

COLUMBIA SPORTSWEAR CO

Form 10-Q

May 07, 2010

[Table of Contents](#)

**UNITED STATES**  
**SECURITIES AND EXCHANGE COMMISSION**

Washington, DC 20549

**FORM 10-Q**

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

For the quarterly period ended March 31, 2010

OR

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

For the transition period from \_\_\_\_\_ to \_\_\_\_\_

Commission file number 0-23939

**COLUMBIA SPORTSWEAR COMPANY**

(Exact name of registrant as specified in its charter)

Edgar Filing: COLUMBIA SPORTSWEAR CO - Form 10-Q

**Oregon**  
(State or other jurisdiction of  
incorporation or organization)

**14375 Northwest Science Park Drive**

**Portland, Oregon**  
(Address of principal executive offices)

**93-0498284**  
(IRS Employer  
Identification Number)

**97229**  
(Zip Code)

**(503) 985-4000**  
(Registrant's telephone number, including area code)

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

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

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

Large accelerated filer  Accelerated filer   
Non-accelerated filer  (Do not check if a smaller reporting company) Smaller reporting company   
Indicate by check mark whether the registrant is a shell company (as defined in Rule 12b-2 of the Exchange Act). Yes  No

The number of shares of Common Stock outstanding on April 23, 2010 was 33,776,067.

**Table of Contents**

**COLUMBIA SPORTSWEAR COMPANY**

**MARCH 31, 2010**

INDEX TO FORM 10-Q

	<b>PAGE NO.</b>
<b><u>PART I. FINANCIAL INFORMATION</u></b>	
Item 1 <u>Financial Statements - Columbia Sportswear Company (Unaudited)</u>	
<u>Condensed Consolidated Balance Sheets</u>	2
<u>Condensed Consolidated Statements of Operations</u>	3
<u>Condensed Consolidated Statements of Cash Flows</u>	4
<u>Notes to Condensed Consolidated Financial Statements</u>	5
Item 2 <u>Management's Discussion and Analysis of Financial Condition and Results of Operations</u>	15
Item 3 <u>Quantitative and Qualitative Disclosures About Market Risk</u>	22
Item 4 <u>Controls and Procedures</u>	22
<b><u>PART II. OTHER INFORMATION</u></b>	
Item 1 <u>Legal Proceedings</u>	23
Item 1A <u>Risk Factors</u>	23
Item 2 <u>Unregistered Sales of Equity Securities and Use of Proceeds</u>	30
Item 6 <u>Exhibits</u>	31
<u>Signature</u>	32

**Table of Contents****PART I. FINANCIAL INFORMATION****Item 1 FINANCIAL STATEMENTS****COLUMBIA SPORTSWEAR COMPANY****CONDENSED CONSOLIDATED BALANCE SHEETS****(In thousands)****(Unaudited)**

	<b>March 31, 2010</b>	<b>December 31, 2009</b>
<b>ASSETS</b>		
Current Assets:		
Cash and cash equivalents	\$ 365,948	\$ 386,664
Short-term investments	49,858	22,759
Accounts receivable, net of allowance of \$7,498 and \$7,347, respectively	198,194	226,548
Inventories, net (Note 2)	222,704	222,161
Deferred income taxes	31,994	31,550
Prepaid expenses and other current assets	35,084	32,030
<b>Total current assets</b>	<b>903,782</b>	<b>921,712</b>
Property, plant and equipment, net of accumulated depreciation of \$229,244 and \$223,887, respectively	232,248	235,440
Intangibles and other non-current assets (Note 3)	41,293	43,072
Goodwill (Note 3)	12,659	12,659
<b>Total assets</b>	<b>\$ 1,189,982</b>	<b>\$ 1,212,883</b>
<b>LIABILITIES AND SHAREHOLDERS EQUITY</b>		
Current Liabilities:		
Accounts payable	\$ 79,304	\$ 102,494
Accrued liabilities	63,424	67,312
Income taxes payable	5,452	6,884
Deferred income taxes	2,522	2,597
<b>Total current liabilities</b>	<b>150,702</b>	<b>179,287</b>
Income taxes payable	21,436	19,830
Deferred income taxes		1,494
Other long-term liabilities	16,334	15,044
<b>Total liabilities</b>	<b>188,472</b>	<b>215,655</b>
Commitments and contingencies (Note 9)		
Shareholders' Equity:		
Preferred stock; 10,000 shares authorized; none issued and outstanding		
Common stock (no par value); 125,000 shares authorized; 33,753 and 33,736 issued and outstanding (Note 6)	2,404	836
Retained earnings	954,151	952,948
Accumulated other comprehensive income (Note 5)	44,955	43,444

Edgar Filing: COLUMBIA SPORTSWEAR CO - Form 10-Q

Total shareholders' equity	1,001,510	997,228
Total liabilities and shareholders' equity	\$ 1,189,982	\$ 1,212,883

See accompanying notes to condensed consolidated financial statements.

**Table of Contents****COLUMBIA SPORTSWEAR COMPANY****CONDENSED CONSOLIDATED STATEMENTS OF OPERATIONS****(In thousands, except per share amounts)****(Unaudited)**

	<b>Three Months Ended March 31,</b>	
	<b>2010</b>	<b>2009</b>
Net sales	\$ 300,406	\$ 271,966
Cost of sales	173,102	161,471
Gross profit	127,304	110,495
Selling, general and administrative expenses	115,539	102,009
Net licensing income	725	1,908
Income from operations	12,490	10,394
Interest income, net	534	914
Income before income tax	13,024	11,308
Income tax expense	(3,796)	(4,410)
Net income	\$ 9,228	\$ 6,898
Earnings per share:		
Basic	\$ 0.27	\$ 0.20
Diluted	0.27	0.20
Cash dividends per share	\$ 0.18	\$ 0.16
Weighted average shares outstanding (Note 6):		
Basic	33,733	33,873
Diluted	33,990	33,968

See accompanying notes to condensed consolidated financial statements.

**Table of Contents****COLUMBIA SPORTSWEAR COMPANY****CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS****(In thousands)****(Unaudited)**

	<b>Three Months Ended March 31,</b>	
	<b>2010</b>	<b>2009</b>
<b>Cash flows from operating activities:</b>		
Net income	\$ 9,228	\$ 6,898
Adjustments to reconcile net income to net cash provided by operating activities:		
Depreciation and amortization	9,116	8,150
Loss on disposal or impairment of property, plant, and equipment	134	41
Deferred income taxes	590	(174)
Stock-based compensation	1,545	1,398
Excess tax benefit from employee stock plans	(293)	(15)
Changes in operating assets and liabilities:		
Accounts receivable	29,715	80,851
Inventories	(1,060)	27,539
Prepaid expenses and other current assets	(3,299)	728
Intangibles and other assets	(316)	(273)
Accounts payable	(25,548)	(58,836)
Accrued liabilities	(1,360)	(6,788)
Income taxes payable	200	(1,678)
Other liabilities	1,282	941
Net cash provided by operating activities	19,934	58,782
<b>Cash flows from investing activities:</b>		
Purchases of short-term investments	(27,161)	(5,163)
Capital expenditures	(6,056)	(5,161)
Proceeds from sale of property, plant, and equipment		1
Net cash used in investing activities	(33,217)	(10,323)
<b>Cash flows from financing activities:</b>		
Proceeds from notes payable	3,501	18,390
Repayments on notes payable	(3,501)	(18,390)
Repayment on long-term debt and other long-term liabilities		(5)
Proceeds from issuance of common stock under employee stock plans, net	435	165
Excess tax benefit from employee stock plans	293	15
Repurchase of common stock	(3,838)	(307)
Cash dividends paid	(6,065)	(5,419)
Net cash used in financing activities	(9,175)	(5,551)
<b>Net effect of exchange rate changes on cash</b>	<b>1,742</b>	<b>(1,413)</b>
<b>Net increase (decrease) in cash and cash equivalents</b>	<b>(20,716)</b>	<b>41,495</b>

Edgar Filing: COLUMBIA SPORTSWEAR CO - Form 10-Q

<b>Cash and cash equivalents, beginning of period</b>	386,664	230,617
<b>Cash and cash equivalents, end of period</b>	\$ 365,948	\$ 272,112
<b>Supplemental disclosures of cash flow information:</b>		
Cash paid during the period for interest, net of capitalized interest	\$ 12	\$ 8
Cash paid during the period for income taxes	4,863	6,398
<b>Supplemental disclosures of non-cash investing and financing activities:</b>		
Capital expenditures incurred but not yet paid	\$ 3,004	\$ 5,180
Common stock issuance for which proceeds have not yet been received	1,202	
	See accompanying notes to condensed consolidated financial statements.	

**Table of Contents**

**COLUMBIA SPORTSWEAR COMPANY**

**NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS**

**(Unaudited)**

**NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES**

***Basis of presentation:***

The accompanying unaudited condensed consolidated financial statements have been prepared by the management of Columbia Sportswear Company (the Company) and in the opinion of management include all material adjustments, consisting only of normal recurring adjustments, necessary to present fairly the Company's financial position as of March 31, 2010, the results of operations for the three months ended March 31, 2010 and 2009 and cash flows for the three months ended March 31, 2010 and 2009. A significant part of the Company's business is of a seasonal nature; therefore, the results of operations for the three months ended March 31, 2010 are not necessarily indicative of the results to be expected for the full year.

Certain information and footnote disclosures normally included in financial statements prepared in accordance with accounting principles generally accepted in the United States of America (generally accepted accounting principles) have been condensed or omitted pursuant to the rules and regulations of the Securities and Exchange Commission. The Company, however, believes that the disclosures contained in this report comply with the requirements of Section 13(a) of the Securities Exchange Act of 1934 for a Quarterly Report on Form 10-Q and are adequate to make the information presented not misleading. These unaudited condensed consolidated financial statements should be read in conjunction with the financial statements and notes thereto included in the Company's Annual Report on Form 10-K for the year ended December 31, 2009.

***Estimates and assumptions:***

The preparation of financial statements in conformity with generally accepted accounting principles 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 may differ from these estimates and assumptions. Some of these more significant estimates relate to revenue recognition, allowance for doubtful accounts, inventory obsolescence, product warranty, long-lived and intangible assets, income taxes and stock based compensation.

***Concentration of credit risk:***

***Trade Receivables***

No single customer accounted for greater than or equal to 10% of consolidated accounts receivable at March 31, 2010. At December 31, 2009, the Company had one customer in its Canadian segment that accounted for approximately 15.5% of consolidated accounts receivable. No single customer accounted for greater than or equal to 10% of consolidated net sales for the three months ended March 31, 2010 or 2009.

***Cash and Cash Equivalents***

At March 31, 2010, approximately 80% of the Company's cash and cash equivalents were concentrated in domestic and international money market mutual funds. A substantial majority of the Company's money market mutual funds were assigned a AAA or analogous rating from Standard & Poor's (S&P), Moody's Investor Services (Moody's) or Fitch Ratings.

***Short-term Investments***

At March 31, 2010 approximately 51% of the Company's short-term investments were concentrated in a short-term municipal bond fund and approximately 44% in short-term municipal debt securities whose interest and principal payments were 100% collateralized in an escrow account by U.S. Treasury Securities, U.S. Government Securities or U.S. Government Agency Securities.

***Derivatives***

## Edgar Filing: COLUMBIA SPORTSWEAR CO - Form 10-Q

The Company uses derivative instruments primarily to hedge the exchange rate risk of anticipated transactions denominated in non-functional currencies. From time to time, the Company also uses derivative instruments to economically hedge the exchange rate risk of certain investment positions and to hedge balance sheet remeasurement risk. At March 31, 2010, the Company's derivative contracts had a remaining maturity of approximately one year or less. All the counterparties to these transactions had an S&P /

**Table of Contents****COLUMBIA SPORTSWEAR COMPANY****NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS - (Continued)****(Unaudited)**

Moody's short-term credit rating of A-2 / P-2 or better. The maximum net exposure to any single counterparty, which is generally limited to the aggregate unrealized gain of all contracts with that counterparty, was approximately \$1,000,000 at March 31, 2010. The majority of the Company's derivative counterparties have strong credit ratings and as a result, the Company does not require collateral to facilitate transactions. See Note 8 for further disclosures concerning derivatives.

