,722

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

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

Forward-Looking Statements

Some of the statements contained in this Form 10-Q constitute forward-looking statements. Forward-looking statements relate to expectations, beliefs, projections, future plans and strategies, anticipated events or trends and similar expressions concerning matters that are not historical facts, such as statements regarding our future financial condition or results of operations, our prospects and strategies for future growth, the impact of the COVID-19 pandemic on our business and results of operations, our plans to reduce our operating expenses, anticipated charges and restructuring costs, the timing of these measures and projected savings related to our restructuring plans, the potential amendment to our credit agreement, including the timing of the amendment and related impact on our liquidity, the development and introduction of new products, the implementation of our marketing and branding strategies, the impact of our investment in our equity method investments on our results of operations, and the future benefits and opportunities from significant investments. In many cases, you can identify forward-looking statements by terms such as "may," "will," "should," "expects," "plans," "anticipates," "believes," "estimates," "predicts," "outlook," "potential" or the negative of these terms or other comparable terminology.

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

- the impact of the COVID-19 pandemic on our industry and our business, financial condition and results of operations;
- changes in general economic or market conditions that could affect overall consumer spending or our industry;
- changes to the financial health of our customers;
- loss of key suppliers or manufacturers or failure of our suppliers or manufacturers to produce or deliver our products in a timely or cost-effective manner;
- our ability to raise capital and financing required to manage our business on terms acceptable to us;
- our ability to successfully execute our long-term strategies;
- our ability to successfully execute any potential restructuring plans and realize their expected benefits;
- our ability to effectively drive operational efficiency in our business;
- our ability to manage the increasingly complex operations of our global business;
- our ability to comply with existing trade and other regulations, and the potential impact of new trade, tariff and tax regulations on our profitability;
- our ability to effectively develop and launch new, innovative and updated products;
- our ability to accurately forecast consumer demand for our products and manage our inventory in response to changing demands;
- any disruptions, delays or deficiencies in the design, implementation or application of our new global operating and financial reporting information technology system;
- increased competition causing us to lose market share or reduce the prices of our products or to increase significantly our marketing efforts;
- fluctuations in the costs of our products;
- 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 potential exposure to litigation and other proceedings; and
- our ability to attract key talent and retain the services of our senior management and key employees.

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

Overview

We are a leading developer, marketer and distributor of branded athletic performance apparel, footwear and accessories. We create products engineered to solve problems and make athletes lives better, as well as digital health and fitness apps built to connect people and drive performance. Our products are made, sold and worn worldwide.

COVID-19

In March 2020, a novel strain of coronavirus (COVID-19) was declared a global pandemic by the World Health Organization. This pandemic has negatively affected the U.S. and global economies, disrupted global supply chains and financial markets, and led to significant travel and transportation restrictions, including mandatory closures and orders to “shelter-in-place”.

During this period, Under Armour is focused on protecting the health and safety of our teammates, athletes and consumers, working with our customers and suppliers to minimize potential disruptions and supporting our community to address challenges posed by the global pandemic, while managing our business in response to a changing dynamic. To that end, during the first quarter of 2020, we took action to close substantially all of our brand and factory house stores based on regional conditions. Specifically, our owned and partner doors in China were closed from late-January through early-March, when a slowly progressive re-opening process started, and beginning in mid-March we closed all of our stores in our North America, EMEA and Latin America operating segments. Stores in the remainder of our APAC operating segment have also been closed from time to time based on regional conditions. Many of our wholesale customers have also closed their stores or are operating at limited capacity, which has delayed the purchase of additional products from us or resulted in cancelled orders. Stores in certain of our international regions have begun to reopen, however, they continue to experience decreased traffic. For the fiscal year ended December 31, 2019, 69% of our net revenues were earned in our North America segment. In addition, while our global e-commerce business remains operational, sales in this channel have historically represented a small percentage of our total revenue. For example, in 2019 sales through our direct to consumer channel represented 34% of net revenues, with our e-commerce business representing less than half of the total direct to consumer business. In 2019, our wholesale channel represented 60% of net revenues.

Our business operations and financial performance for the three months ended March 31, 2020 were materially impacted by the developments discussed above, including decreases in net revenue and decreases in overall profitability for the three months ended March 31, 2020 as compared to the prior year. These developments have further required us to recognize certain long-lived asset and goodwill impairment charges, discussed in further detail below, and record valuation allowances on the majority of our deferred tax assets.

In addition to the impacts on our sales outlined above, this pandemic has also impacted the operations of our distribution centers, our third-party logistics providers and our manufacturing and supplier partners, including through the closure or reduced capacity of facilities and operational changes to accommodate social distancing. In addition, as the pandemic progresses, throughout our supply chain we may face further disruptions or increased operational and logistics costs.

As we navigate these unprecedented circumstances, we are focused on preserving our liquidity and managing our cash flows through certain preemptive actions designed to enhance our ability to meet our short-term liquidity needs. We are currently in the final stages of amending our credit agreement, which we expect to execute after the filing of this Quarterly Report on Form 10-Q. Additional actions include, among others, reductions to our discretionary spending and changes to our investment strategies, negotiating payment terms with our customers and vendors, reductions in compensation costs, including through temporary reductions in pay and layoffs, and limiting certain marketing expenditures. We are also currently evaluating benefits that may be available to us under the Coronavirus Aid, Relief, and Economic Security ("CARES") Act and similar legislation in foreign jurisdictions.

We do expect the pandemic to have a material impact on our financial condition, results of operations and cash flows from operations in future periods. Further, we could experience material impacts, in addition to those noted above, including, but not limited to, revised payment terms with certain wholesale customers, increased sales-related reserves, charges from adjustments of the carrying amount of inventory, increased cost of product, costs to alter production plans, revised lease terms with landlords, changes in the designation of our hedging instruments, and volatility in our effective tax rate. The extent of the impact of the COVID-19 pandemic on our operational and financial performance depends on future developments outside of our control, including the duration and spread of the pandemic and related actions taken by federal, state and local government officials, and international governments to prevent disease spread. Given that the current circumstances are dynamic and highly uncertain, we cannot reasonably estimate the pace and timing of store openings, and traffic patterns when the stores re-open, and the impact on overall consumer demand. For a more complete discussion of the COVID-19 related risks facing our business, refer to the “Risk Factors” section included in Part II, Item 1A.

Quarterly Results

Our net revenues grew to $5,267.1 million in 2019 from $3,963.3 million in 2015. We believe that our growth in net revenues has been driven by a growing interest in performance products and the strength of the Under Armour brand in the marketplace. Our long-term growth strategy is focused on increased sales of our products through ongoing product innovation, investment in our distribution channels and international expansion. While we plan to continue to invest in growth, we also plan to improve efficiencies throughout our business as we seek to gain scale through our operations and return on our investments.

Financial highlights for the three months ended March 31, 2020 as compared to the prior year period include:

- Net revenues decreased 22.8%.
- Wholesale and direct-to-consumer revenue decreased 27.7% and 14.3%, respectively.
- Apparel, footwear and accessories revenue decreased 22.8%, 28.3% and 17.4%, respectively.
- Revenue in our North America and Asia-Pacific segments decreased 27.8% and 33.7%, respectively, while revenue in our Latin America and EMEA segments increased 7.9% and 2.8%, respectively.
- Gross margin increased 110 basis points.
- Selling, general and administrative expense increased 8.5%.
- Restructuring and impairment charges were $436.5 million, comprised of $301.1 million of restructuring and related impairment charges and $135.4 million of long-lived asset and goodwill impairment charges.

