

COLUMBIA SPORTSWEAR CO

Form 10-Q

November 06, 2009

[Table of Contents](#)

UNITED STATES
SECURITIES AND EXCHANGE COMMISSION

Washington, DC 20549

FORM 10-Q

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

For the quarterly period ended September 30, 2009

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 October 23, 2009 was 33,796,633.

Table of Contents

COLUMBIA SPORTSWEAR COMPANY

September 30, 2009

INDEX TO FORM 10-Q

	PAGE NO.
<u>PART I. FINANCIAL INFORMATION</u>	
<u>Item 1 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
<u>Item 2 Management's Discussion and Analysis of Financial Condition and Results of Operations</u>	15
<u>Item 3 Quantitative and Qualitative Disclosures About Market Risk</u>	25
<u>Item 4 Controls and Procedures</u>	25
<u>PART II. OTHER INFORMATION</u>	
<u>Item 1 Legal Proceedings</u>	26
<u>Item 1A Risk Factors</u>	26
<u>Item 2 Unregistered Sales of Equity Securities and Use of Proceeds</u>	33
<u>Item 6 Exhibits</u>	33
<u>Signature</u>	34

Table of Contents**PART I. FINANCIAL INFORMATION****Item 1 FINANCIAL STATEMENTS**

COLUMBIA SPORTSWEAR COMPANY
CONDENSED CONSOLIDATED BALANCE SHEETS

(In thousands)

(Unaudited)

	September 30, 2009	December 31, 2008
ASSETS		
Current Assets:		
Cash and cash equivalents	\$ 192,879	\$ 230,617
Short-term investments	17,637	22,433
Accounts receivable, net of allowance of \$10,272 and \$9,542, respectively	319,548	299,585
Inventories, net (Note 2)	301,477	256,312
Deferred income taxes	31,434	33,867
Prepaid expenses and other current assets	31,483	29,705
Total current assets	894,458	872,519
Property, plant and equipment, net of accumulated depreciation of \$216,652 and \$190,906, respectively	237,550	229,693
Intangibles and other non-current assets (Note 3)	39,650	33,365
Goodwill (Note 3)	12,659	12,659
Total assets	\$ 1,184,317	\$ 1,148,236
LIABILITIES AND SHAREHOLDERS EQUITY		
Current Liabilities:		
Accounts payable	\$ 79,397	\$ 104,354
Accrued liabilities	73,701	58,085
Income taxes payable	9,974	8,718
Deferred income taxes	2,737	1,969
Other current liabilities	8	63
Total current liabilities	165,817	173,189
Income taxes payable	19,270	20,412
Deferred income taxes	4,451	
Other long-term liabilities	14,095	10,545
Total liabilities	203,633	204,146
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; 33,791 and 33,865 issued and outstanding (Note 6)	623	1,481
Retained earnings	936,944	909,443
Accumulated other comprehensive income (Note 5)	43,117	33,166

Edgar Filing: COLUMBIA SPORTSWEAR CO - Form 10-Q

Total shareholders' equity	980,684	944,090
Total liabilities and shareholders' equity	\$ 1,184,317	\$ 1,148,236

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)**

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2009	2008	2009	2008
Net sales	\$ 434,473	\$ 452,415	\$ 885,707	\$ 962,925
Cost of sales	245,874	250,362	512,306	544,552
Gross profit	188,599	202,053	373,401	418,373
Selling, general, and administrative expenses	124,184	120,824	318,439	315,992
Net licensing income	1,322	1,899	5,283	3,903
Income from operations	65,737	83,128	60,245	106,284
Interest income, net	319	1,801	1,799	6,390
Income before income tax	66,056	84,929	62,044	112,674
Income tax expense	(19,141)	(26,600)	(18,109)	(36,184)
Net income	\$ 46,915	\$ 58,329	\$ 43,935	\$ 76,490
Earnings per share:				
Basic	\$ 1.39	\$ 1.70	\$ 1.30	\$ 2.19
Diluted	1.38	1.69	1.29	2.19
Cash dividends per share	\$ 0.16	\$ 0.16	\$ 0.48	\$ 0.48
Weighted average shares outstanding (Note 6):				
Basic	33,850	34,411	33,875	34,856
Diluted	33,993	34,518	33,993	34,963

See accompanying notes to condensed consolidated financial statements.

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

	Nine Months Ended September 30,	
	2009	2008
Cash flows from operating activities:		
Net income	\$ 43,935	\$ 76,490
Adjustments to reconcile net income to net cash provided by operating activities:		
Depreciation and amortization	25,901	23,298
Loss on disposal of property, plant, and equipment	156	210
Deferred income taxes	4,070	(3,220)
Stock-based compensation	4,899	4,902
Excess tax benefit from employee stock plans	(20)	(37)
Changes in operating assets and liabilities:		
Accounts receivable	(15,070)	(70,355)
Inventories	(39,608)	(40,756)
Prepaid expenses and other current assets	(1,009)	(9,137)
Intangibles and other assets	(1,862)	50
Accounts payable	(37,532)	(12,969)
Accrued liabilities	11,969	13,353
Income taxes payable	813	17,181
Other liabilities	3,440	6,479
Net cash provided by operating activities	82	5,489
Cash flows from investing activities:		
Purchases of short-term investments	(20,228)	(52,337)
Sales of short-term investments	25,163	131,565
Capital expenditures	(24,681)	(32,860)
Proceeds from sale of property, plant, and equipment	9	36
Net cash provided by (used in) investing activities	(19,737)	46,404
Cash flows from financing activities:		
Proceeds from notes payable	51,768	20,791
Repayments on notes payable	(51,768)	(20,791)
Repayment of long-term debt and other liabilities	(4)	(17)
Proceeds from issuance of common stock	369	3,541
Excess tax benefit from employee stock plans	20	37
Repurchase of common stock	(5,481)	(79,623)
Cash dividends paid	(16,259)	(16,681)
Net cash used in financing activities	(21,355)	(92,743)
Net effect of exchange rate changes on cash	3,272	(8,145)

Edgar Filing: COLUMBIA SPORTSWEAR CO - Form 10-Q

Net decrease in cash and cash equivalents	(37,738)	(48,995)
Cash and cash equivalents, beginning of period	230,617	191,950
Cash and cash equivalents, end of period	\$ 192,879	\$ 142,955

Supplemental disclosures of cash flow information:

Cash paid during the period for interest, net of capitalized interest	\$ 29	\$ 31
Cash paid during the period for income taxes	13,037	22,058

Supplemental disclosures of non-cash investing activities:	\$ 5,166	\$ 7,539
---	----------	----------

Capital expenditures incurred but not yet paid

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 September 30, 2009, the results of operations for the three and nine months ended September 30, 2009 and 2008 and cash flows for the nine months ended September 30, 2009 and 2008. A significant part of the Company's business is of a seasonal nature; therefore, the results of operations for the three and nine months ended September 30, 2009 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 (SEC). 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. Further, the Company has evaluated subsequent events through November 6, 2009, which was the date this Form 10-Q was filed with the SEC. 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, 2008.

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, product warranty, intangible assets and income taxes.

Reclassifications:

Certain immaterial reclassifications of amounts reported in the prior period financial statements have been made to conform to classifications used in the current period financial statements.

Concentration of credit risk:

Trade Receivables

No single customer accounted for greater than or equal to 10% of consolidated accounts receivable at September 30, 2009. At December 31, 2008, the Company had one customer in its Europe, Middle East and Africa (EMEA) segment and one customer in its Canadian segment that accounted for approximately 13.5% and 10.2% of consolidated accounts receivable, respectively. No single customer accounted for greater than or equal to 10% of consolidated net sales for the three or nine months ended September 30, 2009 or 2008.

Cash and Investments

At September 30, 2009, approximately 80% of the Company's cash and cash equivalents were concentrated in domestic and international money market mutual funds. Substantially all 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.

Edgar Filing: COLUMBIA SPORTSWEAR CO - Form 10-Q

All the Company's remaining cash and cash equivalents and short-term investments were deposited with various institutions in the Company's primary operating geographies. All institutions were rated investment grade by both S&P and Moody's and most were rated AA- / Aa1 or better.