***Cash and cash equivalents:***

Cash and cash equivalents are stated at cost, which approximates fair value, or fair value and include investments with maturities of three months or less at the date of acquisition. Cash equivalents consisted of money market funds, municipal bonds and time deposits with original maturities ranging from overnight to less than 90 days.

***Investments:***

At March 31, 2010, short-term investments consisted of shares in a short-term municipal bond fund, time deposits and municipal bonds with original maturities of one year or less. At December 31, 2009, short term investments consisted of shares in a short-term municipal bond fund and time deposits with original maturities of six months or less. All short-term investments are classified as available-for-sale securities and are recorded at fair value with any unrealized gains and losses reported, net of tax, in other comprehensive income. Realized gains or losses are determined based on the specific identification method.

At March 31, 2010 and December 31, 2009, long-term investments consisted of mutual fund shares held to offset liabilities to participants in the Company's deferred compensation plan. The investments are classified as long-term because the related deferred compensation liabilities are not expected to be settled within the next year. These investments are classified as trading securities and are recorded at fair value with unrealized gains and losses reported in operating expenses. These long-term investments are included in intangibles and other non-current assets and totaled \$1,236,000 at March 31, 2010 and \$826,000 at December 31, 2009, including unrealized gains of \$173,000 and \$130,000, respectively.

***Property, plant and equipment:***

Property, plant and equipment are stated at cost, net of accumulated depreciation. Depreciation is calculated using the straight-line method over the estimated useful lives of the assets. The principal estimated useful lives are: buildings and building improvements, 15-30 years; land improvements, 15 years; furniture and fixtures, 3-10 years; and machinery and equipment, 3-5 years. Leasehold improvements are depreciated over the lesser of the estimated useful life of the improvement, which is most commonly 7 years, or the remaining term of the underlying lease.

***Product warranty:***

Some of the Company's products carry limited warranty provisions for defects in quality and workmanship. A warranty reserve is established at the time of sale to cover estimated costs based on the Company's history of warranty repairs and replacements and is recorded in cost of sales. A summary of accrued warranties for the three months ended March 31, 2010 and 2009 is as follows (in thousands):

	2010	2009
Balance at beginning of period	\$ 12,112	\$ 9,746
Charged to costs and expenses	1,160	884
Claims settled	(1,169)	(961)
Other	(126)	(177)
Balance at end of period	\$ 11,977	\$ 9,492

***Recent accounting pronouncements:***

In June 2009, the Financial Accounting Standards Board ( FASB ) issued Statement of Financial Accounting Standard ( SFAS ) No. 168, *The FASB Accounting Standards Codification<sup>TM</sup> and the Hierarchy of Generally Accepted Accounting Principles, as amended*, which was codified into Topic 105 *Generally Accepted Accounting Standards* in the Accounting Standards Codification ( ASC ). This standard establishes the FASB ASC as the source of authoritative accounting principles recognized by the FASB to be applied in the preparation of financial statements in conformity with generally accepted accounting principles. This standard is effective for interim and annual financial periods ending after September 15, 2009. The adoption of this standard did not have a material effect on the Company's consolidated financial position, results of operations or cash flows.

**Table of Contents****COLUMBIA SPORTSWEAR COMPANY****NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS - (Continued)****(Unaudited)**

In January 2010, the FASB issued Accounting Standards Update ( ASU ) 2010-06, Improving Disclosures about Fair Value Measurements. ASU 2010-06 requires additional disclosures about fair value measurements including transfers in and out of Levels 1 and 2 and a higher level of disaggregation for the different types of financial instruments. For the reconciliation of Level 3 fair value measurements, information about purchases, sales, issuances and settlements are presented separately. This standard is effective for interim and annual reporting periods beginning after December 15, 2009 with the exception of revised Level 3 disclosure requirements, which are effective for interim and annual reporting periods beginning after December 15, 2010. The adoption of this standard did not have a material effect on the Company's consolidated financial position, statement of operations or cash flows. See Note 10.

**NOTE 2 - INVENTORIES, NET**

Inventories are carried at the lower of cost or market. Cost is determined using the first-in, first-out method. The Company periodically reviews its inventory for excess, close-out and slow moving items and makes provisions as necessary to properly reflect inventory value.

Inventories, net, consisted of the following (in thousands):

	March 31, 2010	December 31, 2009
Raw materials	\$ 1,036	\$ 1,021
Work in process	352	163
Finished goods	221,316	220,977
	\$ 222,704	\$ 222,161

**NOTE 3 - INTANGIBLE ASSETS AND GOODWILL**

Intangible assets with indefinite useful lives are not amortized and are periodically evaluated for impairment. Intangible assets that are determined to have finite lives are amortized over their useful lives.

The following table summarizes the Company's identifiable intangible assets balance (in thousands):

	March 31, 2010		December 31, 2009	
	Gross Carrying Amount	Accumulated Amortization	Gross Carrying Amount	Accumulated Amortization
<b>Intangible assets subject to amortization:</b>				
Patents	\$ 898	\$ (671)	\$ 898	\$ (643)
<b>Intangible assets not subject to amortization:</b>				
Trademarks and trade names	\$ 26,872		\$ 26,872	
Goodwill	12,659		12,659	
	\$ 39,531		\$ 39,531	

## Edgar Filing: COLUMBIA SPORTSWEAR CO - Form 10-Q

Amortization expense for intangible assets subject to amortization is estimated to be \$109,000 in 2010 and \$73,000 per year in 2011 and 2012. These patents are anticipated to become fully amortized in 2012.

Other non-current assets consisted of the following (in thousands):

	<b>March 31, 2010</b>	<b>December 31, 2009</b>
Deferred tax assets	\$ 3,650	\$ 5,435
Long-term deposits	8,051	8,360
Other	2,493	2,150
	\$ 14,194	\$ 15,945

**Table of Contents****COLUMBIA SPORTSWEAR COMPANY****NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS - (Continued)****(Unaudited)****NOTE 4 - STOCK-BASED COMPENSATION**1997 Stock Incentive Plan

The Company's 1997 Stock Incentive Plan (the "Plan") provides for issuance of up to 8,900,000 shares of the Company's Common Stock, of which 1,706,575 shares were available for future grants under the Plan at March 31, 2010. The Plan allows for grants of incentive stock options, non-statutory stock options, restricted stock awards, restricted stock units and other stock-based awards. The Company uses original issuance shares to satisfy share-based payments.

*Stock Options*

Options to purchase the Company's common stock are granted at prices equal to or greater than the fair market value on the date of grant. Options granted prior to 2001 generally vested and became exercisable ratably on a monthly basis over a period of five years from the date of grant and expire ten years from the date of grant. Options granted after 2000 and before 2009 generally vest and become exercisable over a period of four years (25 percent on the first anniversary date following the date of grant and monthly thereafter) and expire ten years from the date of the grant, with the exception of most options granted in 2005. Most options granted in 2005 vested and became exercisable one year from the date of grant and expire ten years from the date of grant. Options granted after 2008 generally vest and become exercisable ratably on an annual basis over a period of four years and expire ten years from the date of the grant.

The Company estimates the fair value of stock options using the Black-Scholes model. Key inputs and assumptions used to estimate the fair value of stock options include the exercise price of the award, the expected option term, the expected volatility of the Company's stock over the option's expected term, the risk-free interest rate over the option's expected term, and the Company's estimated annual dividend yield. Assumptions are evaluated and revised as necessary to reflect changes in market conditions and the Company's experience. Estimates of fair value are not intended to predict actual future events or the value ultimately realized by the recipients of equity awards.

The following table shows the weighted average assumptions for the three months ended March 31, 2010 and 2009:

	2010	2009
Expected term	4.37 years	4.34 years
Expected stock price volatility	28.75%	29.64%
Risk-free interest rate	1.88%	1.54%
Expected dividend yield	1.66%	2.19%
Weighted average grant date fair value	\$ 9.76	\$ 6.19

The following table summarizes stock option activity for the three months ended March 31, 2010:

	Number of Shares	Weighted Average Exercise Price	Weighted Average Remaining Contractual Term	Aggregate Intrinsic Value (in thousands)
Options outstanding at December 31, 2009	1,760,173	\$ 42.08	6.25	\$ 4,599
Granted	355,033	43.64		

Edgar Filing: COLUMBIA SPORTSWEAR CO - Form 10-Q

Cancelled	(37,332)	44.57		
Exercised	(78,190)	30.54		
Options outstanding at March 31, 2010	1,999,684	\$ 42.76	6.92	\$ 21,247
Options vested and expected to vest at March 31, 2010	1,909,878	\$ 42.93	6.82	\$ 20,041
Options exercisable at March 31, 2010	1,089,608	\$ 45.48	5.28	\$ 9,037

The aggregate intrinsic value in the table above represents pre-tax intrinsic value that would have been realized if all options had been exercised on the last business day of the period indicated, based on the Company's closing stock price on that day. Total stock option compensation expense for the three months ended March 31, 2010 and 2009 was \$793,000 and \$609,000, respectively. At March 31, 2010 and 2009, unrecognized costs related to stock options totaled approximately \$6,702,000 and \$6,497,000, respectively, before any related tax benefit. The unrecognized costs related to stock options are amortized over the related vesting period using the straight-line attribution method. Unrecognized costs related to stock options at March 31, 2010 are expected to be recognized over a

**Table of Contents****COLUMBIA SPORTSWEAR COMPANY****NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS - (Continued)****(Unaudited)**

weighted average period of 2.84 years. The aggregate intrinsic value of stock options exercised was \$1,253,000 and \$149,000 for the three months ended March 31, 2010 and 2009, respectively. The total proceeds resulting from stock option exercises during the three months ended March 31, 2010 were \$2,388,000, of which \$1,202,000 had not yet been received. The total proceeds resulting from stock option exercises during the three months ended March 31, 2009 were \$165,000. The realized tax benefit for the deduction from stock option transactions for the three months ended March 31, 2010 and 2009 was \$389,000 and \$55,000, respectively.

*Restricted Stock Units*

Service-based restricted stock units are granted at no cost to key employees, and shares granted prior to 2009 generally vest over three years from the date of grant. Service-based restricted stock units granted after 2008 generally vest over a period of four years. Performance-based restricted stock units are granted at no cost to certain members of the Company's senior executive team, excluding the Chairman and the President and Chief Executive Officer. Performance-based restricted stock units granted prior to 2010 vest based on achievement of specified performance goals during a performance period of three years with an additional required service period of one year. Performance-based restricted stock units granted after 2009 vest based on achievement of specified performance goals during a performance period of three years. Restricted stock units vest in accordance with the terms and conditions established by the Compensation Committee of the Board of Directors, and are based on continued service and, in some instances, on individual performance and/or Company performance. For the majority of restricted stock units granted, the number of shares issued on the date the restricted stock units vest is net of the minimum statutory withholding requirements that the Company pays in cash to the appropriate taxing authorities on behalf of its employees. For the three months ended March 31, 2010 and 2009, the Company withheld 16,863 and 11,362 shares, respectively, to satisfy \$751,000 and \$307,000 of employees' tax obligations, respectively.

The fair value of service-based and performance-based restricted stock units is discounted by the present value of the estimated future stream of dividends over the vesting period using the Black-Scholes model. The relevant inputs and assumptions used in the Black-Scholes model to compute the discount are the vesting period, dividend yield and closing price of the Company's common stock on the date of grant.