2020 Restructuring

On March 31, 2020, our Board of Directors approved the previously announced restructuring plan ("2020 Restructuring") designed to rebalance our cost base to further improve profitability and cash flow generation. This restructuring plan was developed prior to assessing the potential impacts of the COVID-19 pandemic on our business and we continue to evaluate what actions may be necessary related to the pandemic.

In connection with the restructuring plan, we expect to incur total estimated pre-tax restructuring and related charges in the range of $475 million to $525 million during 2020 primarily consisting of up to approximately:

- $175 million of cash restructuring charges, comprised of up to: $55 million in facility and lease termination costs, $25 million in employee severance and benefit costs, and $95 million in contract termination and other restructuring costs; and
- $350 million of non-cash charges comprised of an impairment of $290 million related to our New York City flagship store and $60 million of intangibles and other asset related impairments.

As a result of our restructuring efforts, we expect approximately $40 million to $60 million of pre-tax savings in 2020 from our restructuring plan.

We recorded $301.1 million of restructuring and related impairment charges as of March 31, 2020, including the right of use asset ("ROU") impairment related to our New York City flagship store. The summary of the costs recorded during the three months ended March 31, 2020, as well as our current estimates of the amount expected to be incurred during the remainder of 2020 in connection with the 2020 restructuring plan is as follows:

(In thousands)	Restructuring and Related Impairment Charges Recorded Three Months Ended March 31, 2020	Estimated Restructuring and Related Impairment Charges to be Incurred (1) Nine Months Ending December 31, 2020	Estimated Restructuring and Related Impairment Charges to be Incurred (1) Year Ending December 31, 2020
Costs recorded in cost of goods sold:			
Contract-based royalties	$ —	$ 11,000	$ 11,000
Total costs recorded in cost of goods sold	—	11,000	11,000
Costs recorded in restructuring and related impairment charges:			
Property and equipment impairment	7,094	36,906	44,000
ROU asset impairment	290,813	—	290,813
Employee related costs	—	25,000	25,000
Contract exit costs	—	115,000	115,000
Other restructuring costs	3,182	35,818	39,000
Total costs recorded in restructuring and related impairment charges	301,089	212,724	513,813
Total restructuring and related impairment and restructuring related costs	$ 301,089	$ 223,724	$ 524,813

(1) Estimated restructuring and related impairment charges to be incurred reflect the high-end of the range of the estimated remaining charges expected to be taken during 2020 in connection with the restructuring plan.

All restructuring and related impairment charges are included in the Company's Corporate Other non-operating segment, of which $297.9 million are North America related for the three months ended March 31, 2020.

The lease for our New York City flagship store commenced on March 1, 2020 and was recorded as an operating lease ROU asset of $344.8 million and operating lease liability of $344.8 million on our unaudited consolidated balance sheet. As a part of the 2020 Restructuring, we made the strategic decision to forgo the opening of our New York City flagship store and the property is actively being marketed for sublease. We recognized a ROU asset impairment of $290.8 million for the three months ended March 31, 2020, reducing the carrying value of the lease asset to its estimated fair value. Fair value was estimated using an income-approach based on our forecast of future cash flows expected to be derived from the property based on current sublease market rent. Rent expense or sublease income related to this lease will be recorded within other income (expense) on the unaudited consolidated statements of operations.

These charges require us to make certain judgements and estimates regarding the amount and timing of restructuring and related impairment charges or recoveries. Our estimated liability could change subsequent to its recognition, requiring adjustments to the expense and the liability recorded. On a quarterly basis, we conduct an evaluation of the related liabilities and expenses and revise our assumptions and estimates as appropriate.

Long-Lived Asset Impairment

As a result of the impacts of COVID-19, we determined that sufficient indicators existed to trigger the performance of an interim long-lived asset impairment analysis as of March 31, 2020. Accordingly, we performed undiscounted cash flow analyses on our long-lived assets, including retail stores at an individual store level. Based on these undiscounted cash flow analyses, we determined that certain long-lived assets had net carrying values that exceeded their estimated undiscounted future cash flows. We estimate the fair values of these long-lived assets based on their discounted cash flows or market rent assessments. We compared these estimated fair values to the net carrying values. As a result, we recognized $83.8 million of long-lived asset impairment charges for the three months ended March 31, 2020. The long-lived impairment charge was recorded within restructuring and impairment charges on the unaudited consolidated statements of operations and as a reduction to the related asset balances on the unaudited consolidated balance sheets. The long-lived asset impairment charges are included with our operating segments as follows: $43.4 million recorded in North America, $25.5 million recorded in Asia-Pacific, $12.8 million recorded in Latin America, and $2.1 million recorded in EMEA for the three months ended March 31, 2020.

The significant estimates, all of which are considered Level 3 inputs, used in the fair value methodology include: management's expectations for future operations and projected cash flows, including net revenue, gross profit and operating expenses and market conditions.

Additionally, we recognized $290.8 million of long-lived asset impairment charges related to our New York City flagship store, which was recorded in connection with our 2020 Restructuring Plan. Refer to the 2020 Restructuring section above for further discussion of the restructuring and related impairment charges.

Goodwill Impairment

As a result of the impacts of COVID-19, we determined that sufficient indicators existed to trigger the performance of an interim goodwill impairment analysis for all of our reporting units as of March 31, 2020. We performed discounted cash flow analyses and determined that the estimated fair values of Latin America reporting unit and Canada reporting unit, related, within our North America operating segment, no longer exceeded its carrying value, resulting in an impairment of goodwill. We recognized goodwill impairment charges of $51.6 million for these reporting units for the three months ended, March 31, 2020. The goodwill impairment charge was recorded within restructuring and impairment on the unaudited consolidated statements of operations and as a reduction to the goodwill balance within goodwill on the unaudited consolidated balance sheets. The goodwill impairment charges are included with our operating segments as follows: $15.4 million recorded in North America and $36.2 million recorded in Latin America for the three months ended, March 31, 2020.

The determination of our reporting units' fair value includes assumptions that are subject to various risks and uncertainties. The significant estimates, all of which are considered Level 3 inputs, used in the discounted cash flow analyses include: our weighted average cost of capital, adjusted for the risk attributable to the geographic regions of the reporting units business, long-term rate of growth and profitability of the reporting units business, working capital effects, and changes in market conditions, consumer trends or strategy.

The fair value of each of our other reporting units substantially exceeded its carrying value with the exception of our EMEA reporting unit. The fair value of our EMEA reporting unit exceeded its carrying value by 16%. Holding all other assumptions used in the fair value measurement of the EMEA reporting unit constant, a reduction in the growth rate of revenue by 1.5 percentage points or a reduction in the growth rate of net income by 2.3 percentage points would eliminate the headroom. No events occurred during the period ended March 31, 2020 that indicated it was more likely than not that goodwill was impaired for this reporting unit.

Acquisition

On March 2, 2020, we acquired, on a cash free, debt free basis, 100% of Triple Pte. Ltd. ("Triple"), a distributor of our products in Southeast Asia. The purchase price for the acquisition was $32.9 million in cash, net of $8.9 million of cash acquired that was held by Triple at closing and settlement of $5.1 million in pre-existing trade receivables due from Triple prior to the acquisition. The results of operations of this acquisition have been consolidated with our results of operations beginning on March 2, 2020.

General

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

Cost of goods sold consists primarily of product costs, inbound freight and duty costs, outbound freight costs, handling costs to make products floor-ready to customer specifications, royalty payments to endorsers based on a predetermined percentage of sales of selected products and write downs for inventory obsolescence. In general, as a percentage of net revenues, we expect cost of goods sold associated with our apparel and accessories to be lower than that of our footwear. A limited portion of cost of goods sold is associated with Connected Fitness revenues, primarily website hosting costs, and no cost of goods sold is associated with our license revenues.