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

The Company uses derivative instruments primarily to hedge the exchange rate risk of anticipated transactions denominated in non-functional currencies. At September 30, 2009, no contract had a remaining maturity longer than one year. All the counterparties to these transactions had a S&P / Moody's short-term credit rating of A-2 / P-2 or better. The net exposure to any single counterparty, which is generally limited to the aggregate unrealized gain of all contracts with that counterparty, was less than \$1,000,000 at September 30, 2009. 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, and include investments with maturities of three months or less at the date of acquisition. Cash and cash equivalents consisted of money market funds and bank deposits.

Investments:

At September 30, 2009 and December 31, 2008, short-term investments consisted of shares in a short-term bond fund available for use in current operations and time deposits with 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 September 30, 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 as the related deferred compensation liabilities are not expected to be paid 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 \$751,000 at September 30, 2009, including unrealized gains of \$112,000. There were no long-term investments at December 31, 2008.

Property, plant and equipment:

Property, plant and equipment are stated at cost, net of accumulated depreciation. Depreciation is provided 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 and nine months ended September 30, 2009 and 2008 is as follows (in thousands):

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2009	2008	2009	2008
Balance at beginning of period	\$ 9,686	\$ 10,946	\$ 9,746	\$ 10,862
Charged to costs and expenses	727	520	2,311	2,608

Edgar Filing: COLUMBIA SPORTSWEAR CO - Form 10-Q

Claims settled	(576)	(557)	(2,296)	(2,735)
Other	219	(406)	295	(232)
Balance at end of period	\$ 10,056	\$ 10,503	\$ 10,056	\$ 10,503

Recent accounting pronouncements:

In June 2009, the Financial Accounting Standards Board (FASB) issued Statement of Financial Accounting Standards (SFAS) No. 168, *The FASB Accounting Standards Codification™ 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 May 2009, the FASB issued SFAS No. 165, *Subsequent Events*, which was codified into Topic 855 *Subsequent Events* in the ASC. This guidance establishes general standards of accounting for and disclosure of events that occur after the balance sheet date but before financial statements are issued or are available to be issued. This standard requires disclosure of the date through which subsequent events have been evaluated and whether that is the date on which the financial statements were issued or were available to be issued. This standard is effective for interim or annual financial periods ending after June 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. See Basis of presentation above.

In March 2008, the FASB issued SFAS No. 161, *Disclosures about Derivative Instruments and Hedging Activities*, which was codified into Topic 815 *Derivatives and Hedging* in the ASC. This standard is intended to improve financial reporting about derivative instruments and hedging activities by requiring enhanced disclosures to enable investors to better understand their effects on an entity's financial position, financial performance and cash flows. The provisions of this standard are effective for fiscal years and interim quarters beginning after November 15, 2008. The adoption of this standard did not have a material effect on the Company's consolidated financial position, results of operations or cash flows. See Note 8.

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, consist of the following (in thousands):

	September 30, 2009	December 31, 2008
Raw materials	\$ 649	\$ 621
Work in process	24	1,065
Finished goods	300,804	254,626
	\$ 301,477	\$ 256,312

NOTE 3 - GOODWILL, INTANGIBLES AND OTHER NON-CURRENT ASSETS

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):

	September 30, 2009		December 31, 2008	
	Gross Carrying Amount	Accumulated Amortization	Gross Carrying Amount	Accumulated Amortization
Intangible assets subject to amortization:				
Patents	\$ 898	\$ (616)	\$ 898	\$ (534)

Edgar Filing: COLUMBIA SPORTSWEAR CO - Form 10-Q

Intangible assets not subject to amortization:		
Trademarks and trade names	\$ 26,872	\$ 26,872
Goodwill	12,659	12,659
	\$ 39,531	\$ 39,531

Amortization expense for intangible assets subject to amortization is estimated to be \$109,000 per year in 2009 and 2010 and \$73,000 per year in 2011 and 2012. These patents are anticipated to become fully amortized in 2012.

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

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

	September 30, 2009	December 31, 2008
Deferred tax assets	\$ 5,029	\$ 723
Long-term deposits	5,921	4,483
Other	1,546	923
	\$ 12,496	\$ 6,129

NOTE 4 - STOCK-BASED COMPENSATION1997 Stock Incentive Plan

The Company's 1997 Stock Incentive Plan (the "Plan"), as amended, provides for issuance of up to 8,900,000 shares of the Company's Common Stock, of which 2,051,040 shares were available for future grants under the Plan at September 30, 2009. 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 (twenty-five 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 in 2009 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 people who receive equity awards.

The following table shows the weighted average assumptions for stock options granted during the three and nine months ended September 30, 2009 and 2008:

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2009	2008	2009	2008
Expected term	4.38 years	4.33 years	4.72 years	4.43 years
Expected stock price volatility	28.98%	25.81%	29.54%	25.03%

Edgar Filing: COLUMBIA SPORTSWEAR CO - Form 10-Q

Risk-free interest rate	1.88%	3.01%	1.72%	2.54%
Expected dividend yield	1.55%	1.86%	2.18%	1.57%
Estimated average fair value per option granted	\$9.38	\$8.02	\$6.51	\$8.61

The following table summarizes stock option activity for the nine months ended September 30, 2009:

	Number of Shares	Weighted Average Exercise Price	Weighted Average Remaining Contractual Term	Aggregate Intrinsic Value (in thousands)
Options outstanding at December 31, 2008	1,653,639	\$ 45.10	6.73	\$1,042
Granted	378,672	29.55		
Cancelled	(201,246)	45.11		
Exercised	(17,200)	21.44		
Options outstanding at September 30, 2009	1,813,865	\$ 42.08	6.59	\$6,283
Options vested and expected to vest at September 30, 2009	1,749,459	\$ 42.34	6.51	\$5,824
Options exercisable at September 30, 2009	1,049,633	\$ 45.48	5.21	\$1,888

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

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 nine months ended September 30, 2009 and 2008 was \$2,165,000 and \$2,621,000, respectively. At September 30, 2009 and 2008, unrecognized costs related to stock options totaled approximately \$5,423,000 and \$7,439,000, respectively, before any related tax benefit. The unrecognized costs related to stock options are being amortized over the related vesting period using the straight-line attribution method. Unrecognized costs related to stock options at September 30, 2009 are expected to be recognized over a weighted average period of 2.62 years. The aggregate intrinsic value of stock options exercised was \$193,000 and \$917,000 for the nine months ended September 30, 2009 and 2008, respectively. The total cash received as a result of stock option exercises for the nine months ended September 30, 2009 and 2008 was \$369,000 and \$3,541,000, respectively. The realized tax benefit for the deduction from stock option transactions for the nine months ended September 30, 2009 and 2008 was \$69,000 and \$270,000, 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 in 2009 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, and generally vest over a performance period of between two and one-half and three years with an additional required service period of one year. 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 nine months ended September 30, 2009 and 2008, the Company withheld 19,043 and 5,781 shares, respectively, to satisfy \$595,000 and \$237,000 of employees' tax obligations, respectively. These shares withheld are not issued, but rather treated as common stock repurchases in the Company's financial statements because they reduce the number of shares that would have been issued upon vesting.

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 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 and nine months ended September 30, 2009 and 2008:

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2009	2008	2009	2008
Vesting period	4.00 years	3.00 years	3.82 years	3.06 years
Expected dividend yield	1.60%	1.83%	2.19%	1.56%
Estimated average fair value per restricted stock unit granted	\$37.52	\$36.03	\$27.00	\$39.30

The following table summarizes the restricted stock unit activity for the nine months ended September 30, 2009:

	Number of Shares	Weighted Average Grant Date Fair Value Per Share
Restricted stock units outstanding at December 31, 2008	260,509	\$46.32

Edgar Filing: COLUMBIA SPORTSWEAR CO - Form 10-Q

Granted	133,983	27.00
Vested	(63,887)	53.72
Forfeited	(29,895)	41.67
Restricted stock units outstanding at September 30, 2009	300,710	\$36.60

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

Restricted stock unit compensation expense for the nine months ended September 30, 2009 and 2008 was \$2,734,000 and \$2,281,000 respectively. At September 30, 2009 and 2008, unrecognized costs related to restricted stock units totaled approximately \$5,070,000 and \$6,839,000, 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 September 30, 2009 are expected to be recognized over a weighted average period of 2.13 years. The total grant date fair value of restricted stock units vested during the nine months ended September 30, 2009 and 2008 was \$3,432,000 and \$1,048,000, respectively. The realized tax benefit for the deduction from restricted stock unit transactions for the nine months ended September 30, 2009 and 2008 was \$708,000 and \$304,000, respectively.