The following table presents the weighted average assumptions for the three months ended March 31, 2010 and 2009:

	2010	2009
Vesting period	3.86 years	3.97 years
Expected dividend yield	1.59%	2.21%
Estimated average fair value per restricted stock unit granted	\$ 43.07	\$ 26.63

The following table summarizes the restricted stock unit activity for the three months ended March 31, 2010:

	Number of Shares	Weighted Average Grant Date Fair Value Per Share
Restricted stock units outstanding at December 31, 2009	286,520	\$ 36.35
Granted	104,977	43.07
Vested	(44,741)	43.60
Forfeited	(6,208)	33.90
Restricted stock units outstanding at March 31, 2010	340,548	\$ 37.52

## Edgar Filing: COLUMBIA SPORTSWEAR CO - Form 10-Q

Restricted stock unit compensation expense for the three months ended March 31, 2010 and 2009 was \$752,000 and \$789,000, respectively. At March 31, 2010 and 2009, unrecognized costs related to restricted stock units totaled approximately \$7,080,000 and \$6,532,000, respectively, before any related tax benefit. The unrecognized costs related to restricted stock units are being amortized over the related vesting period using the straight-line attribution method. These unrecognized costs at March 31, 2010 are expected to be recognized over a weighted average period of 2.38 years. The total grant date fair value of restricted stock units vested during the three months ended March 31, 2010 and 2009 was \$1,951,000 and \$1,811,000, respectively. The realized tax benefit for the deduction from restricted stock unit transactions for the three months ended March 31, 2010 and 2009 was \$681,000 and \$280,000, respectively.

Table of Contents

## COLUMBIA SPORTSWEAR COMPANY

## NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS - (Continued)

(Unaudited)

## NOTE 5 - COMPREHENSIVE INCOME

Accumulated other comprehensive income, net of applicable taxes, reported on the Company's Condensed Consolidated Balance Sheets consists of foreign currency translation adjustments, unrealized gains and losses on certain derivative transactions and unrealized gains and losses on available-for-sale securities. A summary of comprehensive income, net of related tax effects, for the three months ended March 31, 2010 and 2009 is as follows (in thousands):

	2010	2009
Net income	\$ 9,228	\$ 6,898
Other comprehensive income (loss):		
Unrealized holding gains/(losses) on available-for-sale securities	(22)	260
Unrealized derivative holding gains arising during period	869	1,864
Reclassification to net income of previously deferred (gains) losses on derivative transactions	1,169	(1,652)
Foreign currency translation adjustments	(505)	(12,968)
Other comprehensive income (loss)	1,511	(12,496)
Comprehensive income (loss)	\$ 10,739	\$ (5,598)

Accumulated other comprehensive income, net of related tax effects, consisted of the following (in thousands):

	Foreign currency translation adjustments	Unrealized holding gains (losses) on derivative transactions	Unrealized holding gains (losses) on available-for-sale securities	Accumulated other comprehensive income
Balance at December 31, 2009	\$ 44,538	\$ (1,158)	\$ 64	\$ 43,444
Activity for the three months ended March 31, 2010	(505)	2,038	(22)	1,511
Balance at March 31, 2010	\$ 44,033	\$ 880	\$ 42	\$ 44,955

## NOTE 6 - EARNINGS PER SHARE

Earnings per share (EPS) is presented on both a basic and diluted basis. Basic EPS is based on the weighted average number of common shares outstanding. Diluted EPS reflects the potential dilution that could occur if outstanding securities or other contracts to issue common stock were exercised or converted into common stock. For the calculation of diluted EPS, the basic weighted average number of shares is increased by the dilutive effect of stock options and restricted stock units determined using the treasury stock method.

A reconciliation of common shares used in the denominator for computing basic and diluted EPS for the three months ended March 31, 2010 and 2009 is as follows (in thousands, except per share amounts):

Edgar Filing: COLUMBIA SPORTSWEAR CO - Form 10-Q

	2010	2009
Weighted average shares of common stock outstanding, used in computing basic earnings per share	33,733	33,873
Effect of dilutive stock options and restricted stock units	257	95
Weighted-average shares of common stock outstanding, used in computing diluted earnings per share	33,990	33,968

Earnings per share of common stock:

Basic	\$ 0.27	\$ 0.20
Diluted	0.27	0.20

Stock options and service-based restricted stock units representing 820,867 and 1,762,856 shares of common stock were outstanding for the three months ended March 31, 2010 and 2009, respectively, but these shares were excluded in the computation of diluted EPS because their effect would be anti-dilutive as a result of applying the treasury stock method. In addition, performance-based restricted stock units representing 34,864 and 41,625 shares for the three months ended March 31, 2010 and 2009, respectively, were excluded from the computation of diluted EPS because these shares were subject to performance conditions that had not been met.

Since the inception of the Company's stock repurchase plan in 2004 through March 31, 2010, the Company's Board of Directors has authorized the repurchase of \$500,000,000 of the Company's common stock. As of March 31, 2010, the Company had repurchased 8,987,421 shares under this program at an aggregate purchase price of approximately \$411,237,000. During the three months ended March 31, 2010, the Company repurchased an aggregate of \$3,838,000 of its common stock under the stock repurchase

**Table of Contents****COLUMBIA SPORTSWEAR COMPANY****NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS - (Continued)****(Unaudited)**

plan, of which \$1,960,000 was recorded as a reduction to total retained earnings; otherwise, the aggregate purchase price would have resulted in a negative common stock carrying amount. The Company did not repurchase any shares under this program for the three months ended March 31, 2009. Shares of the Company's common stock may be purchased in the open market or through privately negotiated transactions, subject to market conditions. The repurchase program does not obligate the Company to acquire any specific number of shares or to acquire shares over any specified period of time.

**NOTE 7 - SEGMENT INFORMATION**

The Company operates in four geographic segments: (1) United States, (2) Europe, Middle East and Africa ( EMEA ), (3) Latin America and Asia Pacific ( LAAP ), and (4) Canada, which are reflective of the Company's internal organization, management, and oversight structure. Each geographic segment operates predominantly in one industry: the design, sourcing, marketing and distribution of active outdoor apparel, including sportswear and outerwear and footwear and related accessories and equipment.

The geographic distribution of the Company's net sales, income (loss) before income tax, and identifiable assets are summarized in the following tables (in thousands). Inter-segment net sales, which are recorded at a negotiated mark-up and eliminated in consolidation, are not material.

	<b>Three Months Ended</b>	
	<b>March 31,</b>	
	<b>2010</b>	<b>2009</b>
<b>Net sales to unrelated entities:</b>		
United States	\$ 173,248	\$ 156,278
EMEA	46,859	49,808
LAAP	56,053	46,085
Canada	24,246	19,795
	\$ 300,406	\$ 271,966
<b>Income (loss) before income tax:</b>		
United States	\$ 4,827	\$ (2,616)
EMEA	(639)	4,648
LAAP	6,786	5,374
Canada	1,516	2,988
Interest income, net	534	914
	\$ 13,024	\$ 11,308

	<b>March 31,</b>	<b>December 31,</b>
	<b>2010</b>	<b>2009</b>
<b>Assets:</b>		
United States	\$ 902,224	\$ 916,847
EMEA	234,866	249,838
LAAP	103,887	104,734
Canada	127,369	127,205

## Edgar Filing: COLUMBIA SPORTSWEAR CO - Form 10-Q

Total identifiable assets	1,368,346	1,398,624
Eliminations and reclassifications	(178,364)	(185,741)
Total assets	\$ 1,189,982	\$ 1,212,883

### NOTE 8 - FINANCIAL INSTRUMENTS AND RISK MANAGEMENT

In the normal course of business, the Company's financial position and results of operations are routinely subject to a variety of risks. These risks include risks associated with global financial and capital markets, primarily exchange rate risk and, to a lesser extent, interest rate risk and equity market risk. The Company regularly assesses these risks and has established policies and business practices that should result in an appropriate level of protection against an adverse effect of these risks. The Company does not engage in speculative trading in any financial or capital market.

The Company's exchange rate risk management objective is to mitigate the uncertainty of anticipated cash flows attributable to changes in exchange rates. The Company focuses on anticipated cash flows resulting from firmly and non-firmly committed inventory purchases and the related receivables and payables, including third party or intercompany transactions. The Company

**Table of Contents****COLUMBIA SPORTSWEAR COMPANY****NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS - (Continued)****(Unaudited)**

manages this risk primarily by using currency forward and option contracts. The Company hedges anticipated, but not yet firmly committed, transactions that carry a high level of certainty and are expected to be recognized within one year. Hedged transactions are denominated primarily in U.S. dollars and are generally obligations of subsidiaries that use European euros, Canadian dollars, Japanese yen or Korean won as the functional currency. The Company uses foreign currency forward contracts to hedge foreign currency denominated payments related to intercompany loan agreements.

The Company hedges against the exchange rate risk associated with anticipated transactions denominated in non-functional currencies and accounts for these instruments as cash flow hedges. The effective change in fair value of these financial instruments is initially offset to accumulated other comprehensive income and any ineffective portion is offset to current income. Amounts accumulated in other comprehensive income are subsequently reclassified to cost of sales when the underlying transaction is included in income. Hedge effectiveness is determined by evaluating the ability of a hedging instrument's cumulative change in fair value to offset the cumulative change in the present value of expected cash flows on the underlying exposures. For forward contracts and options, the change in fair value attributable to changes in forward points and time value, respectively, are excluded from the determination of hedge effectiveness and included in current cost of sales. Hedge ineffectiveness was not material during the three months ended March 31, 2010 and 2009.

At March 31, 2010, the notional value of outstanding forward contracts designated as hedging anticipated inventory purchases was approximately \$79,050,000. At March 31, 2010, insignificant deferred gains and losses (net of tax) on both outstanding and matured derivatives accumulated in other comprehensive income are expected to be reclassified to net income during the next twelve months as a result of underlying hedged transactions also being recorded in net income. Actual amounts ultimately reclassified to net income are dependent on U.S. dollar exchange rates in effect against the European euro, Canadian dollar, Japanese yen and Korean won when outstanding derivative contracts mature.

The classification of effective hedge results in the Condensed Consolidated Statements of Operations is the same as that of the underlying exposure. Results of hedges of product costs are recorded in cost of sales when the underlying hedged transaction affects income. Unrealized derivative gains and losses, which are recorded in current assets and liabilities, respectively, are non-cash items and therefore are taken into account in the preparation of the Condensed Consolidated Statements of Cash Flows based on their respective balance sheet classifications.

The Company also uses derivative instruments not formally designated and qualifying as hedges to manage the exchange rate risk associated with the remeasurement of monetary assets and liabilities. At March 31, 2010, the notional value of outstanding forward contracts not formally designated as hedges was approximately \$73,574,000. The change in fair value of these instruments is recognized immediately in cost of sales or selling, general and administrative (SG&A) expense, depending on the underlying exposure.

The Company does not hold derivatives featuring credit-related contingent terms. In addition, the Company is not a party to any derivative master agreement featuring credit-related contingent terms. Finally, the Company has not pledged assets or posted collateral as a requirement for entering into or maintaining derivative positions. See Concentration of credit risk under Note 1 for more information on credit risk related to financial instruments.