We include outbound freight costs associated with shipping goods to customers as cost of goods sold, however, we include the majority of outbound handling costs as a component of selling, general and administrative expenses. As a result, our gross profit may not be comparable to that of other companies that include outbound handling costs in their cost of goods sold. Outbound handling costs include costs associated with preparing goods to ship to customers and certain costs to operate our distribution facilities. These costs were $14.9 million and $21.7 million for the three months ended March 31, 2020 and 2019, respectively.

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

Other income (expense), net consists of unrealized and realized gains and losses on our foreign currency derivative financial instruments, 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. We also include rent expense relating to lease assets held solely for sublet purposes, which is comprised entirely of the lease related to our New York City flagship store.

Results of Operations

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

	Three Months Ended March 31,	
(In thousands)	2020	2019
Net revenues	$ 930,240	$ 1,204,722
Cost of goods sold	499,256	659,935
Gross profit	430,984	544,787
Selling, general and administrative expenses	552,701	509,528
Restructuring and impairment charges	436,463	—
Income (loss) from operations	(558,180)	35,259
Interest expense, net	(5,960)	(4,238)
Other income (expense), net	1,534	(667)
Income (loss) before income taxes	(562,606)	30,354
Income tax expense	21,547	8,131
Income (loss) from equity method investments	(5,528)	254
Net income (loss)	$ (589,681)	$ 22,477

	Three Months Ended March 31,	
(As a percentage of net revenues)	2020	2019
Net revenues	100.0 %	100.0 %
Cost of goods sold	53.7 %	54.8 %
Gross profit	46.3 %	45.2 %
Selling, general and administrative expenses	59.4 %	42.3 %
Restructuring and impairment charges	46.9 %	— %
Income (loss) from operations	(60.0)%	2.9 %
Interest expense, net	(0.6)%	(0.4)%
Other income (expense), net	0.2 %	(0.1)%
Income (loss) before income taxes	(60.5)%	2.5 %
Income tax expense	2.3 %	0.7 %
Loss from equity method investment	(0.6)%	— %
Net income (loss)	(63.4)%	1.9 %

Consolidated Results of Operations

Three Months Ended March 31, 2020 Compared to Three Months Ended March 31, 2019

Net revenues decreased $274.5 million, or 22.8%, to $930.2 million for the three months ended March 31, 2020, from $1,204.7 million during the same period in 2019. Net revenues by product category are summarized below:

	Three Months Ended March 31,	
(In thousands)	2020	2019
Apparel	$ 598,287	$ 774,630
Footwear	209,688	292,547
Accessories	67,748	81,992
Net Sales	875,723	1,149,169
License revenues	19,935	21,657
Connected Fitness	32,794	30,104
Corporate Other (1)	1,788	3,792
Total net revenues	$ 930,240	$ 1,204,722

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

The decrease in net sales was primarily driven by a unit sales decline in apparel, footwear and accessories across all categories due to decreased demand, primarily related to impacts of COVID-19 including cancellations of orders by our wholesale partners and closures of brand and factory house stores, and a unit sales decrease of off-price sales within our wholesale channel.

License revenues decreased $1.7 million, or 8.0%, to $19.9 million for the three months ended March 31, 2020, from $21.7 million during the same period in 2019, primarily driven by decreased revenue from our licensing partners in North America due to softer demand.

Connected Fitness revenue increased $2.7 million, or 8.9%, to $32.8 million for the three months ended March 31, 2020, from $30.1 million during the same period in 2019, primarily driven by an increase in new subscription revenue.

Gross profit decreased $113.8 million to $431.0 million for the three months ended March 31, 2020 from $544.8 million for the same period in 2019. Gross profit as a percentage of net revenues, or gross margin, increased 110 basis points to 46.3% for the three months ended March 31, 2020, compared to 45.2% during the same period in 2019. This increase in gross margin percentage was primarily driven by:

- an approximate 330 basis point increase driven by channel mix, primarily due to a lower percentage of off-price sales within our wholesale channel and a higher percentage of direct-to-consumer sales; and
- an approximate 20 basis point increase driven by product mix, primarily due to lower footwear sales, which carries a lower gross margin rate.

The increase was partially offset by an approximate 200 basis point decrease driven by COVID-19 related pricing and discounting impacts and 30 basis points related to changes in foreign currency.

We expect gross margin decreases from pricing and discounting for the remainder of the year.

Selling, general and administrative expenses increased $43.2 million, or 8.5%, to $552.7 million for the three months ended March 31, 2020, from $509.5 million for the same period in 2019. Within selling, general and administrative expenses:

- Marketing costs increased $20.1 million to $154.0 million for the three months ended March 31, 2020, from $133.9 million for the same period in 2019. This increase was primarily driven by additional investments in brand marketing campaigns, such as our global campaign "The Only Way Is Through". As a percentage of net revenues, marketing costs increased to 16.5% for the three months ended March 31, 2020 from 11.1% for the same period in 2019.
- Other costs increased $23.1 million to $398.8 million for the three months ended March 31, 2020, from $375.7 million for the same period in 2019. This increase was driven primarily by higher legal expense. As a percentage of net revenues, other costs increased to 42.9% for the three months ended March 31, 2020 from 31.2% for the same period in 2019.

As a percentage of net revenues, selling, general and administrative expenses increased to 59.4% for the three months ended March 31, 2020, compared to 42.3% for the same period in 2019.

Restructuring and impairment charges were $436.5 million for the three months ended March 31, 2020, comprised of $301.1 million of restructuring and related impairment charges and $135.4 million of long-lived asset and goodwill impairment charges for the three months ended March 31, 2020. There was no restructuring plan or charges, long-lived asset impairment or goodwill impairment in the three months ended March 31, 2019. Refer to the "2020 Restructuring" and "Long-Lived Asset and Goodwill Impairment" sections above for further discussion of restructuring and impairment charges.

Income from operations decreased $593.5 million to a loss of $558.2 million for the three months ended March 31, 2020, from income of $35.3 million for the same period in 2019, primarily driven by the decreases in net sales discussed above, $301.1 million of restructuring and related impairment charges, and $135.4 million of long-lived asset and goodwill impairment charges for the three months ended March 31, 2020.

Interest expense, net increased $1.7 million to $6.0 million for the three months ended March 31, 2020, from $4.2 million for the same period in 2019. This increase was primarily due to interest income associated with the settlement of our interest rate swap for the same period in 2019 and higher interest expense related to borrowing on our revolving credit facility in the current period.

Other income, net increased $2.2 million to $1.5 million for the three months ended March 31, 2020, from expense of $0.7 million for the same period in 2019. This increase was primarily due to increases in foreign exchange gains, including gain associated with the de-designation of certain derivative instruments, as a result of the impacts of COVID-19. This increase was partially offset by rent expense incurred in connection with our New York City flagship store.

Income tax expense increased $13.4 million to $21.5 million during the three months ended March 31, 2020 from $8.1 million during the same period in 2019. For the three months ended March 31, 2020, our effective tax rate was (3.8)% compared to 26.8% for the same period in 2019. The change in our effective tax rate was primarily driven by the proportion of earnings subject to tax in the United States as compared to foreign jurisdictions in each period. In addition, the effective tax rate for the three months ended March 31, 2020 includes the impact of recording valuation allowances against the majority of incurred and forecasted 2020 losses in the United States, against all of the 2020 losses incurred and forecasted in China, and discrete items, including the recording of valuation allowances on certain previously recognized deferred tax assets in the United States and China.

Income (loss) from equity method investment decreased $5.8 million to a loss of $5.5 million during the three months ended March 31, 2020, from income of $0.3 million during the same period in 2019. This decrease was primarily due to a $3.7 million impairment of our equity method investment in our Japanese licensee for the three months ended March 31, 2020.