1999 Employee Stock Purchase Plan

In 1999, the Company's shareholders approved the 1999 Employee Stock Purchase Plan (ESPP). There are 750,000 shares of common stock authorized for issuance under the ESPP, which allows qualified employees of the Company to purchase shares on a quarterly basis up to fifteen percent of their respective compensation. The purchase price of the shares is equal to eighty-five percent of the lesser of the closing price of the Company's common stock on the first or last trading day of the respective quarter. Effective July 1, 2005, the Company suspended offerings under the ESPP indefinitely. As of September 30, 2009 a total of 275,556 shares of common stock had been issued under the ESPP.

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 holding gains and losses on certain derivative transactions and unrealized gains on available-for-sale securities. A summary of comprehensive income, net of related tax effects, for the three and nine months ended September 30, 2009 and 2008 is as follows (in thousands):

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2009	2008	2009	2008
Net income	\$ 46,915	\$ 58,329	\$ 43,935	\$ 76,490
Other comprehensive income (loss):				
Unrealized holding gains on available-for-sale securities	39		39	
Unrealized derivative holding gains (losses) arising during period	(1,926)	3,139	(3,703)	4,046
Reclassification to net income of previously deferred (gains) losses on derivative transactions	405	15	(1,311)	(30)
Foreign currency translation adjustments	13,279	(24,868)	14,926	(16,481)
Other comprehensive income (loss)	11,797	\$ (21,714)	9,951	\$ (12,465)
Comprehensive income	\$ 58,712	\$ 36,615	\$ 53,886	\$ 64,025

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

	Foreign currency	Unrealized holding gains	Unrealized holding gains	Accumulated other
--	-----------------------------	-------------------------------------	-------------------------------------	------------------------------

Edgar Filing: COLUMBIA SPORTSWEAR CO - Form 10-Q

	translation adjustments	(losses) on derivative transactions	on available- for-sale securities	comprehensive income
Balance at December 31, 2008	\$ 30,550	\$ 2,616	\$	\$ 33,166
Activity for the nine months ended September 30, 2009	14,926	(5,014)	39	9,951
Balance at September 30, 2009	\$ 45,476	\$ (2,398)	\$ 39	\$ 43,117

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 shares of common stock outstanding. Diluted EPS includes 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.

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

A reconciliation of the shares of common stock used in the denominator for computing basic and diluted EPS for the three and nine months ended September 30, 2009 and 2008 is as follows (in thousands, except per share amounts):

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2009	2008	2009	2008
Weighted average shares of common stock outstanding, used in computing basic earnings per share	33,850	34,411	33,875	34,856
Effect of dilutive stock options and restricted stock units	143	107	118	107
Weighted-average shares of common stock outstanding, used in computing diluted earnings per share	33,993	34,518	33,993	34,963

Earnings per share of common stock:

Basic	\$ 1.39	\$ 1.70	\$ 1.30	\$ 2.19
Diluted	1.38	1.69	1.29	2.19

Stock options and service-based restricted stock units representing 1,390,965 and 1,457,729 shares of common stock for the three months ended September 30, 2009 and 2008, respectively, and 1,641,559 and 1,409,608 shares of common stock for the nine months ended September 30, 2009 and 2008, respectively, were outstanding but 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 44,908 and 41,214 shares of common stock for the three months ended September 30, 2009 and 2008, respectively, and 43,751 and 41,996 shares of common stock for the nine months ended September 30, 2009 and 2008, respectively, were outstanding but 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 September 30, 2009, the Company's Board of Directors has authorized the repurchase of \$500,000,000 of the Company's common stock. As of September 30, 2009, the Company has repurchased 8,830,457 shares under this program at an aggregate purchase price of approximately \$404,833,000. During the nine months ended September 30, 2009, the Company repurchased an aggregate of \$4,833,000 under the stock repurchase plan, of which \$175,000 was recorded as a reduction to total retained earnings; otherwise, the aggregate purchase price would have resulted in a negative common stock carrying amount. During the nine months ended September 30, 2008, the Company repurchased an aggregate of \$79,386,000 under the stock repurchase plan, of which \$54,988,000 was recorded as a reduction to total retained earnings. 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) 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, production, marketing and selling of active outdoor apparel, including sportswear, outerwear, footwear and related accessories and equipment.

The geographic distribution of the Company's net sales, income 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.

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

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2009	2008	2009	2008
Net sales to unrelated entities:				
United States	\$ 267,435	\$ 271,334	\$ 521,423	\$ 522,699
EMEA	67,722	78,155	151,233	207,312
LAAP	44,222	46,125	130,282	135,229
Canada	55,094	56,801	82,769	97,685
	\$ 434,473	\$ 452,415	\$ 885,707	\$ 962,925
Income before income tax:				
United States	\$ 46,082	\$ 51,973	\$ 29,670	\$ 45,180
EMEA	6,998	11,888	6,933	22,843
LAAP	4,598	4,884	15,153	17,754
Canada	8,059	14,204	8,489	20,649
Interest and other income and eliminations	319	1,980	1,799	6,248
	\$ 66,056	\$ 84,929	\$ 62,044	\$ 112,674

	September 30, 2009	December 31, 2008
Assets:		
United States	\$ 870,848	\$ 857,228
EMEA	234,386	246,072
LAAP	94,726	93,773
Canada	103,150	89,463
Total identifiable assets	1,303,110	1,286,536
Eliminations and reclassifications	(118,793)	(138,300)
Total assets	\$ 1,184,317	\$ 1,148,236

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, including market risk associated with interest rate movements on borrowings and investments and currency rate movements on non-functional currency denominated assets, liabilities and income. The Company regularly assesses these risks and has established policies and business practices that serve to mitigate these potential exposures. As part of the Company's risk management programs, the Company may use a variety of financial instruments, including foreign currency option and forward contracts. The Company does not hold or issue derivative financial instruments for trading or speculative purposes.

The Company's foreign currency risk management objective is to mitigate the uncertainty of anticipated cash flows attributable to changes in exchange rates. Particular focus is put on cash flows resulting from anticipated inventory purchases and the related receivables and payables, including third party or intercompany transactions. The Company manages this risk primarily by using currency forward exchange contracts and

Edgar Filing: COLUMBIA SPORTSWEAR CO - Form 10-Q

options. Anticipated transactions that are hedged carry a high level of certainty and are expected to be recognized within one year. In addition, the Company may use cross-currency swaps 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 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 and nine months ended September 30, 2009 and 2008. The Company did not discontinue any cash flow hedging relationships during the three and nine months ended September 30, 2009 and 2008 because it remained probable that the forecasted transactions would occur by the end of the specified period.

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

At September 30, 2009, the notional value of outstanding forward contracts designated as hedging anticipated inventory purchases was approximately \$67,500,000. At September 30, 2009, deferred 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 and Japanese yen 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 as hedges to manage the exchange rate risk associated with the functional currency remeasurement of monetary assets and liabilities. At September 30, 2009, the notional value of outstanding forward contracts not formally designated as hedges was approximately \$43,000,000. The change in fair value of these instruments is recognized immediately in cost of sales.

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 as of September 30, 2009 (in thousands):

	Classification	Fair Value
Derivative instruments designated as cash flow hedges ⁽¹⁾ :		
Derivative instruments in asset positions:		
Currency forward contracts	Prepaid expenses and other current assets	\$ 25
Derivative instruments in liability positions:		
Currency forward contracts	Accrued liabilities	2,511

⁽¹⁾ Includes a \$94,000 net asset position attributable to the component excluded from effectiveness testing.