The following table presents the balance sheet classification and fair value of derivative instruments at March 31, 2010 and December 31, 2009 (in thousands):

		December
	Classification	March 31, 2010      31, 2009
Derivative instruments designated as cash flow hedges:		
Derivative instruments in asset positions:		

Edgar Filing: COLUMBIA SPORTSWEAR CO - Form 10-Q

Currency forward contracts	Prepaid expenses and other current assets	\$ 2,673	\$ 1,099
Derivative instruments in liability positions:			
Currency forward contracts	Accrued liabilities	1,396	890

		<b>December</b>	
		<b>March 31,</b>	<b>31,</b>
		<b>2010</b>	<b>2009</b>
<b>Classification</b>			
Derivative instruments not designated as hedges:			
Derivative instruments in asset positions:			
Currency forward contracts	Prepaid expenses and other current assets		\$ 453
Derivative instruments in liability positions:			
Currency forward contracts	Accrued liabilities	625	1,065

**Table of Contents****COLUMBIA SPORTSWEAR COMPANY****NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS - (Continued)****(Unaudited)**

The following table presents the effect and classification of derivative instruments for the three months ended March 31, 2010 and 2009 (in thousands):

	Three Months Ended March 31, 2010		Three Months Ended March 31, 2009	
	Statement Of Operations Classification	Gain (loss)	Statement Of Operations Classification	Gain (loss)
<b>Currency Forward Contracts:</b>				
Derivative instruments designated as cash flow hedges:				
Gain recognized in other comprehensive income, net of tax		\$ 869		\$ 1,864
Gain (Loss) reclassified from accumulated other comprehensive income to income for the effective portion, net of tax	Cost of sales	(1,157)	Cost of sales	1,652
Loss recognized in income for amount excluded from effectiveness testing and for the ineffective portion	Cost of sales	(21)	Cost of sales	(117)
Derivative instruments not designated as cash flow hedges:				
Gain recognized in income	Cost of sales	127	Cost of sales	340
Gain recognized in income	SG&A	2,557	SG&A	

**NOTE 9 - COMMITMENTS AND CONTINGENCIES***Inventory Purchase Obligations*

Product purchase obligations for open production purchase orders for sourced apparel, footwear, accessories and equipment, and materials used to manufacture apparel were \$404,537,000 and \$258,069,000 at March 31, 2010 and December 31, 2009, respectively. To support certain inventory purchase obligations, letters of credit were outstanding for \$4,709,000 and \$7,771,000 at March 31, 2010 and December 31, 2009, respectively.

*Operating Leases*

Future minimum operating lease payments, including rent escalation clauses, were \$257,335,000 and \$261,717,000 at March 31, 2010 and December 31, 2009, respectively. Future minimum payments do not include real estate taxes, insurance, common area maintenance and other costs for which the Company may be obligated.

There have not been any other material changes relating to the commitments and contingencies reported on the Company's Annual Report on Form 10-K for the year ended December 31, 2009.

**NOTE 10 - FAIR VALUE MEASURES**

Certain assets and liabilities are reported at fair value on either a recurring or nonrecurring basis. Fair value is defined as an exit price, representing the amount that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants, under a three-tier fair value hierarchy which prioritizes the inputs used in measuring fair value as follows:

Level 1 observable inputs such as quoted prices in active markets;

## Edgar Filing: COLUMBIA SPORTSWEAR CO - Form 10-Q

- Level 2 inputs, other than the quoted market prices in active markets, which are observable, either directly or indirectly; and
- Level 3 unobservable inputs for which there is little or no market data available, which require the reporting entity to develop its own assumptions.

**Table of Contents****COLUMBIA SPORTSWEAR COMPANY****NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS - (Continued)****(Unaudited)**

Assets and liabilities measured at fair value on a recurring basis at March 31, 2010 are as follows (in thousands):

	Level 1	Level 2	Level 3	Total
<b>Assets:</b>				
Cash equivalents				
Money market funds	\$ 296,550	\$	\$	\$ 296,550
Time deposits	3,978			3,978
Municipal bonds		8,481		8,481
Short-term investments				
Short-term municipal bond fund	25,331			25,331
Time deposits	2,372			2,372
Municipal bonds		22,155		22,155
Other current assets				
Derivative financial instruments		2,673		2,673
Non-current assets				
Mutual fund shares	1,236			1,236
Total assets measured at fair value	\$ 329,467	\$ 33,309	\$	\$ 362,776
<b>Liabilities:</b>				
Accrued liabilities				
Derivative financial instruments		2,021		2,021
Total liabilities measured at fair value	\$	\$ 2,021	\$	\$ 2,021

Assets and liabilities measured at fair value on a recurring basis at December 31, 2009 are as follows (in thousands):

	Level 1	Level 2	Level 3	Total
<b>Assets:</b>				
Cash equivalents				
Money market funds	\$ 332,574	\$	\$	\$ 332,574
Time deposits	16,844			16,844
Short-term investments				
Short-term municipal bond fund	20,247			20,247
Time deposits	2,512			2,512
Other current assets				
Derivative financial instruments		1,552		1,552
Non-current assets				
Mutual fund shares	826			826
Total assets measured at fair value	\$ 373,003	\$ 1,552	\$	\$ 374,555
<b>Liabilities:</b>				

## Edgar Filing: COLUMBIA SPORTSWEAR CO - Form 10-Q

Accrued liabilities				
Derivative financial instruments		1,955		1,955
Total liabilities measured at fair value	\$	\$ 1,955	\$	\$ 1,955

Level 1 instrument valuations are obtained from real-time quotes for transactions in active exchange markets involving identical assets. Level 2 instrument valuations are obtained from inputs, other than quoted market prices in active markets, that are directly or indirectly observable in the marketplace and quoted prices in markets with insufficient volume or infrequent transactions.

There were no assets and liabilities measured at fair value on a nonrecurring basis.

### **NOTE 11 - SUBSEQUENT EVENT**

In April 2010, the Board of Directors approved a quarterly dividend of \$0.18 per share, payable on May 27, 2010 to shareholders of record on May 13, 2010.

## **Table of Contents**

### **Item 2 *MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS***

This quarterly report contains forward-looking statements. Forward-looking statements include any statements related to our expectations regarding future performance or market position, including any statements regarding anticipated sales across markets, distribution channels and product categories, access to raw materials and factory capacity, financing and working capital requirements and resources and our exposure to market risk associated with interest rates and foreign currency exchange rates.

These forward-looking statements, and others we make from time to time, are subject to a number of risks and uncertainties. Many factors may cause actual results to differ materially from those projected in forward-looking statements, including the risks described below in Part II, Item 1A, Risk Factors. We do not undertake any duty to update forward-looking statements after the date they are made or to conform them to actual results or to changes in circumstances or expectations.

#### **Our Business**

As one of the largest outdoor apparel and footwear companies in the world, we design, develop, market and distribute active outdoor apparel, footwear, accessories and equipment under the Columbia, Mountain Hardwear, Sorel, Montrail, and Pacific Trail brands. Our products are sold through a mix of wholesale distribution channels, independent distributors, our own retail channels and licensees.

The popularity of outdoor activities and changing design trends affect consumer desire for our products. Therefore, we seek to anticipate and respond to trends and shifts in consumer preferences by adjusting the mix of available product offerings, developing new products with innovative performance features and designs, and by creating persuasive and memorable marketing communications to drive consumer awareness and demand. Failure to anticipate or respond to consumer needs and preferences in a timely and adequate manner could have a material adverse effect on our sales and profitability.

#### **Seasonality and Variability of Business**

Our business is affected by the general seasonal trends common to the outdoor industry and is heavily dependent upon discretionary consumer spending patterns. Our products are marketed on a seasonal basis and our product mix is weighted substantially toward the fall season, resulting in sales and profits being highest in the third calendar quarter. The expansion of our owned retail operations during 2008 and 2009 has begun to have a modest effect on the seasonality of our business, increasing the proportion of sales and profits that we generate in the fourth calendar quarter.

Results of operations in any period should not be considered indicative of the results to be expected for any future period, particularly in light of persistent volatility in economic conditions. Sales of our products are subject to substantial cyclical fluctuation, the effects of unseasonable weather conditions, and the continued popularity of outdoor activities as part of an active lifestyle in key markets. Our net sales volumes have been affected by the volatility of the global economy and its impact on customer financial health, affecting their placement of advance orders, order cancellations and seasonal reorders, and consumer spending. Sales tend to decline in periods of recession or uncertainty regarding future economic prospects that affect consumer spending, particularly on discretionary items. This cyclical and any related fluctuation in consumer demand could have a material adverse effect on our financial position, results of operations or cash flows.

#### **Business Outlook**

The business climate continues to present us with a great deal of uncertainty, with a number of variables that we rely on for planning purposes moving in opposing directions and making it more difficult to predict future results. Factors that could significantly affect our 2010 outlook include:

Fluctuating currency exchange rates;

Potential capacity constraints at our independent manufacturing partners' facilities, which could cause increased costs to expedite production and delivery, delayed deliveries to retailers and /or order cancellations by retailers;

## Edgar Filing: COLUMBIA SPORTSWEAR CO - Form 10-Q

Changes in mix and volume of full price sales in contrast with closeout product sales;

Changes in the volume of order cancellations and reorders;

Incremental sales through our expanding retail and e-commerce operations, which are not included in backlog; and

Changes in consumer spending activity and sales fluctuations in our retail stores.

---

## **Table of Contents**

Like other branded consumer product companies, our business is heavily dependent upon discretionary consumer spending patterns. High levels of unemployment in our key markets and restricted credit markets for consumers and retailers continue to pose significant challenges and risks to the stabilization of retail sales. As a result, a more cautious approach by our wholesale customers and retail consumers may persist, resulting in risk of reduction, delay or cancellation of advance orders prior to shipment. In addition, the effects of foreign currency exchange rates may amplify any revenue declines if the U.S. dollar strengthens compared to local currencies in our direct markets, as we have experienced in some markets.

Over the past two years we have made significant investments in our go-to-market process to position us for future growth. Among other things we have:

Sharpened our focus on product innovation;

Built a multi-channel direct-to-consumer platform, including expanded retail and e-commerce operations;

Refocused our marketing efforts behind new brand campaigns and media strategies for each of our major brands; and

Restructured our sales organizations to build relationships with new partners and strengthen those with existing accounts.

As a result of these continuing efforts, we expect our operating expense levels to increase generally compared to 2009. In addition, we intend to focus on improvements to our operational processes, which will involve significant investments in initiatives to improve our information technology infrastructure and our enterprise data and information management across our organization. These investments are ultimately expected to provide the foundation for a multi-year, global enterprise resource planning, or ERP, system implementation.

## **Wholesale Backlog**

To aid our efforts to plan manufacturing volumes to meet demand for each of our selling seasons, we solicit orders from wholesale customers and independent distributors for the fall and spring seasons by March 31 and September 30, respectively, based on ordering deadlines that we establish. Twice each year we report our backlog of advance orders, representing the results of these seasonal order-taking processes.

We typically ship the majority of our advance fall season orders to wholesale customers and independent distributors beginning in late June and continuing through October. Similarly, the majority of our advance spring season orders ship to wholesale customers and independent distributors beginning in late December and continuing through late April. Generally, orders are subject to cancellation prior to the date of shipment.

Our wholesale backlog for the fall 2010 selling season as of March 31, 2010 increased \$117.3 million, or 19%, to \$725.3 million from \$608.0 million as of March 31, 2009. Changes in foreign currency exchange rates compared with 2009 contributed approximately a three percentage point benefit to the fall wholesale backlog comparison. Our fall wholesale backlog reflects growth across each major brand, product category and region. The increase in our fall wholesale backlog was led by the United States, followed by Canada, the EMEA region and the LAAP region. By product category, the fall wholesale backlog increase was led by footwear, followed by sportswear, outerwear and accessories and equipment. By brand, the fall wholesale backlog increase was led by the Columbia brand, followed by the Sorel brand and the Mountain Hardwear brand. Wholesale backlog does not include anticipated sales to consumers through our own direct to consumer channels. Although we cannot predict with certainty any future results, our reported fall wholesale backlog is one indicator of our anticipated net sales for the fall 2010 selling season. Many factors, however, could cause actual sales to differ materially from the reported fall wholesale backlog, including the potential cancellation of orders by customers, capacity constraints at our independent manufacturing partners' facilities resulting in delivery delays, changes in foreign currency exchange rates and changes in macro-economic conditions. Moreover, our fall 2010 wholesale backlog should not be used in forecasting sales beyond the fall 2010 selling season.