Segment Results of Operations

Our operating segments are based on how the Chief Operating Decision Maker (“CODM”) makes decisions about allocating resources and assessing performance. Our segments are defined by geographic regions, including North America, EMEA, Asia-Pacific, and Latin America. Connected Fitness is also an operating segment.

We exclude certain corporate costs from our segment profitability measures. We report these costs within Corporate Other, which is designed to provide increased transparency and comparability of our operating segments performance. Corporate Other consists largely of general and administrative expenses not allocated to an operating segment, including expenses associated with centrally managed departments such as global marketing, global IT, global supply chain, innovation and other corporate support functions; costs related to our global assets and global marketing, costs related to our headquarters; restructuring and restructuring related charges; and certain foreign currency hedge gains and losses.

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

Three Months Ended March 31, 2020 Compared to Three Months Ended March 31, 2019

Net revenues by segment and Corporate Other are summarized below:

	Three Months Ended March 31,			
(In thousands)	2020	2019	$ Change	% Change
North America	$ 608,980	$ 843,249	$ (234,269)	(27.8)%
EMEA	137,904	134,104	3,800	2.8 %
Asia-Pacific	95,686	144,285	(48,599)	(33.7)%
Latin America	53,088	49,188	3,900	7.9 %
Connected Fitness	32,794	30,104	2,690	8.9 %
Corporate Other (1)	1,788	3,792	(2,004)	(52.8)%
Total net revenues	$ 930,240	$ 1,204,722	$ (274,482)	(22.8)%

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

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

- Net revenues in our North America operating segment decreased $234.3 million to $609.0 million for the three months ended March 31, 2020, from $843.2 million for the same period in 2019. This decrease was primarily due to a decrease of unit sales within our wholesale and direct-to-consumer channels, which were impacted by closures of stores of our wholesale partners and closures of our brand and factory house stores in mid-March 2020. Decreases in our wholesale channel were also partially due to unit sales decrease of off-price sales.
- Net revenues in our EMEA operating segment increased $3.8 million to $137.9 million for the three months ended March 31, 2020, from $134.1 million for the same period in 2019, primarily due to increased unit sales within our wholesale channel, driven by a timing shift, and an increase within our direct-to-consumer channel, due to e-commerce strength. This increase in our wholesale channel was partially offset by a unit sales decrease of off-price sales and the increase in our direct-to-consumer channel was partially offset by impacts of closures of our brand and factory house stores in mid-March 2020.
- Net revenues in our Asia-Pacific operating segment decreased $48.6 million to $95.7 million for the three months ended March 31, 2020, from $144.3 million for the same period in 2019. This decrease was primarily due to a decrease of unit sales within our wholesale and direct-to-consumer channels, which were impacted by closures of stores of our wholesale partners and closures of our brand and factory house stores from late-January through early-March.
- Net revenues in our Latin America operating segment increased $3.9 million to $53.1 million for the three months ended March 31, 2020, from $49.2 million for the same period in 2019, primarily due to increased unit sales within our wholesale channel.
- Net revenues in our Connected Fitness operating segment increased $2.7 million to $32.8 million for the three months ended March 31, 2020, from $30.1 million for the same period in 2019, primarily driven by an increase in new subscription revenue.

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

	Three Months Ended March 31,			
(In thousands)	2020	2019	$ Change	% Change
North America	$ (3,773)	$ 160,273	$ (164,046)	(102.4)%
EMEA	3,704	12,218	(8,514)	(69.7)%
Asia-Pacific	(36,841)	19,803	(56,644)	(286.0)%
Latin America	(48,184)	(359)	(47,825)	(13321.7)%
Connected Fitness	3,700	1,069	2,631	246.1 %
Corporate Other	(476,786)	(157,745)	(319,041)	(202.3)%
Total operating income	$ (558,180)	$ 35,259	$ (593,439)	(1,683.1)%

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

Operating segments

- Operating income in our North America operating segment decreased $164.0 million to a loss of $3.8 million for the three months ended March 31, 2020, from income of $160.3 million for the same period in 2019, primarily driven by decreases in net revenues discussed above, $43.4 million of long-lived asset impairment, $15.3 million of goodwill impairment, related to our business in Canada, and investments in digital advertising of brand marketing campaigns.
- Operating income in our EMEA operating segment decreased $8.5 million to $3.7 million for the three months ended March 31, 2020, from $12.2 million for the same period in 2019, primarily driven by investments in digital advertising of brand marketing campaigns and $2.1 million of long-lived asset impairment, partially offset by increases in net revenues discussed above.
- Operating income in our Asia-Pacific operating segment decreased $56.6 million to a loss of $36.8 million for the three months ended March 31, 2020, from income of $19.8 million for the same period in 2019, primarily driven by decreases in net revenues discussed above and $25.5 million of long-lived asset impairment.
- Operating loss in our Latin America operating segment increased $47.8 million to $48.2 million for the three months ended March 31, 2020, from $0.4 million for the same period in 2019, primarily driven by $36.2 million of goodwill impairment charges and $12.8 million of long-lived asset impairment.
- Operating income in our Connected Fitness segment increased $2.6 million to $3.7 million for the three months ended March 31, 2020, compared to $1.1 million for the same period in 2019, primarily driven by the increase in net revenues discussed above.

Non-operating segment

- Operating loss in our Corporate Other non-operating segment increased $319.0 million to $476.8 million for the three months ended March 31, 2020, compared to $157.7 million for the same period in 2019, primarily driven by $301.1 million of restructuring and related impairment charges related to the 2020 restructuring plan and higher legal expense.

Financial Position, Capital Resources and Liquidity

Our cash requirements have principally been for working capital and capital expenditures. We fund our working capital, primarily inventory, and capital investments from cash flows from operating activities, cash and cash equivalents on hand, and borrowings available under our credit and long term debt facilities. Our working capital requirements generally reflect the seasonality and growth in our business as we recognize the majority of our net revenues in the last two quarters of the year. Our capital investments have included expanding our in-store fixture and branded concept shop program, improvements and expansion of our distribution and corporate facilities to support our growth, leasehold improvements to our brand and factory house stores, and investment and improvements in information technology systems. Our inventory strategy is focused on continuing to meet consumer demand while improving our inventory efficiency over the long term by putting systems and processes in place to improve our inventory management. These systems and processes are designed to improve our forecasting and supply planning capabilities. In addition to systems and processes, key areas of focus that we believe enhance inventory performance are added discipline around the purchasing of product, production lead time reduction, and better planning and execution in selling of excess inventory through our factory house stores and other liquidation channels.

We believe our cash and cash equivalents on hand, cash from operations, our ability to reduce our expenditures as needed, borrowings available to us under our credit agreement (which is expected to be amended as described below), our ability to access the capital markets, and other financing alternatives are adequate to meet our liquidity needs and capital expenditure requirements for at least the next twelve months. During the fiscal year ended December 31, 2019, our liquidity needs were primarily funded through cash from operations. During the first quarter of 2019, we borrowed $25 million under our revolving credit facility and repaid those amounts during the same quarter. Our credit agreement remained undrawn for the remainder of 2019. However, during the first quarter of 2020, our cash generated from operations was negatively impacted due to widespread temporary store closures as a result of the COVID-19 pandemic and we borrowed up to $700 million under our revolving credit facility as a precautionary measure in order to increase our cash position and preserve liquidity given the upcoming uncertainty in global markets resulting from the COVID-19 outbreak. We had repaid $100 million of this amount as of March 31, 2020 and in April 2020, borrowed an additional $100 million under the revolving credit facility, again as a precautionary measure. Due to the negative impacts of the COVID-19 pandemic, we expect to supplement our cash from operations with additional sources of liquidity during 2020. Our ability to continue to borrow amounts under our revolving credit facility is limited by continued compliance with financial covenants set forth in our credit agreement. Given the disruption to our business caused by the COVID-19 pandemic, we are in the final stages of amending our credit agreement, which we expect to execute shortly after the filing of this Quarterly Report on Form 10-Q. We expect this amendment to provide relief under our financial covenants for a specified period and provide us with better access to liquidity during this period.