	Classification	Fair Value
Derivative instruments not designated as hedges:		
Derivative instruments in asset positions:		
Currency forward contracts	Prepaid expenses and other current assets	\$ 300
Derivative instruments in liability positions:		
Currency forward contracts	Accrued liabilities	308

The following table presents the effect and classification of derivative instruments for the three and nine months ended September 30, 2009 (in thousands):

Edgar Filing: COLUMBIA SPORTSWEAR CO - Form 10-Q

	Three Months Ended September 30, 2009		Nine Months Ended September 30, 2009	
	Statement Of Operations <u>Classification</u>	Gain (loss)	Statement Of Operations <u>Classification</u>	Gain (loss)
Currency Forward Contracts:				
Derivative instruments designated as cash flow hedges:				
Loss recognized in other comprehensive income, net of tax		\$ (1,926)		\$ (3,703)
Gain (loss) reclassified from accumulated other comprehensive income to income for the effective portion, net of tax	Cost of sales	(456)	Cost of sales	1,249
Gain recognized in income for amount excluded from effectiveness testing and for the ineffective portion ⁽¹⁾	Cost of sales	42	Cost of sales	24
Derivative instruments not designated as cash flow hedges:				
Loss recognized in income	Cost of sales	(564)	Cost of sales	(162)

⁽¹⁾ During the periods presented, the Company recognized an immaterial amount of ineffectiveness.

Table of Contents**COLUMBIA SPORTSWEAR COMPANY****NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (Continued)****(Unaudited)****NOTE 9 - COMMITMENTS AND CONTINGENCIES***Off-Balance Sheet Arrangements*

Letters of credit outstanding for purchase orders for inventory were \$4,046,000 and \$8,338,000 at September 30, 2009 and December 31, 2008, respectively.

Product purchase obligations for open production purchase orders for sourced apparel, footwear, accessories and equipment, and materials used to manufacture apparel were \$227,387,000 and \$157,774,000 at September 30, 2009 and December 31, 2008, respectively.

Operating Leases

Future minimum operating lease payments, including rent escalation clauses, were \$251,402,000 and \$235,119,000 at September 30, 2009 and December 31, 2008, 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, 2008.

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;
- 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.

Assets and liabilities measured at fair value on a recurring basis as of September 30, 2009 are as follows (in thousands):

	Total	Level 1 ⁽¹⁾	Level 2 ⁽²⁾	Level 3
Assets:				
Cash equivalents	\$ 192,879	\$ 192,879	\$	\$
Short-term investments	17,637	17,637		
Long-term investments	751	751		
Derivative financial instruments	325		325	
Liabilities:				
Derivative financial instruments	2,819		2,819	

(1)

Edgar Filing: COLUMBIA SPORTSWEAR CO - Form 10-Q

Level 1 assets include cash equivalents consisting of money market funds, bank deposits and time deposits for which cost approximates fair value and long-term investments consisting of equity-concentrated mutual funds held to offset deferred compensation arrangements.

⁽²⁾ Level 2 assets and liabilities include derivative financial instruments which are valued based on significant observable inputs. See Note 8 for further discussion.

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

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 results across markets, distribution channels and product categories, access to raw materials and factory capacity, and financing and working capital requirements and resources.

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 and related accessories and equipment under the Columbia, Mountain Hardwear, Sorel, Montrail, and Pacific Trail brands. Our brands are distributed through a mix of wholesale distribution channels, which includes independent distributors, our own retail channels and licensees.

The popularity of outdoor activities and changing design trends affect consumer desirability of 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 respond to consumer needs and preferences in a timely and adequate manner could have a material adverse effect on our sales and profitability.

Strategy and Outlook Update

Like other branded consumer product companies, our business is heavily dependent upon discretionary consumer spending patterns. Our net sales volumes have been negatively affected by the volatility of the global economy and its impact on consumer purchasing behavior, and retailers' behavior related to advance orders, replenishment orders, order cancellations and seasonal reorders. The current economic environment has caused tightening of credit for some of our wholesale customers and consumers and a significant slowing of retail sales. This has resulted in, and could continue to cause, some bankruptcies among our wholesale customers, a more cautious approach by many of our wholesale customers when placing advance orders for seasonal products and reducing, delaying delivery of, or cancelling advance orders placed in earlier periods. In addition, the effects of foreign currency exchange rates may amplify potential net sales declines if the U.S. dollar strengthens compared to local currencies in our direct markets, as we have experienced in some markets. We expect our retail and e-commerce revenues to partially offset some of this anticipated wholesale revenue decline. We launched our e-commerce website in the United States for the Columbia brand during the third quarter of 2009 and launched our e-commerce website in the United States for the Sorel brand early in the fourth quarter of 2009.

We believe that we have appropriately factored our historical experiences, incremental sales from our new retail stores and e-commerce platform, and the estimated effect of changes in foreign currency exchange rates into our outlook for fiscal year 2009. However, unfavorable and unprecedented global economic conditions have increased the uncertainty of our planning and forecasts. In this challenging economic environment, we are also mindful of our reliance on the overall financial health of our wholesale customers and their ability to continue to access credit markets to fund their inventory purchases and day-to-day operations.

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

Fluctuating currency exchange rates;

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

Changes in the volume of order cancellations;

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

Sales fluctuations in our retail stores; and

Changes in spending levels related to strategic initiatives and cost-containment efforts.

Table of Contents

Although we cannot predict future results with certainty and despite current global economic conditions, we are committed to our strategies, which focus on product innovation and using our portfolio of outdoor brands to meet the needs of outdoor consumers. Our direct-to-consumer initiatives include our retail expansion plans and e-commerce platforms for the Columbia and Sorel brands in the United States. With our commitment to investment in these strategies, while maintaining a well-developed sourcing and distribution infrastructure, we believe that we are well positioned to establish sustainable platforms that will support long-term growth and profitability.

Overview

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 September 30 of the particular year. Highlights for the third quarter of 2009 are as follows:

Net sales decreased \$17.9 million, or 4%, to \$434.5 million from \$452.4 million for the comparable period in 2008. Changes in foreign currency exchange rates compared with the third quarter of 2008 negatively affected the consolidated net sales comparison by approximately one percentage point. The decrease in net sales was primarily concentrated in our Columbia brand business in the EMEA region, followed by the United States, Canada and the LAAP region. Net sales by geographical segment, product category and brand category are summarized in the following table.

	Three Months Ended September 30,			Nine Months Ended September 30,		
	2009	2008	% Change	2009	2008	% Change
	(In millions, except for percentage changes)					
Geographical Net Sales to Unrelated Entities:						
United States	\$ 267.4	\$ 271.3	(1)%	\$ 521.4	\$ 522.7	
EMEA	67.7	78.2	(13)%	151.2	207.3	(27)%
LAAP	44.3	46.1	(4)%	130.3	135.2	(4)%
Canada	55.1	56.8	(3)%	82.8	97.7	(15)%
	\$ 434.5	\$ 452.4	(4)%	\$ 885.7	\$ 962.9	(8)%
Categorical Net Sales to Unrelated Entities:						
Sportswear	\$ 142.9	\$ 157.5	(9)%	\$ 379.5	\$ 434.1	(13)%
Outerwear	199.1	208.6	(5)%	311.0	320.0	(3)%
Footwear	70.3	63.6	11%	143.7	157.4	(9)%
Accessories and Equipment	22.2	22.7	(2)%	51.5	51.4	
	\$ 434.5	\$ 452.4	(4)%	\$ 885.7	\$ 962.9	(8)%
Brand Net Sales to Unrelated Entities:						
Columbia	\$ 370.3	\$ 395.2	(6)%	\$ 773.9	\$ 856.5	(10)%
Mountain Hardwear	35.2	35.2		71.6	70.8	1%
Sorel	27.0	19.0	42%	31.6	25.1	26%
Other	2.0	3.0	(33)%	8.6	10.5	(18)%
	\$ 434.5	\$ 452.4	(4)%	\$ 885.7	\$ 962.9	(8)%

Gross profit decreased 130 basis points to 43.4% of net sales from 44.7% of net sales for the comparable period in 2008. This decrease was primarily due to lower outerwear gross margins in Canada, the United States wholesale business and EMEA direct and distributor businesses and the unfavorable effects of foreign currency hedge rates in Canada.

Edgar Filing: COLUMBIA SPORTSWEAR CO - Form 10-Q

Selling, general and administrative (SG&A) expense increased \$3.4 million, or 3%, to \$124.2 million from \$120.8 million for the comparable period in 2008. We expect full year 2009 SG&A expense, as a percentage of net sales, to increase compared to 2008 due primarily to anticipated lower 2009 net sales in our wholesale business compared to 2008, along with an increased fixed cost base resulting from our expanding direct-to-consumer operations.