Our consolidated wholesale backlog for the combined fall and spring selling seasons as of March 31, 2010 increased \$150.5 million, or 21%, to \$872.1 million from \$721.6 million as of March 31, 2009. Changes in foreign currency exchange rates compared with 2009 contributed approximately a three percentage point benefit to the consolidated wholesale backlog comparison.

**Results of Operations**

The following discussion of our results of operations and liquidity and capital resources, including known trends and uncertainties identified by management, should be read in conjunction with the Condensed Consolidated Financial Statements and accompanying Notes that appear elsewhere in this quarterly report. All references to quarters relate to the quarter ended March 31 of the particular year.

**Table of Contents****Highlights of the First Quarter of 2010**

Net sales for the first quarter of 2010 increased \$28.4 million, or 10%, to \$300.4 million from \$272.0 million for the first quarter of 2009, including approximately a three percentage point benefit from changes in foreign currency exchange rates.

Net income for the first quarter of 2010 was \$9.2 million, or \$0.27 per diluted share, compared to \$6.9 million, or \$0.20 per diluted share, for the first quarter of 2009.

In April 2010, the Board of Directors declared a quarterly dividend of \$0.18 per share, an increase of \$0.02 per share over the quarterly dividend declared in April 2009.

Cash and short-term investments as of March 31, 2010 totaled approximately \$415.8 million.

The following table sets forth, for the periods indicated, the percentage relationship to net sales of specified items in our condensed consolidated statements of operations:

	<b>Three Months Ended March 31,</b>	
	<b>2010</b>	<b>2009</b>
Net sales	100.0%	100.0%
Cost of sales	57.6	59.4
Gross profit	42.4	40.6
Selling, general and administrative expense	38.4	37.5
Net licensing income	0.2	0.7
Income from operations	4.2	3.8
Interest income, net	0.2	0.3
Income before income tax	4.4	4.1
Income tax expense	(1.3)	(1.6)
Net income	3.1%	2.5%

***Quarter Ended March 31, 2010 Compared to Quarter Ended March 31, 2009***

**Net Sales:** Consolidated net sales increased \$28.4 million, or 10%, to \$300.4 million for the first quarter of 2010 from \$272.0 million for the comparable period in 2009. Changes in foreign currency exchange rates compared with the first quarter of 2009 contributed approximately a three percentage point benefit to the consolidated net sales comparison.

***Sales by Geographic Region***

Net sales by geographical region are summarized in the following table:

**Three Months Ended March 31,**

Edgar Filing: COLUMBIA SPORTSWEAR CO - Form 10-Q

	2010	2009	% Change
	(In millions, except for percentage changes)		
United States	\$ 173.2	\$ 156.3	11%
EMEA	46.9	49.8	(6)%
LAAP	56.1	46.1	22%
Canada	24.2	19.8	22%
	\$ 300.4	\$ 272.0	10%

Net sales in the United States increased \$16.9 million, or 11%, to \$173.2 million for the first quarter of 2010 from \$156.3 million for the comparable period in 2009. The increase in net sales in the United States was led by sportswear, followed by outerwear, footwear and accessories and equipment. The net sales increase was predominantly led by sales to consumers through our expanded direct to consumer channels followed by an increase in the volume of full price net sales from our wholesale business, partially offset by a lower volume of closeout product sales. As of March 31, 2010, we operated 39 outlet retail stores and 7 branded retail stores, compared with 32 outlet retail stores and 6 branded retail stores as of March 31, 2009. In addition, 2010 net sales include contributions from our Columbia brand and Sorel brand e-commerce sites launched in the second half of 2009.

Net sales in the EMEA region decreased \$2.9 million, or 6%, to \$46.9 million for the first quarter of 2010 from \$49.8 million for the comparable period in 2009. The 6% decline includes approximately a four percentage point benefit from changes in foreign

**Table of Contents**

currency exchange rates compared with the first quarter of 2009. The decrease in net sales in the EMEA region was concentrated in sportswear, followed by outerwear, partially offset by net sales increases in footwear and accessories and equipment. The net sales decrease for the EMEA region was primarily attributable to lower advance order volumes within the EMEA direct business. Net sales to EMEA distributors also decreased due to lower advance order volumes partially offset by a shift in the timing of shipments. A higher percentage of spring 2010 shipments occurred in the first quarter of 2010, while a higher percentage of spring 2009 shipments occurred in the fourth quarter of 2008.

Net sales in the LAAP region increased \$10.0 million, or 22%, to \$56.1 million for the first quarter of 2010 from \$46.1 million for the comparable period in 2009. Changes in foreign currency exchange rates compared with the first quarter of 2009 contributed approximately an eight percentage point benefit to the LAAP net sales comparison. The increase in net sales in the LAAP region was led by sportswear, followed by outerwear and accessories and equipment. Net sales of footwear were flat compared to 2009. The net sales increase in the LAAP region was led by Korea and Japan, partially offset by a decrease in net sales to LAAP distributors. The increase in Korea net sales was due to increased sales from existing stores, a greater number of retail stores open during 2010, cold weather leading to increased outerwear net sales and a favorable change in foreign currency exchange rates compared to the first quarter of 2009. The increase in Japan net sales was primarily the result of continued growth in our company-owned retail channel, increased wholesale net sales to the sporting goods channel and a favorable change in foreign exchange rates compared to the first quarter of 2009. Net sales to LAAP distributors decreased due to a postponement of shipments of some spring orders to southern hemisphere distributors to better align with their selling seasons that lag our product seasons by six months.

Net sales in Canada increased \$4.4 million, or 22%, to \$24.2 million for the first quarter of 2010 from \$19.8 million for the comparable period in 2009. Changes in foreign currency exchange rates compared with 2009 contributed approximately an 18 percentage point benefit to the Canada net sales comparison. The increase in net sales in Canada was led by outerwear, followed by footwear, sportswear and accessories and equipment.

*Sales by Product Category*

Net sales by product category are summarized in the following table:

	<b>Three Months Ended March 31,</b>		
	<b>2010</b>	<b>2009</b>	<b>% Change</b>
	<b>(In millions, except for percentage changes)</b>		
Sportswear	\$ 146.4	\$ 138.2	6%
Outerwear	87.6	76.8	14%
Footwear	46.1	40.0	15%
Accessories and Equipment	20.3	17.0	19%
	<b>\$ 300.4</b>	<b>\$ 272.0</b>	<b>10%</b>

Net sales of sportswear increased \$8.2 million, or 6%, to \$146.4 million for the first quarter of 2010 from \$138.2 million for the comparable period in 2009. The increase in sportswear net sales was led by the United States, followed by the LAAP region and Canada, partially offset by a net sales decrease in the EMEA region. The sportswear net sales increase in the United States was led by our own retail channels followed by our wholesale business. The sportswear net sales increase in the LAAP region was led by LAAP distributors, followed by Korea and Japan. The sportswear net sales decrease in the EMEA region was concentrated in the EMEA direct business followed by EMEA distributors.

Net sales of outerwear increased \$10.8 million, or 14%, to \$87.6 million for the first quarter of 2010 from \$76.8 million for the comparable period in 2009. The increase in outerwear net sales was led by the United States, followed by the LAAP region and Canada, partially offset by a net sales decrease in the EMEA region. The outerwear net sales increase in the United States was concentrated in our own direct to consumer operations and partially offset by a net sales decrease in our wholesale business. The outerwear net sales increase in the LAAP region was led by Korea and Japan, partially offset by a net sales decrease in LAAP distributors. In the EMEA region, the outerwear net sales decrease for EMEA distributors was partially offset by a net sales increase for the EMEA direct business.

Net sales of footwear increased \$6.1 million, or 15%, to \$46.1 million for the first quarter of 2010 from \$40.0 million for the comparable period in 2009. The increase in footwear net sales was led by the United States, followed by the EMEA region and Canada. Net footwear sales in the LAAP region were flat compared to the first quarter of 2009 as net sales increases in Korea and Japan were offset by a net sales decrease for LAAP distributors.

## Edgar Filing: COLUMBIA SPORTSWEAR CO - Form 10-Q

Net sales of accessories and equipment increased \$3.3 million, or 19%, to \$20.3 million for the first quarter of 2010 from \$17.0 million for the comparable period in 2009. The increase in accessories and equipment net sales was led by the LAAP region, followed by the United States, the EMEA region and Canada. The increase in accessories and equipment net sales in the LAAP region was led by Japan and Korea and partially offset by a net sales decrease for LAAP distributors.

**Table of Contents***Sales by Brand*

Net sales by brand are summarized in the following table:

	Three Months Ended March 31,		
	2010	2009	% Change
	(In millions, except for percentage changes)		
Columbia	\$ 267.7	\$ 241.6	11%
Mountain Hardwear	25.6	23.2	10%
Sorel	4.0	3.0	33%
Other	3.1	4.2	(26)%
	\$ 300.4	\$ 272.0	10%

The net sales increase for the first quarter of 2010 compared to the first quarter of 2009 was concentrated in the Columbia brand followed by the Mountain Hardwear brand and Sorel brand. The Columbia brand net sales increase was led by the United States, followed by the LAAP region and Canada, partially offset by a net sales decrease for the Columbia brand in the EMEA region.

**Gross Profit:** Gross profit, as a percentage of net sales, increased to 42.4% for the first quarter of 2010 from 40.6% for the comparable period in 2009. Gross profit expansion was primarily due to a lower volume of close-out product sales at higher gross margins and a higher volume of retail sales at higher gross margins in the United States. This expansion was partially offset by contracting margins due to unfavorable foreign currency hedge rates in our Canada and Europe direct businesses.

Our gross profits may not be comparable to those of other companies in our industry because some include all of the costs related to their distribution network in cost of sales. We, like others, have chosen to include these expenses as a component of SG&A expense.

**Selling, General and Administrative Expense:** SG&A expense includes all costs associated with our design, merchandising, marketing, distribution and corporate functions, including related depreciation and amortization.

SG&A expense increased \$13.5 million, or 13%, to \$115.5 million for the first quarter of 2010 from \$102.0 million for the comparable period in 2009. The SG&A increase was primarily due to increased personnel and operating expense in support of our expanded direct to consumer channels in the United States, the EMEA region and Canada, the transition to in-house sales organizations in the United States, EMEA region and Canada and the reinstatement of personnel and benefit programs curtailed or postponed in 2009. As a percentage of net sales, SG&A expense increased to 38.4% of net sales for the first quarter of 2010 from 37.5% of net sales for the comparable period in 2009. Changes in foreign currency exchange rates compared with the first quarter of 2009 contributed approximately three percentage points to the increase in SG&A expense.

Selling expenses, including commissions and advertising, decreased \$0.5 million, or 2%, to 7.6% of net sales for the first quarter of 2010 from 8.6% of net sales for the comparable period in 2009. We attribute the decrease in selling expenses as a percentage of net sales to lower commission expense as relationships with certain independent sales agencies in the United States and the EMEA region have been discontinued and replaced by in-house sales organizations. Operating expenses for the in-house sales organizations are included in general and administrative expenses.

General and administrative expenses increased \$14.0 million, or 18%, to 30.9% of net sales for the first quarter of 2010 from 28.9% of net sales for the comparable period in 2009. The increase in general and administrative expenses as a percentage of net sales was primarily due to incremental operating costs in support of our expanded direct to consumer businesses in the United States, the EMEA region and Canada, the transition of sales organizations in-house in the United States, EMEA region and Canada and the reinstatement of personnel and benefit programs curtailed or postponed in 2009. Depreciation and amortization included in SG&A expense totaled \$8.9 million for the first quarter of 2010, compared to \$8.0 million for the same period in 2009.