However, based on the potential impact of the COVID-19 pandemic, in the unlikely event that we are unable to amend our credit agreement, then in future quarters we would need to repay the amounts already borrowed under our credit agreement, and would not be able to access additional borrowings under that agreement. In that event, we would need to take actions to further reduce our expenditures, including reductions to our discretionary spending and changes to our investment strategies, negotiating payment terms with our customers and vendors, reductions in compensation costs, including through temporary reductions in pay and layoffs, and limiting certain marketing expenditures. In addition we would seek alternative sources of liquidity, including but not limited to accessing the capital markets, sale leaseback transactions or other sales of assets, or other alternative financing measures. However, instability in, or tightening of the capital markets, could adversely affect our ability to access the capital markets on terms acceptable to us or at all. 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 our “Risk Factors” section included in Part II, Item 1A of this Quarterly Report on Form 10-Q for a further discussion of risks related to our indebtedness. Additionally, as discussed in the "Overview", as we navigate these unprecedented circumstances, we are focused on preserving our liquidity and managing our cash flows through certain preemptive actions designed to enhance our ability to meet our short-term liquidity needs. These actions include those noted above. We are also currently evaluating benefits that may be available to us under the CARES Act and similar legislation in foreign jurisdictions.

Cash Flows

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

	Three Months Ended March 31,	
(In thousands)	**2020**	**2019**
Net cash provided by (used in):		
Operating activities	$ (366,712)	$ (89,789)
Investing activities	(68,841)	(35,911)
Financing activities	598,952	(141,635)
Effect of exchange rate changes on cash and cash equivalents	8,761	(569)
Net increase (decrease) in cash and cash equivalents	$ 172,160	$ (267,904)

Operating Activities

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

Cash used in operating activities increased $276.9 million to $366.7 million for the three months ended March 31, 2020 from $89.8 million for the same period in 2019. The increase in cash used in operating activities was primarily driven by the following:

- an increase in net loss of $136.0 million, net of non-cash items of $476.2 million, which includes restructuring related impairment and long-lived and goodwill impairment.

- an increase in a change in other non current assets of $358.0 million for the three months ended March 31, 2020 as compared to the same period in 2019, primarily due to the commencement of our New York City flagship store and the related operating lease ROU asset and;
- an increase in a change in inventory of $216.6 million for the three months ended March 31, 2020 as compared to the same period in 2019.

This was partially offset by:

- an increase in cash provided by accrued expenses and other liabilities of $325.8 million for the three months ended March 31, 2020 as compared to the same period in 2019, primarily due to the commencement of our New York City flagship store and the related operating lease liability, and
- an increase in cash provided by a change in accounts receivable of $114.6 million for the three months ended March 31, 2020 as compared to the same period in 2019.

Investing Activities

Cash used in investing activities increased $32.9 million to $68.8 million for the three months ended March 31, 2020 from $35.9 million for the same period in 2019, primarily due to the acquisition of Triple, a distributor of our products in Southeast Asia.

Capital expenditures for the full year 2020 are expected to be approximately $100 million, comprised primarily of investments in our retail stores, global wholesale fixtures, digital initiatives and corporate offices..

Financing Activities

Cash provided by financing activities increased $740.6 million to $599.0 million for the three months ended March 31, 2020 from $141.6 million of cash used in financing activities during the same period in 2019, primarily due to borrowings under the credit agreement, as a precautionary measure in order to increase our cash position and preserve liquidity given the uncertainty in global markets resulting from the COVID-19 outbreak. As of March 31, 2020, there was $600.0 million outstanding under the revolving credit facility.

Capital Resources

Credit Facility

In March 2019, we entered into an amended and restated credit agreement by and among the Company, as borrower, JPMorgan Chase Bank, N.A., as administrative agent, PNC Bank, National Association, as syndication agent and the other lenders and arrangers party thereto (the "credit agreement"), amending and restating the Company's prior credit agreement. The credit agreement has a term of five years, maturing in March 2024, with permitted extensions under certain circumstances, and provides revolving credit commitments of up to $1.25 billion of borrowings, but no term loan borrowings, which were provided for under the prior credit agreement. During the three months ended March 31, 2020, we borrowed up to $700 million under the credit agreement as a precautionary measure in order to increase our cash position and preserve liquidity given the ongoing uncertainty in global markets resulting from the COVID-19 outbreak. As of March 31, 2020, there was $600.0 million outstanding under the revolving credit facility. As of March 31, 2019, there were no amounts outstanding under the revolving credit facility. In April 2020, we borrowed an additional $100 million under the revolving credit facility.

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

The borrowings under the revolving credit facility have maturities of less than one year. Up to $50.0 million of the facility may be used for the issuance of letters of credit. There were $5.0 million, $5.0 million and $4.6 million of letters of credit outstanding as of March 31, 2020, December 31, 2019 and March 31, 2019, respectively.

The credit agreement contains negative covenants that, subject to significant exceptions, limit our ability to, among other things, incur additional indebtedness, make restricted payments, pledge our assets as security, make investments, loans, advances, guarantees and acquisitions, undergo fundamental changes and enter into transactions with affiliates. We are also required to maintain a ratio of consolidated EBITDA, as defined in the credit agreement, to consolidated interest expense of not less than 3.50 to 1.00, and we are not permitted to allow the ratio of consolidated total indebtedness to consolidated EBITDA to be greater than 3.25 to 1.00 ("consolidated leverage ratio"). As of March 31, 2020, we were in compliance with these ratios. As discussed above, we are currently seeking an amendment to our credit agreement, which we expect to execute after the filing of this

Quarterly Report on Form 10-Q. We expect this amendment to provide relief under our financial covenants for specified future periods and provide us with better access to liquidity during those periods. 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 revolving credit facility borrowings was 3.2% and 3.6% during the three months ended March 31, 2020 and 2019, 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 March 31, 2020, the commitment fee was 15.0 basis points.

3.250% Senior Notes

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

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

Interest Expense

Interest expense, net, was $6.0 million and $4.2 million for the three months ended March 31, 2020 and 2019, respectively. Interest expense includes the amortization of deferred financing costs, bank fees, capital and built-to-suit lease interest and interest expense under the credit and other long term debt facilities.

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

Contractual Commitments and Contingencies

Other than the borrowings and repayments disclosed above in the "Capital Resources" section and changes which occur in the normal course of business, there were no significant changes to the contractual obligations reported in our 2019 Form 10-K as updated in our Form 10-Q for the quarter ended March 31, 2020.

Critical Accounting Policies and Estimates

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

Our significant accounting policies are described in Note 2 of the audited consolidated financial statements included in our 2019 Form 10-K. The SEC suggests companies provide additional disclosure on those accounting policies considered most critical. The SEC considers an accounting policy to be critical if it is important to our financial condition and results of operations and requires significant judgments and estimates on the part of management in its application. Our estimates are often based on complex judgments, probabilities and assumptions that management believes to be reasonable, but that are inherently uncertain and unpredictable. It is also possible that other professionals, applying reasonable judgment to the same facts and circumstances, could develop and support a range of alternative estimated amounts. For a complete discussion of our critical accounting policies, see the “Critical Accounting Policies” section of the MD&A in our 2019 Form 10-K. Other than adoption of recent accounting standards as discussed in Note 2 of our unaudited consolidated financial statements, there were no significant changes to our critical accounting policies during the three months ended March 31, 2020.