Net income was \$46.9 million or \$1.38 per diluted share, compared to \$58.3 million or \$1.69 per diluted share, for the comparable period in 2008.

Our wholesale backlog for the spring 2010 selling season as of September 30, 2009 decreased \$20.1 million, or 5%, to \$350.8 million from \$370.9 million as of September 30, 2008, including a benefit of approximately two percentage points

Table of Contents

from changes in foreign currency exchange rates compared with 2008. The decrease in our spring wholesale backlog was the result of a decline in orders from EMEA distributors, our EMEA direct business and LAAP distributors, partially offset by an increase in orders in Japan. Spring wholesale backlog for the United States and Canada was essentially flat compared to 2008. The decrease in orders was driven primarily by a decline in orders of Columbia-branded sportswear. Although we cannot predict with certainty any future results, our reported wholesale backlog is one indicator of our anticipated wholesale net sales for the spring 2010 selling season. Many factors, however, could cause actual sales to differ materially from reported wholesale backlog, including the potential cancellation of orders by customers, which was significant for Spring 2009 products, changes in the volume of closeout products sales, changes in foreign currency exchange rates and macroeconomic conditions. In addition, we expect that incremental sales through our direct-to-consumer operations, which are not included in wholesale backlog, will affect actual sales comparisons for the Spring 2010 season. Our spring 2010 wholesale backlog should not be used as a sole indicator of, or in forecasting, sales beyond the spring 2010 selling season.

Results of Operations

Net income decreased \$11.4 million to \$46.9 million for the third quarter of 2009 from \$58.3 million for the comparable period in 2008. Diluted earnings per share was \$1.38 for the third quarter of 2009 compared to \$1.69 for the third quarter of 2008.

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:

	Three Months Ended		Nine Months Ended	
	September 30, 2009	September 30, 2008	September 30, 2009	September 30, 2008
Net sales	100.0%	100.0%	100.0%	100.0%
Cost of sales	56.6	55.3	57.8	56.6
Gross profit	43.4	44.7	42.2	43.4
Selling, general and administrative expense	28.6	26.7	36.0	32.8
Net licensing income	0.3	0.4	0.6	0.4
Income from operations	15.1	18.4	6.8	11.0
Interest income, net	0.1	0.4	0.2	0.7
Income before income tax	15.2	18.8	7.0	11.7
Income tax expense	(4.4)	(5.9)	(2.0)	(3.8)
Net income	10.8%	12.9%	5.0%	7.9%

Quarter Ended September 30, 2009 Compared to Quarter Ended September 30, 2008

Net Sales: Consolidated net sales decreased 4% to \$434.5 million for the third quarter of 2009 from \$452.4 million for the comparable period in 2008. Changes in foreign currency exchange rates compared with the third quarter of 2008 negatively affected the consolidated net sales comparison by approximately one percentage point.

The decrease in net sales was primarily concentrated in our Columbia brand business in the EMEA region, followed by the United States, Canada and the LAAP region. By product category, the decrease in net sales was concentrated in sportswear, followed by outerwear and accessories and equipment, partially offset by an increase in net sales of footwear.

Sales by Geographic Region

Net sales in the United States decreased \$3.9 million, or 1%, to \$267.4 million for the third quarter of 2009 from \$271.3 million for the comparable period in 2008. The decrease in net sales in the United States was attributable to decreases in net sales of sportswear, outerwear and accessories and equipment, partially offset by an increase in net sales of footwear. The decrease in the United States wholesale business was partially offset by an increase in net sales from our expanded base of retail operations. The wholesale net sales decrease was primarily due to

Edgar Filing: COLUMBIA SPORTSWEAR CO - Form 10-Q

decreases in net sales of Columbia-branded sportswear and outerwear, partially offset by increased net sales of Sorel-branded footwear. The decrease in wholesale net sales reflected lower advance order volumes, customer credit limitations and the liquidation or reorganization of several wholesale customers this year. The increase in net sales from retail stores was primarily attributable to increases in net sales of Columbia-branded sportswear, outerwear and footwear. We operated 18 more retail stores in the United States at September 30, 2009 than at September 30, 2008. In addition, we launched our Columbia brand e-commerce site in the United States in July 2009.

Net sales in the EMEA region decreased \$10.5 million, or 13%, to \$67.7 million for the third quarter of 2009 from \$78.2 million for the comparable period in 2008. Changes in foreign currency exchange rates compared with the third quarter of 2008 negatively

Table of Contents

affected the EMEA net sales comparison by approximately three percentage points. The decrease in net sales in the EMEA region was led by outerwear, followed by sportswear, partially offset by increased net sales of footwear and accessories and equipment. The net sales decrease for the EMEA region was led by our EMEA direct business followed by EMEA distributors. The decrease in net sales in our EMEA direct business was a result of lower advance order volumes reflecting difficult macro-economic conditions and continued product assortment and marketing challenges in that region. The net sales decrease to EMEA distributors, in part, reflected very difficult macro-economic conditions in Russia, partially offset by a shift in the timing of fall 2009 shipments into the third quarter of 2009 from the second quarter of 2009 as compared to the same periods in 2008.

Net sales in the LAAP region decreased \$1.8 million, or 4%, to \$44.3 million for the third quarter of 2009 from \$46.1 million for the comparable period in 2008. Changes in foreign currency exchange rates compared with the third quarter of 2008 positively affected the LAAP net sales comparison by approximately two percentage points. The decrease in net sales in the LAAP region was led by sportswear followed by footwear and accessories and equipment, partially offset by a net sales increase in outerwear. The net sales decrease in the LAAP region was primarily concentrated in LAAP distributors, followed by our Korea business, partially offset by an increase in net sales in our Japan business. The net sales decrease for LAAP distributors primarily reflected continued difficult macro-economic conditions in our distributors' regions and the rescheduling of some shipments for southern hemisphere distributors from mid-year 2009 to the fourth quarter of 2009. The decrease in Korea net sales was due to unfavorable changes in foreign currency exchange rates, compared to the third quarter of 2008, which offset a net sales increase in local currency. The increase in Japan net sales was primarily the result of favorable changes in foreign currency exchange rates compared to the third quarter of 2008.

Net sales in Canada decreased \$1.7 million, or 3%, to \$55.1 million for the third quarter of 2009 from \$56.8 million for the comparable period in 2008. Changes in foreign currency exchange rates compared with 2008 negatively affected the Canada net sales comparison by approximately five percentage points and turned a net sales increase in local currency into a decrease in reported net sales. The decrease in net sales in Canada was primarily concentrated in sportswear, followed by outerwear, partially offset by net sales increases in footwear and accessories and equipment. The net sales increase in local currency was primarily attributable to a shift in the timing of fall 2009 shipments since a higher proportion of fall shipments occurred in the third quarter of 2009 compared to 2008, where a higher proportion occurred in the fourth quarter. The local currency net sales increase was partially offset by lower advance order volumes from customers which include planned reductions by us in some channels of distribution.

Sales by Product Category

Net sales of sportswear decreased \$14.6 million, or 9%, to \$142.9 million for the third quarter of 2009 from \$157.5 million for the comparable period in 2008. The decrease in sportswear net sales was led by the United States, followed by the EMEA region, Canada, and the LAAP region. The sportswear net sales decrease in the United States was primarily attributable to decreased net sales of Columbia-branded products to our wholesale customers, partially offset by increased net sales through our expanded base of retail operations. The sportswear net sales decrease in the EMEA region was concentrated in our EMEA direct business. The sportswear net sales decrease in the LAAP region was concentrated in LAAP distributors.

Net sales of outerwear decreased \$9.5 million, or 5%, to \$199.1 million for the third quarter of 2009 from \$208.6 million for the comparable period in 2008. The decrease in outerwear net sales primarily consisted of decreased net sales in the EMEA region, followed by the United States and Canada, partially offset by increased net sales in the LAAP region. The outerwear net sales decrease in the EMEA region was led by the EMEA direct business followed by EMEA distributors. In the United States, a net sales decrease in the wholesale business was partially offset by increased net sales from our retail stores. The outerwear net sales increase in the LAAP region was concentrated in Japan.