**Net Licensing Income:** We license our trademarks across a range of categories that complement our current product offerings. Net licensing income decreased \$1.2 million to \$0.7 million for the first quarter of 2010 from \$1.9 million for the same period in 2009. The decrease was primarily attributed to lower apparel and footwear net licensing income in the LAAP region and lower accessories and equipment net licensing

income in the United States, as we reduced the scope of our U.S. licensing business and began directly producing certain categories of formerly licensed products.

---

**Table of Contents**

**Interest Income, Net:** Net interest income was \$0.5 million for the first quarter of 2010 compared to \$0.9 million for the same period in 2009. The decrease in interest income was due to lower interest rates compared to the same period in 2009. Interest expense was nominal for the first quarter of 2010 and for the comparable period in 2009.

**Income Tax Expense:** The provision for income taxes decreased to \$3.8 million for the first quarter of 2010 from \$4.4 million for the comparable period in 2009. This decrease was due to a lower effective income tax rate for the first quarter of 2010 compared to the first quarter of 2009, partially offset by higher income before income taxes in 2010. Our effective income tax rate was 29.1% for the first quarter of 2010 compared to 39.0% for the same period in 2009. The decrease in our effective tax rate was primarily due to the benefit of anticipated foreign tax credits. Many factors could cause our annual effective tax rate to differ materially from our quarterly effective tax rates, including changes in the geographic mix of taxable income and discrete events in future periods.

**Net Income:** Net income increased \$2.3 million, or 33%, to \$9.2 million for the first quarter of 2010 from \$6.9 million for the comparable period in 2009. Diluted earnings per share was \$0.27 for the first quarter of 2010 compared to \$0.20 for the first quarter of 2009.

**Liquidity and Capital Resources**

Our primary ongoing funding requirements are for working capital, investing activities associated with the expansion of our global operations and general corporate needs. At March 31, 2010, we had total cash and cash equivalents of \$365.9 million compared to \$386.7 million at December 31, 2009. In addition, we had short-term investments of \$49.9 million at March 31, 2010 compared to \$22.8 million at December 31, 2009.

Net cash provided by operating activities was \$19.9 million for the three months ended March 31, 2010 compared to \$58.8 million for the same period in 2009. The change for the three months ended March 31, 2010 compared to the same period in 2009 was primarily due to a smaller decrease in accounts receivable and an increase in inventory in 2010 compared to a decrease in inventory in 2009, partially offset by a smaller decrease in accounts payable.

Net cash used in investing activities was \$33.2 million for the three months ended March 31, 2010 compared to \$10.3 million for the comparable period in 2009. For the 2010 period, net cash used in investing activities primarily consisted of \$27.2 million for purchases of short-term investments and \$9.1 million for capital expenditures, of which \$3.0 million was incurred but not yet paid. For the 2009 period, net cash used in investing activities primarily consisted of \$10.3 million for capital expenditures, of which \$5.2 million was incurred but not yet paid, and \$5.2 million for purchases of short-term investments.

Cash used in financing activities was \$9.2 million for the three months ended March 31, 2010 compared to \$5.6 million for the comparable period in 2009. For the 2010 period, net cash used in financing activities primarily consisted of a dividend payment of \$6.1 million and the repurchase of common stock at an aggregate price of \$3.8 million. For the 2009 period, net cash used in financing activities primarily consisted of a dividend payment of \$5.4 million.

To fund our domestic working capital requirements, we have available unsecured revolving lines of credit with aggregate seasonal limits ranging from \$50.0 million to \$125.0 million, of which \$25.0 million to \$100.0 million is committed. At March 31, 2010 and 2009, no balance was outstanding under these lines of credit and we were in compliance with all associated covenants. Internationally, our subsidiaries have local currency operating lines in place guaranteed by us with a combined limit of approximately \$102.1 million at March 31, 2010, of which \$3.4 million is designated as a European customs guarantee. At March 31, 2010 and 2009, no balance was outstanding under these lines of credit.

We expect to fund our future capital expenditures with existing cash, operating cash flows and credit facilities. If the need arises for additional expenditures, we may need to seek additional funding. Our ability to obtain additional financing will depend on many factors, including prevailing market conditions, our financial condition, and our ability to negotiate favorable terms and conditions. Financing may not be available on terms that are acceptable or favorable to us, if at all.

Our operations are affected by seasonal trends typical in the outdoor apparel industry, and have historically resulted in higher sales and profits in the third calendar quarter. This pattern has resulted primarily from the timing of shipments to wholesale customers for the fall season. We believe that our liquidity requirements for at least the next 12 months will be adequately covered by existing cash, cash provided by operations and existing short-term borrowing arrangements.

***Off-Balance Sheet Arrangements***

## Edgar Filing: COLUMBIA SPORTSWEAR CO - Form 10-Q

We have arrangements in place to facilitate the import and purchase of inventory through import letters of credit. We maintain unsecured and uncommitted import lines of credit with a combined limit of \$50.0 million at March 31, 2010, available for issuing documentary letters of credit. At March 31, 2010, we had outstanding letters of credit of \$4.7 million for purchase orders for inventory under this arrangement.

## **Table of Contents**

### **Critical Accounting Policies and Estimates**

Management's discussion and analysis of our financial condition and results of operations are based on our consolidated financial statements, which have been prepared in accordance with accounting principles generally accepted in the United States. The preparation of these financial statements requires us to make various estimates and judgments that affect reported amounts of assets, liabilities, sales, cost of sales and expenses and related disclosure of contingent assets and liabilities. We believe that the estimates, assumptions and judgments involved in the accounting policies described below have the greatest potential impact on our financial statements, so we consider these to be our critical accounting policies and estimates. Because of the uncertainty inherent in these matters, actual results could differ from the estimates we use in applying the critical accounting policies. We base our ongoing estimates on historical experience and other various assumptions that we believe to be reasonable under the circumstances. Many of these critical accounting policies affect working capital account balances, including the policy for revenue recognition, the allowance for uncollectible accounts receivable, the provision for potential excess, close-out and slow moving inventory, product warranty, income taxes and stock-based compensation.

Management regularly discusses with our audit committee each of our critical accounting estimates, the development and selection of these accounting estimates, and the disclosure about each estimate in Management's Discussion and Analysis of Financial Condition and Results of Operations. These discussions typically occur at our quarterly audit committee meetings and include the basis and methodology used in developing and selecting these estimates, the trends in and amounts of these estimates, specific matters affecting the amount of and changes in these estimates, and any other relevant matters related to these estimates, including significant issues concerning accounting principles and financial statement presentation.

There have been no significant changes to our critical accounting policies as described in our Annual Report on Form 10-K for the year ended December 31, 2009.

### **Recent Accounting Pronouncements**

See Recent Accounting Pronouncements in Note 1 to the notes to the consolidated financial statements.

**Table of Contents**

**Item 3 *QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK***

There has not been any material change in the market risk disclosure contained in our Annual Report on Form 10-K for the year ended December 31, 2009.

**Item 4 *CONTROLS AND PROCEDURES***

Our management has evaluated, under the supervision and with the participation of our chief executive officer and chief financial officer, the effectiveness of our disclosure controls and procedures as of the end of the period covered by this report pursuant to Rule 13a-15(b) under the Securities Exchange Act of 1934 (the Exchange Act ). Based on that evaluation, our chief executive officer and chief financial officer have concluded that, as of the end of the period covered by this report, 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.

There has been no change in our internal control over financial reporting that occurred during our fiscal quarter ended March 31, 2010 that has materially affected, or is reasonably likely to materially affect, our internal control over financial reporting.

## **Table of Contents**

### **PART II. OTHER INFORMATION**

#### **Item 1. LEGAL PROCEEDINGS**

None.

#### **Item 1A. RISK FACTORS**

In addition to the other information contained in this Form 10-Q, the following risk factors should be considered carefully in evaluating our business. Our business, financial condition, or results of operations may be materially adversely affected by any of these risks. Please note that additional risks not presently known to us or that we currently deem immaterial may also impair our business and operations. These risk factors include any material changes to and supersede the description of the risk factors associated with our business previously disclosed in Part I, Item 1A of our Annual Report on Form 10-K for the fiscal year ended December 31, 2009.

#### **Our Success Depends on Our Business Strategies**

Our business strategies are to achieve sustainable, profitable growth by creating innovative products, elevating consumer perception of our brands, increasing consumer and retailer awareness and demand for our products, creating compelling retail environments, and building stronger emotional brand connections with consumers over time. We intend to pursue these strategies across extended product categories and in a growing number of geographic markets. We face many challenges in implementing our business strategies. For example, expansion of our direct-to-consumer business has required significant investments, yet, in the current unpredictable macro-economic environment, this expansion may not have the desired effect of increasing demand for our products. Our ability to expand our global footwear business and European business may also be significantly limited as a result of global economic conditions and a general weakness in global consumer demand. The success of our retail and e-commerce initiatives depends on our ability to adapt our internal processes to facilitate direct-to-consumer sales, to effectively manage retail store and e-commerce inventory, to hire, retain and train personnel capable of managing retail and e-commerce operations, to identify and negotiate favorable terms for retail locations, to effectively manage construction, opening, and ongoing operations of stores globally and to manage the operation of our e-commerce platform effectively. The failure to implement our business strategies successfully could have a material adverse effect on our financial condition, results of operations or cash flows.

Our business strategies and related increased expenditures could also cause our operating margin to decline if we are unable to offset our increased spending with increased sales or gross margins, or comparable reductions in other operating costs. If our sales decline or fail to grow as planned and we fail to sufficiently reduce our operating expenses, our profitability will decline. This could result in a decision to delay, reduce, modify or terminate our strategic business initiatives, which could have a material adverse effect on our financial condition, results of operations or cash flows.

We continue to expand into international markets where we have little sales or distribution experience and where our brands are not yet widely known. Expanding into new markets involves, among other things, gaining consumer acceptance and establishing and protecting intellectual property rights. Attracting superior retail channel partners and improving the sales productivity of our customers each depend on various factors, including the strength of our brand names, our ability to design and source innovative products, competitive conditions, the availability of desirable locations and the negotiation of terms with customers. Future terms with customers may be less favorable to us than those under which we now operate. Large wholesale customers in particular increasingly seek to transfer various costs of business to their vendors, such as the cost of lost profits from promotional activity and product price markdowns, which could cause our gross margins to decline if we are unable to offset price reductions with comparable reductions in operating costs.

To implement our business strategy, we must continue to modify various aspects of our business, to maintain and enhance our information systems and operations to respond to increased demand and to attract, retain and manage qualified personnel. Changes in our business may place an increasing strain on management, financial, product design, marketing, distribution and other resources, and we may have operating difficulties as a result. For example, in support of our strategic initiatives, we plan to make significant investments to information technology infrastructure that will require significant management attention and corporate resources. These business initiatives involve many risks and uncertainties that, if not managed effectively, may have a material adverse effect on our financial condition, results of operations or cash flows.

#### **We May be Adversely Affected by Volatile Economic Conditions**

## Edgar Filing: COLUMBIA SPORTSWEAR CO - Form 10-Q

We are a consumer products company and are highly dependent on consumer discretionary spending patterns and the purchasing patterns of our wholesale customers as they attempt to match their seasonal purchase volumes to volatile consumer

## **Table of Contents**

demand. In addition, as we have expanded our base of retail stores, we have increased our direct exposure to the risks associated with volatile and unpredictable consumer discretionary spending patterns. As global economic conditions continue to be volatile or economic uncertainty remains, trends in consumer discretionary spending also become unpredictable and subject to reductions due to uncertainties about the future and credit constraints. Consumer demand for our products may not reach our sales targets, or may decline, when there is an economic downturn or economic uncertainty in our key markets, particularly markets in North America and our EMEA region. Our sensitivity to economic cycles and any related fluctuation in consumer demand may have a material adverse effect on our financial condition, results of operations or cash flows.