Recently Issued Accounting Standards

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

ITEM 3. QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK

There have been no significant changes to our market risk since December 31, 2019. For a discussion of our exposure to market risk, refer to our Annual Report on Form 10-K for the year ended December 31, 2019.

ITEM 4. CONTROLS AND PROCEDURES

Evaluation of Disclosure Controls and Procedures

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

COVID-19

There were no material impacts, due to COVID-19 and the resulting need to close our books remotely on our ability to maintain internal control over financial reporting and disclosure controls and procedures for the three months ended March 31, 2020.

Changes in Internal Controls

In 2015, we began the process of implementing a global operating and financial reporting information technology system, SAP Fashion Management Solution ("FMS"), as part of a multi-year plan to integrate and upgrade our systems and processes. The first phase of this implementation became operational in July 2017, in our North America, EMEA, and Connected Fitness operations. The second phase of this implementation became operational in April 2019 in China and South Korea. The third phase of this implementation became operational in April 2020 in Mexico. We believe the implementation of the systems and related changes to internal controls will enhance our internal controls over financial reporting. We also expect to continue to see enhancements to our global systems, which will then continue to strengthen our internal financial reporting controls by automating select manual processes and standardizing both business processes and relied upon reporting across our organization. We believe that our robust assessment provides effective global coverage for key control activities that support our internal controls over financial reporting conclusion. For a discussion of risks related to the implementation of new systems, see Item 1A - "Risk Factors - Risks Related to Our Business - The process of implementing a new operating and information system, which involves risks and uncertainties that could adversely affect our business " in our Annual Report on Form 10-K for the year ended December 31, 2019.

During the quarter ended March 31, 2020, we implemented controls to ensure we adequately evaluate expected credit losses for trade receivables and properly assessed the impact of the new credit losses accounting standard on our financial statements in connection with the adoption of ASU 2016-13 on January 1, 2020.

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

PART II. OTHER INFORMATION

ITEM 1. LEGAL PROCEEDINGS

From time to time, we are involved in litigation and other proceedings, including matters related to commercial and intellectual property, as well as trade, regulatory and other claims related to our business. See Note 8 to our Consolidated Financial Statements for information on certain legal proceedings, which is incorporated by reference herein.

ITEM 1A. RISK FACTORS

Our results of operations and financial condition could be adversely affected by numerous risks. In addition to the other information in this Quarterly Report on Form 10-Q, you should carefully consider the risk factors detailed below, which supersede the risk factors disclosed in our Annual Report on Form 10-K filed with the Securities and Exchange Commission for the year ended December 31, 2019.

The COVID-19 pandemic has caused significant disruption in our industry, which has and may continue to materially impact our business, financial condition and results of operations.

Our business has been and may continue to be materially impacted by the effects of a widespread outbreak of the novel strain of coronavirus (“COVID-19”), which was reported to have surfaced first in December 2019 and declared a global pandemic in March 2020. This pandemic has negatively affected the U.S. and global economies, disrupted global supply chains and financial markets, and led to significant travel and transportation restrictions, including mandatory closures and orders to “shelter-in-place”.

The situation and preventative or protective actions that governments around the world have taken to contain the spread of COVID-19 have resulted in a period of disruption that has and may continue to negatively impact our business, including closure of our retail stores and the stores of our wholesale customers where our products are sold, temporary layoffs of certain employees in our North America retail stores and distribution centers and reduced consumer traffic and consumer spending. Related industries in the United States and across the world have been and may continue to be adversely affected, such as manufacturing and textile production and sports, including postponements and cancellations of professional, collegiate and amateur sporting events and activities. There is significant uncertainty around the breadth and duration of our and our customers’ store closures and other business disruptions related to COVID-19, as well as its impact on the U.S. and global economies and consumer willingness to visit retail stores after they are reopened. To the extent the impact of COVID-19 continues or worsens, or if there is a future resurgence after the initial containment, consumer behavior may be altered for an extended period, which would impact our cash and liquidity and financial condition.

Additionally, the COVID-19 pandemic and resulting economic disruption has also led to significant volatility in the capital markets and has adversely impact our stock price. While we have taken measures to preserve our access to liquidity, our cash generated from operations has been negatively impacted and future cash flows will be impacted by the development of the pandemic. Moreover, as the COVID-19 situation is rapidly changing, we may not be able to reduce our spending relative to declines in revenue, and we may incur costs to alter production plans for future products as certain of our products for upcoming seasons are already in production. Further, currently many of our employees in our corporate offices are working remotely. An extended period of remote work arrangements could strain our business continuity plans, introduce operational risk, including but not limited to cybersecurity risks, and impair our ability to manage our business.

The COVID-19 pandemic has negatively impacted our results of operations, but the extent and duration of this impact remain uncertain and may be material. In addition, we cannot predict the impact that the COVID-19 pandemic will have on our customers, suppliers, vendors, and other business partners, and each of their financial conditions; however, any material effect on these parties could negatively impact us. The impact of the COVID-19 pandemic may also exacerbate other risks discussed below, any of which could have a material effect on us. Though we continue to monitor the COVID-19 pandemic closely, the situation is changing rapidly, and additional impacts may arise that we are not aware of currently. In addition, if there is a future resurgence of COVID-19 following its initial containment, the negative impacts on our business may be exacerbated.

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, particularly in light of the impacts of COVID-19, and trends in consumer discretionary spending remain unpredictable. While the impact on the global economy remains uncertain, the United States and other countries have experienced a significant increase in unemployment and financial markets remain turbulent. Historically, 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 lead to declines in sales and slow our long-term growth expectations. Any near or long-term downturn in the economies in markets in which we sell our products, particularly in the United States, China or other key markets, 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, many of which have experienced significant disruption due to COVID-19. If the financial condition of our customers declines, our financial condition and results of operations could be adversely impacted.

In 2019, 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. As a result of the COVID-19 pandemic, including preventative or protective actions that governments around the world have taken to contain the spread of COVID-19, many of our wholesale customers in the United States, China and throughout the world have had to close their stores and have experienced reduced consumer traffic and purchasing, which has resulted in lower sales and cancellations of orders of our products. We have provided extended payment terms to certain of our customers in response to the pandemic. The financial impact of continued store closures on many of our wholesale customers remains uncertain. In addition, 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. 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.

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. Our ability to invest in these growth initiatives on the timeline and at the scale we expect will be negatively impacted if we continue to experience significant market disruption due to COVID-19 or other significant events, particularly if our North America business, which represented 69% of our total net revenues in 2019, continues to decline. In addition, our long-term strategy depends on our 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, and on March, 31 2020, our Board of Directors approved a restructuring plan for 2020 designed to rebalance our cost base to further improve future profitability and cash flow generation. We may not achieve the operational improvements and efficiencies that we targeted in our restructuring plans, which could adversely impact our results of operations and financial condition. 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. Furthermore, as the impact of the COVID-19 pandemic on our business continues to evolve, we may need to adjust or expand our restructuring efforts, which could increase the risks described above.

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. 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.

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. 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.

Consumer shopping preferences and shifts in distribution channels continue to evolve and could negatively impact our results of operations or our future growth.

Consumer preferences regarding the shopping experience continue to rapidly evolve. We sell our products through a variety of channels, including through wholesale customers and distribution partners, as well as our own direct to consumer business consisting of our brand and factory house stores and e-commerce platforms. If we or our wholesale customers do not provide consumers with an attractive in-store experience, our brand image and results of operations could be negatively impacted. In addition, as part of our strategy to grow our e-commerce revenue, we are investing significantly in enhancing our platform capabilities and implementing systems to drive higher engagement with our consumers. If we do not successfully execute this strategy or 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 as well as our opportunities for future growth. In addition, we cannot predict whether and how the COVID-19 pandemic will impact consumer preferences regarding the shopping experience in the long term and how quickly and effectively we will adapt to those preferences.