Net sales of footwear increased \$6.7 million, or 11%, to \$70.3 million for the third quarter of 2009 from \$63.6 million for the comparable period in 2008. The increase in footwear net sales was led by increased net sales in the United States, followed by Canada and the EMEA region, partially offset by a decrease in net sales in the LAAP region. The footwear net sales increase was primarily attributable to increased net sales of Sorel-branded products, partially offset by a decrease in net sales of Columbia-branded products. The increase in footwear net sales in the United States was driven by the wholesale business followed by our retail operations. The increase in EMEA footwear net sales was concentrated in the EMEA direct business and partially offset by decreased EMEA distributor net sales. The decrease in footwear net sales in the LAAP region was concentrated in LAAP distributors.

Net sales of accessories and equipment decreased \$0.5 million, or 2%, to \$22.2 million for the third quarter of 2009 from \$22.7 million for the comparable period in 2008. The decrease in accessories and equipment net sales was led by the United States, followed by the LAAP region, partially offset by net sales increases in the EMEA region and Canada. The decrease in accessories and equipment net sales in the United States was primarily attributable to decreased net sales in the Columbia brand wholesale business, partially offset by a net sales increase in our retail operations.

Table of Contents

Gross Profit: Gross profit decreased 130 basis points to 43.4% of net sales for the third quarter of 2009 from 44.7% of net sales for the comparable period in 2008. This decrease was primarily due to lower outerwear gross margins in Canada, the United States wholesale and EMEA direct and distributor businesses and the unfavorable effects of foreign currency hedge rates in Canada.

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 many others, include these expenses in SG&A.

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 \$3.4 million, or 3%, to \$124.2 million for the third quarter of 2009 from \$120.8 million for the comparable period in 2008. As a percentage of net sales, SG&A expense increased to 28.6% for the third quarter of 2009 from 26.7% for the comparable period in 2008. The increase in SG&A expense as a percentage of net sales was largely the result of reduced net sales in our wholesale business coupled with an increased fixed cost base related to our expanding direct-to-consumer operations. This increase was partially offset by cost reduction initiatives that began in 2008 and positively affected the third quarter of 2009. These cost reduction initiatives included reductions in headcount, incentive compensation, benefits, and other discretionary costs.

Selling expenses, including commissions and advertising, decreased \$4.9 million, or 12%, to 8.5% of net sales for the third quarter of 2009 from 9.2% of net sales for the comparable period in 2008. 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 operations. Operating expenses for the in-house sales organization are included in general and administrative expenses.

General and administrative expenses increased \$8.3 million, or 11%, to 20.1% of net sales for the third quarter of 2009 from 17.5% of net sales for the comparable period in 2008. The increase in general and administrative expenses as a percentage of net sales was primarily due to incremental operating costs in support of our direct-to-consumer initiatives and the expansion of our in-house sales organization, partially offset by decreased bad debt expense. Depreciation and amortization included in SG&A expense totaled \$9.1 million for the third quarter of 2009, compared to \$7.8 million for the same period in 2008.

Net Licensing Income: We license our trademarks across a range of categories that complement our current product offerings.

Net licensing income decreased \$0.6 million to \$1.3 million for the third quarter of 2009 from \$1.9 million for the same period in 2008. Products distributed by our licensees for the third quarter of 2009 included apparel, footwear, leather accessories, eyewear, socks, insulated products including soft-sided coolers, camping gear, bicycles, home products, luggage, watches and other accessories.

Interest Income, Net: Net interest income decreased \$1.5 million to \$0.3 million for the third quarter of 2009 from \$1.8 million for the same period in 2008. The decrease in interest income was due to significantly lower interest rates compared to the same period in 2008. Interest expense was nominal for the third quarter of 2009 and for the comparable period in 2008.

Income Tax Expense: Income tax expense decreased to \$19.1 million for the third quarter of 2009 from \$26.6 million for the comparable period in 2008 due to lower income before income taxes and a lower effective income tax rate in the third quarter of 2009 compared to the third quarter of 2008. Our effective income tax rate was 29.0% for the third quarter of 2009 compared to 31.3% for the same period in 2008. Our effective income tax rate decreased primarily as a result of the reversal of certain tax reserves due to the expiration of the relevant statute of limitations. 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 that may occur in various quarters.

Nine Months Ended September 30, 2009 Compared to Nine Months Ended September 30, 2008

Net Sales: Consolidated net sales decreased \$77.2 million, or 8%, to \$885.7 million for the nine months ended September 30, 2009 from \$962.9 million for the comparable period in 2008. Changes in foreign currency exchange rates compared with the nine months ended September 30, 2008 negatively affected the consolidated net sales comparison by approximately three percentage points.

The decrease in net sales was primarily concentrated in the EMEA region, followed by Canada, the LAAP region and the United States. By product category, the net sales decrease was led by sportswear, followed by footwear and outerwear. Net sales of accessories and equipment remained essentially flat compared to 2008.

Table of Contents*Sales by Geographic Region*

Net sales in the United States decreased \$1.3 million, or less than 1%, to \$521.4 million from \$522.7 million for the comparable period in 2008. The decrease in net sales in the United States was primarily concentrated in sportswear, followed by footwear and accessories and equipment, partially offset by an increase in net sales of outerwear. The net sales decrease was due to decreased net sales of Columbia-branded products in our wholesale business. The wholesale net sales decrease was primarily concentrated in sportswear, followed by footwear and accessories and equipment, partially offset by increased net sales of outerwear. The wholesale net sales decrease reflected lower advance order volumes from wholesale customers, increased cancellation rates of advance orders, customer credit limitations and the liquidation or reorganization of several wholesale customers. The wholesale net sales decrease was partially offset by increased net sales through our expanded base of retail operations. The net sales increase in retail operations was led by sportswear, followed by outerwear, footwear and accessories and equipment. We operated 18 more retail stores in the United States at September 30, 2009 than at September 30, 2008. In addition, we launched our Columbia brand e-commerce site in the United States in July 2009.

Net sales in the EMEA region decreased \$56.1 million, or 27%, to \$151.2 million from \$207.3 million for the comparable period in 2008. Changes in foreign currency exchange rates compared with the nine months ended September 30, 2008 negatively affected the EMEA net sales comparison by approximately five percentage points. The decrease in net sales in the EMEA region was led by our EMEA direct business, followed by our EMEA distributor business. The decrease in net sales in the EMEA region was led by sportswear, followed by outerwear, footwear and accessories and equipment. The decrease in EMEA direct net sales was a result of lower advance order volumes reflecting difficult macro-economic conditions and continued product assortment and marketing challenges in that region. The decrease in EMEA distributor net sales was led by outerwear, followed by footwear, sportswear and accessories and equipment. The decreased net sales to EMEA distributors reflected very difficult macro-economic conditions in Russia, coupled with a shift in the timing of shipments, as a higher proportion of spring 2009 shipments occurred in the fourth quarter of 2008 while a higher proportion of spring 2008 shipments occurred in the first quarter of 2008.

Net sales in the LAAP region decreased \$4.9 million, or 4%, to \$130.3 million from \$135.2 million for the comparable period in 2008. Changes in foreign currency exchange rates compared with the nine months ended September 30, 2008 negatively affected the LAAP net sales comparison by approximately four percentage points. The decrease in net sales in the LAAP region was primarily concentrated in our LAAP distributor business, followed by our Korea business, partially offset by an increase in net sales in our Japan business. The decrease in net sales for LAAP distributors was concentrated in sportswear and outerwear, and reflects difficult macro-economic conditions in the distributors regions, the rescheduling of some shipments for southern hemisphere distributors from mid-year 2009 to the fourth quarter of 2009 and the timing of shipments, since a higher proportion of spring 2009 shipments occurred in the fourth quarter of 2008 while a higher proportion of spring 2008 shipments occurred in the first quarter of 2008. The decrease in Korea net sales was due to unfavorable changes in foreign currency exchange rates compared to the nine months ended September 30, 2008 that offset a net sales increase in local currency. Japan net sales increased across all product categories, primarily due to the expansion of our Japan wholesale business and to the benefit of favorable changes in foreign currency exchange rates compared to the nine months ended September 30, 2008.