### **We May be Adversely Affected by Volatility in Global Production Costs**

Our product costs are subject to substantial fluctuation based on changes in labor markets in certain Asian countries, particularly China and Vietnam, interest rates, currency exchange rates, global oil markets, availability of a skilled workforce and production capacity at independent factories, and general economic conditions. For example, volatility in global oil markets has resulted in fluctuating fuel and product prices and caused costs to produce our products through independent contractors to change, sometimes significantly. Since the majority of our products are manufactured outside of our principal sales markets, our products must be transported by third parties over large geographical distances and volatile fuel costs can result in rapidly changing transportation costs. Because we price our products in advance and the external cost changes may be difficult to predict, we may not be able to adjust our pricing structure in a timely manner in order to remain competitive, which could have a material adverse effect on our financial condition, results of operations or cash flows.

### **We May be Adversely Affected by the Financial Health of our Customers**

Sluggish economies and consumer uncertainty regarding future economic prospects in our key markets have had an adverse effect on the financial health of our customers, some of whom have filed or may file for protection under bankruptcy laws, which may in turn have a material adverse effect on our results of operations and financial condition. We extend credit to our customers based on an assessment of the customer's financial condition, generally without requiring collateral. To assist in the scheduling of production and the shipping of seasonal products, we offer customers discounts for placing advance orders and extended payment terms for taking delivery before the peak shipping season. These extended payment terms increase our exposure to the risk of uncollectible receivables. In addition, we face increased risk of order reduction or cancellation or reduced availability of credit insurance coverage when dealing with financially ailing retailers or retailers struggling with economic uncertainty. Some of our significant wholesale customers have liquidated or reorganized, while others have had financial difficulties in the past and have recently experienced tightened credit markets and sales declines and reduced profitability on a comparable store basis, which in turn has an adverse effect on our business. We may reduce our level of business with customers experiencing financial difficulties and may not be able to replace that business with other customers, which could have a material adverse effect on our financial position, results of operations or cash flows.

### **We May be Adversely Affected by Global Credit Market Conditions**

Economic downturns and economic uncertainty generally affect global credit markets. Our vendors, customers and other participants in our supply chain may require access to credit markets in order to do business. Credit market conditions may slow our collection efforts as customers find it more difficult to obtain necessary financing, leading to higher than normal accounts receivable. This could result in greater expense associated with collection efforts and increased bad debt expense. Credit conditions may impair our vendors' ability to finance the purchase of raw materials or general working capital needs to support our production requirements, resulting in a delay or non-receipt of inventory shipments during key seasons.

Historically we have limited our reliance on long-term debt to finance our working capital, capital expenditures and investing activity requirements. We expect to fund our future capital expenditures with existing cash, expected operating cash flows and credit facilities, but if the need arises to finance additional expenditures, we may need to seek additional funding. Our ability to obtain additional financing will depend on many factors, including prevailing market conditions, our financial condition, and our ability to negotiate favorable terms and conditions. Financing may not be available on terms that are acceptable or favorable to us, if at all.

### **Our Results of Operations Could be Materially Harmed If We Are Unable to Accurately Forecast Demand for Our Products**

Many factors may significantly affect demand for our products, including, among other things, economic conditions, fashion trends, consumer preferences and weather, making it difficult to accurately forecast demand for our products and our future results of operations. To minimize our purchasing costs, the time necessary to fill customer orders and the risk of non-delivery, we place some orders for our products with independent factories prior to receiving all of our customers' orders and we maintain an inventory of various products that we anticipate will be in greater demand. In addition, customers are generally allowed to cancel orders prior to shipment with sufficient notice. During periods of weak economic conditions we may experience a significant increase in the volume



## **Table of Contents**

of order cancellations by our customers, including cancellations resulting from the bankruptcy, liquidation or contraction of certain customers operations. In this weak economic period, we may not be able to sell all of the products we have ordered from independent factories or that we have in our inventory. Inventory levels in excess of customer demand may result in inventory write-downs and the sale of excess inventory at discounted prices through discount retail channels, which could have a material adverse effect on our brand image, financial condition, results of operations or cash flows. For certain demand planning functions, we rely on manual processes and judgment that are difficult to control and are subject to human error.

Conversely, if we underestimate demand for our products or if our independent factories are unable to supply products when we need them, we may experience inventory shortages. Inventory shortages might prevent us from fulfilling customer orders, delay shipments to customers, negatively affect customer relationships, and diminish our ability to build brand loyalty. Shipments delayed due to limited factory capacity could result in order cancellations by our customers, which could have a material adverse effect on our financial condition, results of operations or cash flows.

### **We May be Adversely Affected by Weather Conditions**

Our business is adversely affected by unseasonable weather conditions. A significant portion of the sales of our sportswear, outerwear, footwear, accessories and equipment is dependent in part on the weather and may decline in years in which weather conditions do not favor the use of these products. Periods of unseasonably warm weather in the fall or winter or unseasonably cold or wet weather in the spring and summer may have a material adverse effect on our financial condition, results of operations or cash flows. For example, in spring 2008, unseasonably cool weather in the United States caused customers to delay, and in some cases reduce or cancel, orders for our sportswear and footwear, which had an adverse effect on our net sales and profitability. Inventory accumulation by our wholesale customers resulting from unseasonable weather in one season may negatively affect orders in future seasons, which may have a material adverse effect on our financial condition, results of operations or cash flows in future periods.

### **Our International Operations Involve Many Risks**

We are subject to the risks generally associated with doing business abroad. These risks include the effects of foreign laws and regulations, changes in consumer preferences, foreign currency fluctuations, political unrest, terrorist acts, military operations, disruptions or delays in shipments, disease outbreaks and changes in economic conditions in countries in which we manufacture or sell products. These factors, among others, may affect our ability to sell products in international markets, our ability to manufacture products or procure materials, and our cost of doing business. If any of these or other factors make the conduct of business in a particular country undesirable or impractical, our business may be materially and adversely affected. As we expand our operations in geographic scope and product categories, we anticipate intellectual property disputes will increase as well, making it more expensive and challenging to establish and protect our intellectual property rights and to defend against claims of infringement by others.

As a global company, we determine our income tax liability in various competing tax jurisdictions based on a careful analysis and interpretation of local tax laws and regulations. This analysis requires a significant amount of judgment and estimation and is often based on various assumptions about the future actions of the local tax authorities. These determinations are the subject of periodic domestic and foreign tax audits. Although we accrue for uncertain tax positions, our accrual may be insufficient to satisfy unfavorable findings, which by their nature cannot be predicted with certainty. Unfavorable audit findings and tax rulings may result in payment of taxes, fines and penalties for prior periods and higher tax rates in future periods, which may have a material adverse effect on our financial condition, results of operations or cash flows. Changes in tax law or our interpretation of tax laws and the resolution of current and future tax audits could significantly affect the amounts provided for income taxes in our consolidated financial statements.

In addition, many of our imported products are subject to duties, tariffs or quotas that affect the cost and quantity of various types of goods imported into the United States or into our other sales markets. Any country in which our products are produced or sold may eliminate, adjust or impose new quotas, duties, tariffs, anti-dumping penalties or other charges or restrictions, any of which could have a material adverse effect on our financial condition, results of operations or cash flows.

### **We Operate in Very Competitive Markets**

The markets for sportswear, outerwear, footwear, accessories and equipment are highly competitive, as are the markets for our licensed products. In each of our geographic markets, we face significant competition from global and regional branded apparel, footwear, accessories and equipment companies.

## Edgar Filing: COLUMBIA SPORTSWEAR CO - Form 10-Q

Retailers who are our customers often pose our most significant competitive threat by marketing apparel, footwear and equipment under their own private labels. For example, in the United States, several of our largest customers have developed

## **Table of Contents**

significant private label brands during the past decade that compete directly with our products. These retailers have assumed an increasing degree of inventory risk in their private label products and, as a result, may first cancel advance orders with us in order to manage their own inventory levels downward during weak economic cycles.

We also compete with other companies for the production capacity of independent factories that produce our products and for import quota capacity. Many of our competitors are significantly larger than us, have substantially greater financial, distribution, marketing and other resources than we have, and have achieved greater brand strength than we have.

Increased competition may result in reduced access to production capacity, reductions in display areas in retail locations, reductions in sales, or reductions in our profit margins, any of which may have a material adverse effect on our financial condition, results of operations or cash flows.

### **We May be Adversely Affected by Retailer Consolidation**

When our wholesale customers combine their operations through mergers, acquisitions, or other transactions, their consolidated order volume may decrease while their bargaining power and the competitive threat they pose by marketing products under their own private labels may increase. Some of our significant customers have consolidated their operations in the past, which in turn has had a negative effect on our business. Future retailer consolidations could have a material adverse effect on our financial condition, results of operations or cash flows.

### **We Face Risks Associated with Consumer Preferences and Fashion Trends**

Changes in consumer preferences or consumer interest in outdoor activities may have a material adverse effect on our business. In addition, changes in fashion trends may have a greater impact than in the past as we expand our offerings to include more product categories in more geographic areas. We also face risks because our business requires us and our customers to anticipate consumer preferences. Our decisions about product designs often are made far in advance of consumer acceptance. Although we try to manage our inventory risk through early order commitments by retailers, we must generally place a significant portion of our seasonal production orders with our independent factories before we have received all of a season's orders, and orders may be cancelled by customers before shipment. If we or our customers fail to anticipate and respond to consumer preferences, we may have lower sales, excess inventories and lower profit margins, any of which could have a material adverse effect on our financial condition, results of operations or cash flows.

### **Our Success Depends on Our Use and Protection of Intellectual Property Rights**

Our registered and common law trademarks have significant value and are important to our ability to create and sustain demand for our products. We also place significant value on our trade dress, the overall appearance and image of our products. From time to time, we discover products that are counterfeit reproductions of our products or that otherwise infringe on our proprietary rights. Counterfeiting activities typically increase as brand recognition increases, especially in markets outside the United States. Increased instances of counterfeit manufacture and sales may adversely affect our sales and our brand and result in a shift of consumer preference away from our products. The actions we take to establish and protect trademarks and other proprietary rights may not be adequate to prevent imitation of our products by others or to prevent others from seeking to block sales of our products as violations of proprietary rights. In markets outside of the United States, it may be more difficult for us to establish our proprietary rights and to successfully challenge use of those rights by other parties. We also license our proprietary rights to third parties. Failure to choose appropriate licensees and licensed product categories may dilute or harm our brand image. Actions or decisions in the management of our intellectual property portfolio may affect the strength of the brand, which may in turn have a material adverse effect on our financial condition, results of operations or cash flows.

Although we have not been materially inhibited from selling products in connection with patent, trademark and trade dress disputes, as we focus on innovation in our product lines, extend our brand into new product categories and expand the geographic scope of our marketing, we may become subject to litigation based on allegations of the infringement of intellectual property rights of third parties including third party trademark, copyright and patent rights. An increasing number of our products include technologies and/or designs for which we have obtained or applied for patent protection. Failure to successfully obtain and maintain patents on these innovations could negatively affect our ability to market and sell our products. Future litigation also may be necessary to defend against such claims or to enforce and protect our intellectual property rights. Any intellectual property litigation may be costly and may divert management's attention from the operation of our business. Adverse determinations in any litigation may result in the loss of our proprietary rights, subject us to significant liabilities or require us to seek licenses from third parties, which may not be available on commercially reasonable terms, if at all. This may have a material adverse effect on our financial condition, results of operations or cash flows.



## **Table of Contents**

### **Our Success Depends on Our Distribution Facilities**

Our ability to meet customer expectations, manage inventory, complete sales and achieve objectives for operating efficiencies depends on the proper operation of our existing distribution facilities, the development or expansion of additional distribution capabilities and the timely performance of services by third parties, including those involved in shipping product to and from our distribution facilities. In the United States, we rely primarily on our distribution centers in Portland, Oregon and Robards, Kentucky; in Canada, we rely primarily on our distribution facilities in Strathroy, Ontario; and in Europe, we rely primarily on our distribution center in Cambrai, France.