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 or maintain 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. For example, certain of our wholesale customers have delayed purchases of our products or cancelled previously placed orders in response to pandemic-related store closures. These risks have materially increased and may persist with the COVID-19 pandemic. 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 materially.

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.

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, political or labor instability or unrest or public health concerns and disease epidemics, such as the current COVID-19 pandemic, 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 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. These risks have materially increased and may persist with the market disruption caused by COVID-19 and the expected high levels of inventory across our industry.

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.

If consumers are not convinced performance apparel, footwear and accessories 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.

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

We maintain certain minority investments, and may in the future invest in additional minority investments, which we account for under the equity method, and are required to recognize our allocable share of its net income or loss in our consolidated financial statements. Our results of operations are affected by the performance of these businesses, over which we do not exercise control, and our net income has been negatively impacted by losses realized by our Japanese licensee’s business. We are also required to regularly review our investments for impairment, and an impairment charge may result from the occurrence of adverse events or management decisions that impact the fair value or estimated future cash flows to be generated from our investments. In the first quarter of 2020, we further impaired our investment in our Japanese licensee and recognized a $3.7 million charge as a result.

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 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 or our growth may be negatively impacted 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. For example, in response to the COVID-19 pandemic's impact on our industry, including retail store closures and decreased consumer traffic and purchasing, we and many of our competitors have engaged in, and may continue to engage in, additional promotional activities focused around e-commerce sales. As traditional brick-and-mortar stores begin to reopen post-pandemic, we may see further discounting across our industry as businesses manage excess inventory levels. In addition, our ability to achieve short-term growth targets may be negatively impacted if we are unwilling to engage in promotional activity on a scale similar to that of our competitors and we are unable to simultaneously offset declining promotional activity with increased sales at premium price points. 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, such as those caused by the current COVID-19 pandemic, 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.

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 2019, 10 manufacturers produced approximately 52% of our apparel and accessories products, and 6 produced approximately 96% 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. These risks have materially increased and may persist with the significant disruptions caused by the COVID-19 pandemic.

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 and disruptions, such as closures or workforce decreases related to the COVID-19 pandemic, at various ports or at our suppliers or manufacturers create significant risks for our business, particularly if these disputes result in work slowdowns, decreased operations, 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, 2019, 69% 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 near-term and long-term growth targets.

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, public health crises, disease epidemics 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 or government-imposed protective or preventative measures, including those relating to labor conditions, quality and safety standards and disease epidemics or other public health concerns, as well as rules and regulations regarding climate change;
- uncertainties and the ongoing effect of the United Kingdom's withdraw from the European Union;
- 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 our stores, 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. As a result of the impacts of COVID-19, we determined that sufficient indication existed to trigger the performance of an interim goodwill impairment analysis for all of our reporting units as of March 31, 2020. We determined that the fair values of our Latin America reporting unit, and our Canada reporting unit, within our North America operating segment, no longer exceeded their carrying values, resulting in $51.6 million of goodwill impairment charges. As of March 31, 2020, the fair value of each of our other reporting units substantially exceeded its carrying value, with the exception of the EMEA reporting unit. Refer to Note 5 to the unaudited consolidated financial statements for discussion of goodwill.

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. Our ability to continue to borrow amounts under our revolving credit facility is limited by continued compliance with these financial covenants, and in the past we have amended our credit agreement to increase these ratios in certain quarterly periods. As of March 31, 2020, we were in compliance with these financial covenants. However, given the disruption to our business caused by the COVID-19 pandemic, we are in the final stages of amending our credit agreement, which we expect to execute shortly after the filing of this Quarterly Report on Form 10-Q. We expect this amendment to provide relief under our financial covenants for specified future periods and provide us with better access to liquidity during those periods. In the unlikely event we are unable to amend our financial covenants, we may need to take further actions to reduce our expenditures, repay amounts outstanding under our credit agreement and potentially seek alternative sources of liquidity, including but not limited to accessing the capital markets, sale leaseback transactions or other sales of assets, or other alternative financing measures. Also, an amendment to our credit agreement may contain additional covenants or limitations on our business or materially modify existing covenants or limitations.

Failure to comply with these operating or financial covenants could result from, among other things, changes in our results of operations or general economic conditions. These covenants may restrict our ability to engage in transactions that would otherwise be in our best interests. Failure to comply with any of the covenants under the credit agreement or our debt securities could result in a default, which could negatively impact our access to liquidity. For example, if we failed to comply with the financial covenants in our credit agreement, we may be required to repay amounts outstanding under our revolving credit facility and be unable to draw additional amounts.

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 in excess of $100 million (including amounts outstanding under our credit agreement) may result in an event of default under our debt securities if such accelerated debt is not discharged or the acceleration is not cured, waived, rescinded or annulled within 30 days of us receiving notice from the trustee of our debt securities or holders of at least 25% of the principal amount of our outstanding notes. Under those circumstances, bondholders would have the right to accelerate our debt securities to become immediately payable.

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

Managing and growing 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. However, during the first quarter of 2020 our cash generated from operations was negatively impacted due to widespread temporary store closures as a result of the COVID-19 pandemic. As of March 31, 2020, we had approximately $959 million of cash and cash equivalents, of which $600 million was related to borrowings under our credit facility. As disclosed above, we expect to amend our credit agreement to provide relief under our financial covenants for specified future periods and provide us with better access to liquidity during those periods. We have also taken a number of actions to preserve existing capital, including reducing capital expenditures and managing inventory levels. However, in the unlikely event we are unable to amend our financial covenants or if cash on hand and cash generated from operations and availability under our credit agreement are not sufficient to meet our cash requirements, we will need to seek additional capital, potentially through debt or equity financing, to fund our operations and future 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 recently downgraded, 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.

In addition, the U.K. Financial Conduct Authority announced in 2017 that it intends to phase out LIBOR by the end of 2021. Our credit agreement permits us to borrow based on an adjusted LIBOR rate, plus an applicable margin. While the credit agreement provides for a mechanism for determining an alternative interest rate following this phase out, uncertainty regarding alternative rates may make borrowing under our credit agreement or refinancing our other indebtedness more expensive or difficult to achieve on terms we consider favorable.

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 2019, 2018 and 2017, 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 28% 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 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. In addition, we have previously designated cash flow hedges against certain forecasted transactions. If we determine that such a transaction is no longer probable to occur in the time period we expected, we are required to de-designated the hedging relationship and immediately recognize the derivative instrument gain or loss in our earnings. The ongoing impacts of COVID-19 have caused and may continue to cause uncertainty in forecasted cash flows, which has resulted and may continue to result in the de-designation of certain hedged transactions.

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.

The costs and return on our investments for our sports marketing sponsorships may become more challenging 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. In addition, because professional and collegiate athletics and other sporting events have been largely cancelled or delayed in connection with the COVID-19 pandemic and future plans for these remain uncertain, we may not realize the expected benefits of these relationships. 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.

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 or malware, 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, including public health crises or disease epidemics. For example, the current COVID-19 pandemic may impede our ability to operate our distribution facilities at full capacity and may similarly impact our third-party logistics providers. 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 or from all types of events causing such disruptions. Significant disruptions could lead to 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. This includes the shipping of product to and from our distribution facilities, as well as partnering with third party distribution facilities in certain regions where we do not maintain our own facilities. From time to time, certain of our partners have experienced disruptions to their operations, including cyber-related disruptions. If we or our partners encounter such problems, 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 or malware, 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 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. We continue to face legal proceedings in connection with this incident, and we may face 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. For example, in January 2020, the California Consumer Privacy Act took effect, and establishes transparency roles and creates new data privacy rights for consumers. 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.