Net sales in Canada decreased \$14.9 million, or 15%, to \$82.8 million from \$97.7 million for the comparable period in 2008. Changes in foreign currency exchange rates compared with the nine months ended September 30, 2008 negatively affected the Canada net sales comparison by approximately nine percentage points. The decrease in net sales in Canada was primarily concentrated in sportswear, followed by outerwear. Net sales of footwear and accessories and equipment remained essentially flat compared to 2008. The net sales decrease was primarily attributable to lower advance order volumes from customers, which included planned reductions by us in some channels of distribution, as well as increased order cancellations, partially offset by a shift in the timing of fall 2009 shipments as a higher proportion occurred in the third quarter of 2009 compared to 2008 where a higher proportion occurred in the fourth quarter.

Sales by Product Category

Net sales of sportswear decreased \$54.6 million, or 13%, to \$379.5 million from \$434.1 million for the comparable period in 2008. The decrease in sportswear net sales was predominantly the result of decreased net sales in the United States wholesale business, followed by the EMEA direct business, Canada, LAAP distributors and EMEA distributors. The decrease in sportswear net sales in our wholesale business was primarily the result of lower advance order volumes for the spring and fall 2009 seasons, reflecting difficult macro-economic conditions in each of our operating regions. The decreased sales of sportswear in our wholesale business was partially offset by increased net sales of sportswear in our expanded base of retail operations.

Net sales of outerwear decreased \$9.0 million, or 3%, to \$311.0 million from \$320.0 million for the comparable period in 2008. The decrease in outerwear net sales was led by EMEA distributors, followed by the EMEA direct business, LAAP distributors, Korea and Canada. The outerwear net sales decrease was partially offset by increased outerwear net sales in the United States and Japan.

Table of Contents

Net sales of footwear decreased \$13.7 million, or 9%, to \$143.7 million from \$157.4 million for the comparable period in 2008. The decrease in footwear net sales was led by EMEA distributors, followed by the United States wholesale business and the EMEA direct business, partially offset by an increase in net sales in our United States retail operations and Japan.

Net sales of accessories and equipment increased \$0.1 million, or less than 1%, to \$51.5 million from \$51.4 million for the comparable period in 2008.

Gross Profit: Gross profit decreased 120 basis points to 42.2% for the nine months ended September 30, 2009 from 43.4% for the comparable period in 2008. Gross margin contraction for the nine months ended September 30, 2009 was primarily due to an increased volume of Fall 2008 close-out product sales at lower comparative margins resulting from higher than normal order cancellations and a more promotional retail environment in the United States wholesale business, unfavorable currency exchange and hedge rates in Canada and product mix and pricing in the EMEA direct business. This contraction was partially offset by increased contribution from our expanded base of retail operations in the United States.

Selling, General and Administrative Expense: SG&A expense increased \$2.4 million, or less than 1%, to \$318.4 million for the nine months ended September 30, 2009 from \$316.0 million for the comparable period in 2008. The decrease was driven by lower selling expenses coupled with cost reduction initiatives that began after the first quarter of 2008 and favorably affected the nine months ended September 30, 2009. The cost reduction initiatives included reductions in headcount, incentive compensation, benefits, and other discretionary costs as well as reductions to planned marketing investments for 2009. These cost reduction initiatives were partially offset by increased costs associated with our direct-to-consumer operations. As a percentage of net sales, SG&A expense increased to 36.0% for the nine months ended September 30, 2009 from 32.8% for the comparable period in 2008. The increase in SG&A expense as a percentage of sales was largely the result of reduced net sales in the EMEA region, United States wholesale and Canada, coupled with an increased fixed cost base related to our expanding direct-to-consumer operations.

Selling expenses, including commissions and advertising, decreased \$13.8 million, or 15%, to 8.5% of net sales for the nine months ended September 30, 2009 from 9.2% of net sales for the comparable period in 2008. 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 operations, and to a planned reduction in marketing investments.

General and administrative expenses increased \$16.2 million, or 7%, to 27.5% of net sales for the nine months ended September 30, 2009 from 23.6% of net sales for the comparable period in 2008. The increase in general and administrative expenses as a percentage of net sales was primarily due to incremental operating costs in support of our direct-to-consumer operations and the expansion of our in-house sales organization, partially offset by decreased bad debt expense. Depreciation and amortization included in SG&A expense totaled \$25.4 million for the nine months ended September 30, 2009 compared to \$22.4 million for the same period in 2008.

Net Licensing Income: Net licensing income increased \$1.4 million to \$5.3 million for the nine months ended September 30, 2009 from \$3.9 million for the comparable period in 2008 and was primarily attributed to increased apparel and footwear licensing in the LAAP region. Products distributed by our licensees for the nine months ended September 30, 2009 included apparel, footwear, leather accessories, eyewear, socks, insulated products including soft-sided coolers, camping gear, bicycles, home products, luggage, watches, leather outerwear and other accessories.

Interest Income, Net: Net interest income decreased \$4.6 million to \$1.8 million for the nine months ended September 30, 2009 from \$6.4 million for the same period in 2008. The decrease in interest income was primarily driven by significantly lower interest rates compared to the same period in 2008. Interest expense was nominal for the nine months ended September 30, 2009 and for the comparable period in 2008.

Income Tax Expense: Income tax expense decreased \$18.1 million to \$18.1 million for the nine months ended September 30, 2009 from \$36.2 million for the comparable period in 2008. Our effective income tax rate was 29.2% for the nine months ended September 30, 2009 compared to 32.1% for the same period in 2008. Our effective income tax rate decreased primarily as a result of the reversal of certain tax reserves due to the expiration of the relevant statute of limitations.

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 September 30, 2009, we had total cash and cash equivalents of \$192.9 million compared to \$230.6 million at December 31, 2008. In addition, we had short-term investments of \$17.6 million at September 30, 2009 compared to \$22.4 million at December 31, 2008.

Table of Contents

Net cash provided by operating activities was \$0.1 million for the nine months ended September 30, 2009 compared to \$5.5 million for the same period in 2008. The change was primarily due to lower net income, a larger decrease in accounts payable and a smaller increase in taxes payable, partially offset by a smaller increase in accounts receivable, during the nine months ended September 30, 2009 compared to the same period in 2008. The smaller increase in accounts receivable in 2009 compared to 2008 was primarily attributable to lower wholesale sales and more restrictive customer credit arrangements implemented to reduce credit risk during this period of challenging macro-economic conditions.

Net cash used in investing activities was \$19.7 million for the nine months ended September 30, 2009, compared to \$46.4 million provided by investing activities for the comparable period in 2008. For the 2009 period, net cash used in investing activities primarily consisted of \$29.8 million for capital expenditures, of which \$5.2 million was incurred but not yet paid, partially offset by \$4.9 million for net liquidations of short-term investments. For the 2008 period, net cash provided by investing activities primarily consisted of \$79.2 million for net sales of short-term investments, partially offset by \$40.4 million for capital expenditures, of which \$7.5 million was incurred but not yet paid.

Cash used in financing activities was \$21.4 million for the nine months ended September 30, 2009, compared to \$92.7 million for the comparable period in 2008. For the 2009 period, net cash used in financing activities primarily consisted of dividend payments of \$16.3 million and \$5.5 million for the repurchase of common stock. For the 2008 period, net cash used in financing activities primarily consisted of \$79.6 million for the repurchase of common stock and payment of dividends of \$16.7 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 September 30, 2009, no balance was outstanding under these lines of credit and we were in compliance with covenants associated with these lines of credit. Internationally, our subsidiaries have local currency operating lines in place guaranteed by us with a combined limit of approximately \$106.2 million at September 30, 2009, of which \$3.7 million is designated as a European customs guarantee. At September 30, 2009, no balance was outstanding under these lines of credit.

We expect to fund our future capital requirements with existing cash and cash provided by operations. If the need arises, we may need to seek additional financing. 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 outerwear 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

We maintain unsecured and uncommitted import lines of credit with a combined limit of \$125.0 million at September 30, 2009, available for issuing documentary letters of credit. At September 30, 2009, we had letters of credit outstanding in the amount of \$4.0 million issued for purchase orders for inventory.

Seasonality and Variability of Business

Our business is affected by the general seasonal trends common to the outdoor apparel 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. We expect the expansion of our owned 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.