Our distribution facilities in the United States and France are highly automated, which means that their operations are complicated and may be subject to a number of risks related to computer viruses, the proper operation of software and hardware, electronic or power interruptions, and other system failures. Risks associated with upgrading or expanding these facilities may significantly disrupt or increase the cost of our operations. For example, in addition to supporting our traditional wholesale business, our existing distribution facilities have been modified to enable them to also support our new e-commerce sales. Failure to successfully maintain and update these modifications could disrupt our wholesale and e-commerce shipments and may have a material adverse effect on our financial condition, results of operations or cash flows.

Our current distribution facilities are designed to handle significantly greater volumes of product shipments than our business is currently generating, especially our European distribution center in Cambrai, France. The fixed costs associated with owning, operating and maintaining these large, highly-automated distribution centers during a period of economic weakness and declining sales could result in lower operating efficiencies and financial deleverage. This fixed cost structure may make it difficult for us to maintain profitability if sales volumes continue to decline for an extended period of time and could have a material adverse effect on our financial condition, results of operations or cash flows.

Our distribution facilities may also be interrupted by disasters, such as earthquakes (which are known to occur in the Northwestern United States) or fires. We maintain business interruption insurance, but it may not adequately protect us from the adverse effect that may be caused by significant disruptions in our distribution facilities.

### **We Rely on Our Highly-customized Information Management Systems**

Our business is increasingly reliant on information technology. Information systems are used across our supply chain and retail operations, from design to distribution and sales, and are used as a method of communication between employees, with our subsidiaries and liaison offices overseas, as well as with our customers and retail stores. We also rely on our information systems to allocate resources, develop demand plans and forecast operating results. System failures, breaches of confidential information, or service interruptions may occur as the result of a number of factors, including computer viruses, programming errors, hacking or other unlawful activities by third parties, disasters, or our failure to properly maintain systems redundancy, or to protect, repair, maintain, or upgrade our systems. Any breach or interruption of critical business information systems could have a material adverse effect on our financial condition, results of operations or cash flows.

Our primary enterprise resource planning system is highly customized to our business. As a result, the availability of internal and external resources with the expertise to maintain our enterprise resource planning system is limited. We may experience difficulties if we transition to new or upgraded systems, including loss of data and decreases in productivity as our personnel become familiar with new systems. In addition, transitioning to new or upgraded systems could require significant capital investments. Difficulties in implementing new or upgraded information systems or significant system failures could disrupt our operations and have a material adverse effect on our financial condition, results of operations or cash flows.

As we implement our direct-to-consumer initiatives and plan for future growth, our customized enterprise resource planning system may inhibit our ability to operate efficiently, which could have an adverse effect on our results of operations. For example, our enterprise resource planning system may not be compatible with other systems to support desired functionality for our operations.

### **We May be Adversely Affected by Currency Exchange Rate Fluctuations**

Although the majority of our product purchases are denominated in U.S. dollars, the cost of these products may be affected by the relative changes in the value of the local currency of the manufacturer. Price increases caused by currency exchange rate fluctuations may make our products less competitive or have an adverse effect on our margins. Our international revenues and expenses generally are derived from sales and operations in currencies other than the U.S. dollar. Because the primary currency of many of our subsidiaries is not the U.S. dollar, we are exposed to potentially material gains or losses from the remeasurement of monetary transactions into the U.S. dollar. Currency exchange rate fluctuations may also disrupt the business of the independent factories that produce our products by making their purchases of raw materials more expensive and more difficult to finance. As a result, currency fluctuations may have a material adverse effect on our financial condition, results of operations or cash flows.



## **Table of Contents**

### **Our Investments May be Adversely Affected by Market Conditions**

Our investment portfolio is subject to a number of risks and uncertainties. Changes in market conditions, such as those that accompany an economic downturn or economic uncertainty, may negatively affect the value and liquidity of our investment portfolio, perhaps significantly. Our ability to find diversified investments that are both safe and liquid and that provide a reasonable return may be impaired, resulting in lower interest income, less diversification, longer investment maturities and/or higher other-than-temporary impairments.

### **We May be Adversely Affected by Labor Disruptions**

Our business depends on our ability to source and distribute products in a timely manner. Labor disputes at independent factories where our goods are produced, shipping ports, transportation carriers, retail stores or distribution centers create significant risks for our business, particularly if these disputes result in work slowdowns, lockouts, strikes, or other disruptions during our peak manufacturing and importing seasons, and may have a material adverse effect on our business, potentially resulting in cancelled orders by customers, unanticipated inventory accumulation, and reduced revenues and earnings.

### **We Depend on Independent Factories**

Our products are produced by independent factories worldwide. We do not operate or own any production facilities. Although we enter into purchase order commitments with these independent factories each season, we generally do not maintain long-term manufacturing commitments with them. Because of these factors, independent factories may fail to perform as expected or our competitors may obtain production or quota capacities that effectively limit or eliminate the availability of these resources to us. If an independent manufacturer fails to ship orders in a timely manner or to meet our standards or if we are unable to obtain necessary production or quota capacities, we may miss delivery deadlines or incur additional costs, which may result in cancellation of orders, refusal to accept deliveries, a reduction in purchase prices, or increased costs, any of which could have a material adverse effect on our financial condition, results of operations or cash flows.

Reliance on independent factories also creates quality control risks. A failure in our quality control program may result in diminished product quality, which may result in increased order cancellations and returns, decreased consumer demand for our products, or product recalls, any of which could have a material adverse effect on our financial condition, results of operations or cash flows.

Finally, if an independent manufacturer violates labor or other laws, or engages in practices that are not generally accepted as ethical in our key markets, we may be subject to significant negative publicity that could result in long-term damage to our brand image, consumer demand for our products may decrease, and under some circumstances we may be subject to liability for the independent manufacturer's practices, any of which may have a material adverse effect on our financial condition, results of operations or cash flows.

### **We Depend on Key Suppliers**

Some of the materials that we use may be available from only one source or a very limited number of sources. For example, some specialty fabrics are manufactured to our specification by one source or a few sources, and zippers are supplied by one manufacturer. From time to time, we have difficulty satisfying our raw material and finished goods requirements. Although we believe that we can identify and qualify additional independent factories to produce these materials as necessary, there are no guarantees that additional independent factories will be available. In addition, depending on the timing, any changes may result in increased costs or production delays, which may have a material adverse effect on our financial condition, results of operations or cash flows.

### **We Depend on Key Personnel**

Our future success will depend in part on the continued service of key personnel and our ability to attract and retain key managers, designers, sales people and others. We face intense competition for these individuals worldwide, and there is a significant concentration of well-funded apparel and footwear competitors in and around Portland, Oregon. We may not be able to attract qualified new employees or retain existing employees, which may have a material adverse effect on our financial condition, results of operations or cash flows.

## **Table of Contents**

### **Our Business Is Affected by Seasonality**

Our business is affected by the general seasonal trends common to the outdoor apparel industry. Our products are marketed on a seasonal basis and our product mix is weighted substantially toward the fall season, resulting in sales and profits being highest in the third calendar quarter. We expect the expansion of our retail operations to have a modest effect on the seasonality of our business, increasing the proportion of sales and profits that we generate in the fourth calendar quarter. This seasonality, along with other factors that are beyond our control and that are discussed elsewhere in this section, may adversely affect our business and cause our results of operations to fluctuate. Results of operations in any period should not be considered indicative of the results to be expected for any future period.

### **Our Products Are Subject to Increasing Product Regulations and We Face Risks of Product Liability and Warranty Claims**

Our products are subject to increasingly stringent and complex domestic and foreign product labeling and performance and safety standards, laws and other regulations. These requirements could result in greater expense associated with compliance efforts, and failure to comply with these regulations could result in a delay, non-delivery or mandated recall or destruction of inventory shipments during key seasons or in other financial penalties. Significant or continuing noncompliance with these standards and laws could harm our reputation and, as a result, could have a material adverse effect on our financial condition, results of operations or cash flows.

Our products are used in outdoor activities, sometimes in severe conditions. Product recalls or product liability claims in the future, resulting from the alleged failure of our products, could have a material adverse effect on our financial condition, results of operations or cash flows. Some of our products carry warranties for defects in quality and workmanship. We maintain a warranty reserve for future warranty claims, but the actual costs of servicing future warranty claims may exceed the reserve, which may also have a material adverse effect on our financial condition, results of operations or cash flows.

### **Our Common Stock Price May Be Volatile**

The price of our common stock has fluctuated substantially since our initial public offering. Our common stock is traded on the NASDAQ Global Select Market, which is likely to continue to have significant price and volume fluctuations that may adversely affect the market price of our common stock without regard to our operating performance. Factors such as general market conditions, fluctuations in financial results, variances from financial market expectations, changes in earnings estimates by analysts, or announcements by us or our competitors may also cause the market price of our common stock to fluctuate, perhaps substantially.

### **Insiders Control a Majority of Our Common Stock and May Sell Shares**

Three related shareholders, Timothy Boyle, Gertrude Boyle and Sarah Bany, beneficially own a majority of our common stock. As a result, if acting together, they can effectively control matters requiring shareholder approval without the cooperation of other shareholders. Shares held by these three insiders are available for resale, subject to the requirements of, and the rules under, the Securities Act of 1933 and the Securities Exchange Act of 1934. The sale or the prospect of the sale of a substantial number of these shares may have an adverse effect on the market price of our common stock.

**Table of Contents****Item 2 UNREGISTERED SALES OF EQUITY SECURITIES AND USE OF PROCEEDS****Issuer Purchases of Equity Securities**

<b>Period</b>	<b>Total Number of Shares Purchased</b>	<b>Average Price Paid per Share</b>	<b>Total Number of Shares Purchased as Part of Publicly Announced Plans or Programs <sup>(1)</sup></b>	<b>Approximate Dollar Value of Shares that May Yet Be Purchased Under the Plans or Programs</b>
January 1, 2010 through January 31, 2010				\$ 92,601,000
February 1, 2010 through February 28, 2010	89,464	\$ 42.90	89,464	88,763,000
March 1, 2010 through March 31, 2010				88,763,000
<b>Total</b>	<b>89,464</b>	<b>\$ 42.90</b>	<b>89,464</b>	<b>\$ 88,763,000</b>

- <sup>(1)</sup> Since the inception of the Company's stock repurchase plan in April 2004 through March 31, 2010, the Company's Board of Directors has authorized the repurchase of \$500,000,000 of the Company's common stock. As of March 31, 2010, the Company had repurchased 8,987,421 shares under this program at an aggregate purchase price of approximately \$411,237,000. Shares of the Company's common stock may be purchased in the open market or through privately negotiated transactions, subject to market conditions. The repurchase program does not obligate the Company to acquire any specific number of shares or to acquire shares over any specified period of time.

**Table of Contents**

**Item 6 EXHIBITS**

(a) Exhibits

- 10.1 Form of Performance-based Restricted Stock Unit Award Agreement for performance-based restricted stock units granted on or after March 29, 2010.
- 31.1 Rule 13a-14(a) Certification of Timothy P. Boyle, President and Chief Executive Officer
- 31.2 Rule 13a-14(a) Certification of Thomas B. Cusick, Senior Vice President, Chief Financial Officer and Treasurer
- 32.1 Section 1350 Certification of Timothy P. Boyle, President and Chief Executive Officer
- 32.2 Section 1350 Certification of Thomas B. Cusick, Senior Vice President, Chief Financial Officer and Treasurer

**Table of Contents**

**SIGNATURE**

Pursuant to the requirements 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.

**COLUMBIA SPORTSWEAR COMPANY**

Date: May 7, 2010

/s/ THOMAS B. CUSICK

Thomas B. Cusick

Senior Vice President, Chief Financial Officer

and Treasurer