In 2015, we began the process of implementing a global operating and financial reporting information technology system, SAP Fashion Management Solution ("FMS"), as part of a multi-year plan to integrate and upgrade our systems and processes. The first phase of this implementation became operational during 2017 in our North America, EMEA and Connected Fitness operations. The second phase of this implementation became operational in 2019 in our Asia-Pacific region, and the third phase became operational in Mexico in April 2020. 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 foreign withholding taxes, certain 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. 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 the preparation and analysis of information not previously relevant or regularly produced. The U.S. Treasury Department, the Internal Revenue Service, and U.S. states taxing authorities 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, we engage in multiple types of intercompany transactions, and our allocation of profits and losses among us and our subsidiaries through our intercompany transfer pricing arrangements are subject to review by the Internal Revenue Service and foreign tax authorities. Although we believe we have clearly reflected the economics of these transactions and the proper documentation is in place, tax authorities may propose and sustain adjustments that could result in changes that may impact our tax provision. Moreover, the Organization for Economic Co-operation and Development and many of the countries in which we do business continue to evaluate changes to tax laws which could significantly impact the allocation of profits and losses among us and our subsidiaries and impact our mix of earnings in countries with differing statutory rates.

We regularly assess all 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, 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 business and results of operations could be negatively impacted by natural disasters, extreme weather conditions, public health or political crises or other catastrophic events.

We operate retail, distribution and warehousing facilities and offices across the world, and in locations subject to natural disasters or extreme weather conditions, as well as other potential catastrophic events, such as public health emergencies, global pandemics, terrorist attacks or political or military conflict. In addition, an occurrence of these types of events could negatively impact consumer spending in the impacted region or, depending on the severity, globally, which could negatively impact our results of operations. For example, the COVID-19 pandemic and related government-imposed preventative and protection measures and resulting changes in consumer behavior, including decreased consumer traffic and purchases, has disrupted our operations and the operations of our customers and suppliers, and has negatively impacted sales of our products.

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, Executive Chairman and Brand Chief and Patrik Frisk, our Chief Executive Officer and President 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.

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 the majority of 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 and product offerings 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 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 the subject of a number of ongoing legal proceedings that have resulted in significant expense, and adverse developments in our ongoing proceedings and/or future legal proceedings could have a material adverse effect on our business, reputation, financial condition, results of operations or stock price.

We are currently involved in a variety of litigation, investigations and other legal matters and may be subject to additional investigations, arbitration proceedings, audits, regulatory inquiries and similar actions, including matters related to commercial disputes, intellectual property, employment, securities laws, disclosures, tax, accounting, class action and product liability, as well as trade, regulatory and other claims related to our business and our industry, which we refer to collectively as legal proceedings. 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. Refer to Note 8 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. We may face legal proceedings in connection with actions we have taken in response to the COVID-19 pandemic. For example, we have delayed or suspended payments to certain of our vendors based on regional facts and circumstances. While we are currently negotiating with many of these counterparties, we may face future disputes if we are unable to reach agreement with respect to these payments. In addition, as previously disclosed in November 2019, we have been responding to requests for documents and information from the U.S. Securities and Exchange Commission ("SEC") and Department of Justice ("DOJ") regarding certain of our accounting practices and related disclosures, beginning with submissions to the SEC in July 2017. In the course of cooperating with these requests, we have reviewed our accounting practices and related disclosures and we continue to believe our accounting practices and related disclosures were appropriate. However, we cannot predict the outcome of any particular proceeding, or whether ongoing investigations, including the SEC and DOJ investigations, will be resolved favorably or ultimately result in material damages, fines or other penalties, enforcement actions or civil or criminal proceedings against us or members of our senior management.

Legal proceedings in general, and securities and class action litigation and regulatory investigations in particular, can be expensive and disruptive. Our insurance may not cover all claims that may be asserted against us, and we are unable to predict how long the legal proceedings to which we are currently subject will continue. An unfavorable outcome of any legal proceeding may have an adverse impact on our business, financial condition and results of operations or our stock price. Any proceeding could negatively impact our reputation among our customers or our shareholders. Furthermore, publicity surrounding ongoing legal proceedings, even if resolved favorably for us, could result in additional legal proceedings against us, as well as damage 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.

Kevin Plank, our Executive Chairman and Brand Chief 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 Executive Chairman and Brand Chief, 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. Under certain circumstances, the Class B common stock automatically converts to Class A common stock, which would also result in the conversion of our Class C common stock into Class A common stock. As specified in our charter, these circumstances include when Mr. Plank beneficially owns less than 15.0% of the total number of shares of Class A and Class B common stock outstanding, if Mr. Plank were to resign as an Approved Executive Officer of the Company (or was otherwise terminated for cause) or if Mr. Plank sells more than a specified number of any class of our common stock within a one-year period. 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 6. EXHIBITS

Exhibit No.	
3.01	Amended and Restated Bylaws of Under Armour, Inc. as amended (incorporated by reference to Exhibit 3.01 of the Company's Current Report on Form 8-K filed March 27, 2020).
31.01	Section 302 Chief Executive Officer Certification
31.02	Section 302 Chief Financial Officer Certification
32.01	Section 906 Chief Executive Officer Certification
32.02	Section 906 Chief Financial Officer Certification
101.INS	XBRL Instance Document - The instance document does not appear in the Interactive Data File because its XBRL tags are embedded within the Inline XBRL document
101.SCH	XBRL Taxonomy Extension Schema Document
101.CAL	XBRL Taxonomy Extension Calculation Linkbase Document
101.DEF	XBRL Taxonomy Extension Definition Linkbase Document
101.LAB	XBRL Taxonomy Extension Label Linkbase Document
101.PRE	XBRL Taxonomy Extension Presentation Linkbase Document
104	Cover Page Interactive Data File (embedded within the Inline XBRL document)

SIGNATURES

Pursuant to the requirements of Section 13 or 15(d) of the Securities Exchange Act of 1934, the registrant has duly caused this report to be signed on its behalf by the undersigned, thereunto duly authorized.

UNDER ARMOUR, INC.

By: /s/ DAVID E. BERGMAN

David E. Bergman

Chief Financial Officer

Date: May 11, 2020

Exhibit 31.01

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

I, Patrik Frisk, certify that:

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

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

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

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

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

b) designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles;

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

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

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

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

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

Date: May 11, 2020

/s/ PATRIK FRISK

Patrik Frisk
Chief Executive Officer and President Principal Executive Officer

Exhibit 31.02

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

I, David E. Bergman, certify that:

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

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

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

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

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

b) designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles;

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

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

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

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

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

Date: May 11, 2020

/s/ DAVID E. BERGMAN

David E. Bergman

Chief Financial Officer Principal Financial Officer

Exhibit 32.01

Certification of Chief Executive Officer

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

(i) the quarterly report on Form 10-Q of the Company for the period ended March 31, 2020 (the “Report”) fully complies with the requirements of Section 13(a) or Section 15(d), as applicable, of the Securities Exchange Act of 1934, as amended; and

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

Date: May 11, 2020

/s/ PATRIK FRISK

Patrik Frisk

Chief Executive Officer and President Principal Executive Officer

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

Exhibit 32.02

Certification of Chief Financial Officer

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

(i) the quarterly report on Form 10-Q of the Company for the period ended March 31, 2020 (the “Report”) fully complies with the requirements of Section 13(a) or Section 15(d), as applicable, of the Securities Exchange Act of 1934, as amended; and

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

Date: May 11, 2020

/s/ DAVID E. BERGMAN

David E. Bergman

Chief Financial Officer Principal Financial Officer

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