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 the current macro-economic environment. 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, its impact on customer financial health and consumer purchasing patterns and placement of advanced orders, order cancellations and seasonal reorders by retailers. Sales tend to decline in periods of recession or uncertainty regarding future economic prospects that affect consumer spending, particularly on discretionary items. This cyclicity and any related fluctuation in consumer demand could have a material adverse effect on our financial position, results of operations or cash flows.

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 of America (generally accepted accounting principles). 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 and our independent auditors regularly discuss 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.

Revenue Recognition

We record wholesale and licensed product revenues when title passes and the risks and rewards of ownership have passed to the customer, based on the terms of sale. Title generally passes upon shipment to, or upon receipt by, the customer depending on the country of the sale and the agreement with the customer. Retail store revenues are recorded at the time of sale and e-commerce revenues are recorded upon shipment to the customer.

In some countries outside of the United States where title passes upon receipt by the customer, predominantly our Western European wholesale business, precise information regarding the date of receipt by the customer is not readily available. In these cases, we estimate the date of receipt by the customer based on historical and expected delivery times by geographic location. We periodically test the accuracy of these estimates based on actual transactions. Delivery times vary by geographic location, generally from one to five days. To date, we have found these estimates to be materially accurate.

At the time of revenue recognition, we also provide for estimated sales returns and miscellaneous claims from customers as reductions to revenues. The estimates are based on historical rates of product returns and claims. However, actual returns and claims in any future period are inherently uncertain and thus may differ from the estimates. If actual or expected future returns and claims are significantly greater or lower than the reserves that we have established, we will record a reduction or increase to net revenues in the period in which we make such a determination. Over the three year period ended December 31, 2008, our actual annual sales returns and miscellaneous claims from customers were approximately two percent of net sales.

Allowance for Uncollectible Accounts Receivable

We make ongoing estimates of the uncollectibility of our accounts receivable and maintain an allowance for estimated losses resulting from the inability of our customers to make required payments. In determining the amount of the allowance, we consider our historical level of credit losses and we make judgments about the creditworthiness of customers based on ongoing credit evaluations. We analyze specific customer accounts, customer concentrations, credit insurance coverage, standby letters of credit, current economic trends, and changes in customer payment terms. Current credit and market conditions may slow our collection efforts as customers experience increased difficulty in accessing credit and paying their obligations, leading to higher than normal accounts receivable and increased bad debt expense. Because we cannot predict future changes in the financial stability of our customers, actual future losses from uncollectible accounts may differ from our estimates and may have a material effect on our consolidated financial position, results of operations or cash flows. If the financial condition of our customers deteriorates and results in their inability to make payments, a larger allowance may be required. If we determine that a smaller or larger allowance is appropriate, we will record a credit or a charge to SG&A expense in the period in which we make such a determination.

Inventory Obsolescence and Product Warranty

Edgar Filing: COLUMBIA SPORTSWEAR CO - Form 10-Q

We make ongoing estimates of potential future excess, close-out or slow moving inventory and product warranty costs. We evaluate our inventory on hand considering our purchase commitments, sales forecasts, and historical experience to identify excess, close-out or slow moving inventory and make provisions as necessary to properly reflect inventory value at the lower of cost or estimated market value. When we evaluate our reserve for warranty costs, we consider our historical claim rates by season, product mix, current economic trends, and the historical cost to repair, replace, or refund the original sale. If we determine that a smaller or larger reserve is appropriate, we will record a credit or a charge to cost of sales in the period in which we make such a determination.

Table of Contents

Income Taxes

We use the asset and liability method of accounting for income taxes. Under this method, we recognize income tax expense for the amount of taxes payable or refundable for the current year and for the amount of deferred tax liabilities and assets for the future tax consequences of events that have been recognized in our financial statements or tax returns. We make assumptions, judgments and estimates to determine our current provision for income taxes, our deferred tax assets and liabilities, and our uncertain tax positions. Our judgments, assumptions and estimates relative to the current provision for income tax take into account current tax laws, our interpretation of current tax laws and possible outcomes of current and future audits conducted by foreign and domestic tax authorities. 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. Our assumptions, judgments and estimates relative to the value of a deferred tax asset take into account predictions of the amount and category of future taxable income. Actual operating results and the underlying amount and category of income in future years could cause our current assumptions, judgments and estimates of recoverable net deferred taxes to be inaccurate. Changes in any of the assumptions, judgments and estimates mentioned above could cause our actual income tax obligations to differ from our estimates, which could materially affect our financial position and results of operations.

Our tax provision for interim periods is determined using an estimate of our annual effective tax rate, adjusted for discrete items, if any, that are taken into account in the relevant period. As the calendar year progresses, we periodically refine our estimate based on actual events and earnings by jurisdiction. This ongoing estimation process can result in changes to our expected effective tax rate for the full calendar year. When this occurs, we adjust the income tax provision during the quarter in which the change in estimate occurs so that our year-to-date provision equals our expected annual effective tax rate.

Stock-Based Compensation

Stock-based compensation cost is estimated at the grant date based on the award's fair value and is recognized as expense over the requisite service period using the straight-line attribution method. We estimate stock-based compensation for stock options granted using the Black-Scholes option pricing model, which requires various highly subjective assumptions, including volatility and expected option life. Further, we estimate forfeitures for stock-based awards granted, which are not expected to vest. If any of these inputs or assumptions changes significantly, stock-based compensation expense may differ materially in the future from that recorded in the current period.

Recent Accounting Pronouncements

See Recent Accounting Pronouncements in Note 1 to the notes to the condensed 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, 2008.

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 within the time periods specified in SEC's rules and forms, 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 September 30, 2009 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

In February 2009, the Canadian Border Services Agency (CBSA) commenced an anti-dumping investigation into certain waterproof shell footwear imported from China and Vietnam, including Columbia and Sorel footwear, to determine if that footwear was being sold at less than normal values. The investigation covered a majority of the footwear the Company sells in Canada and an adverse decision could have resulted in the imposition of significant anti-dumping duties on a majority of the footwear the Company sells in Canada. The CBSA established provisional anti-dumping duties in May 2009. On September 25, 2009, the Canadian International Trade Tribunal (CITT) announced that it found that Canadian imports of waterproof footwear from China and Vietnam had not caused and was not threatening to cause injury to the domestic industry. As a result, the CBSA ceased collecting provisional anti-dumping duties on Canadian imports of waterproof footwear from China and Vietnam. Provisional dumping duties ranging from 5.2 percent to 52.3 percent against Canadian imports of waterproof footwear from China and Vietnam had been in place since May 28, 2009, which will be reimbursed by CBSA.

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, 2008.

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 will require significant investments, yet, in the current macro-economic environment of increased economic uncertainty and weak consumer demand, 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 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, 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 our product categories involves, among other things, gaining experience with new brands and products, 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 manufacture 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 margin 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

Table of Contents

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, our new strategic initiatives, including the implementation of our retail store and e-commerce strategies, 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 a Prolonged Economic Downturn or Economic Uncertainty

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 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, production capacity at independent manufacturers, 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. Because we price our products in advance and the external cost changes may be difficult to predict, we may not be able to timely adjust our pricing structure to remain competitive, which could have a material adverse effect on our financial condition, results of operations or cash flows. In addition, 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 quickly changing transportation costs.

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 are having 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 are currently experiencing tightened credit markets and declining sales and 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 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.

Table of Contents

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 manufacturers 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 of order cancellations by our customers, including cancellations resulting from the bankruptcy, liquidation or contraction of certain customers' operations. Particularly in light of current economic conditions, we may not be able to sell all of the products we have ordered from manufacturers 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, our financial condition, results of operations or cash flows.

Conversely, if we underestimate demand for our products or if our manufacturers 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 impact customer relationships, and diminish our ability to build brand loyalty.

For certain demand planning functions, we still rely on manual processes that are difficult to control and are subject to human error.

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 and 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 results of operations and financial condition. 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 results of operations and financial condition. 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 may have a material adverse effect on our financial condition, results of operations or cash flows.

Table of Contents

We Operate in Very Competitive Markets

The markets for sportswear, outerwear, footwear, related 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.

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 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 advanced 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 manufacturers 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. As many retailers face increased financial pressure from significant decreases in consumer spending and continued economic uncertainty, we expect retailer consolidation to continue, which may 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 manufacturers 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 may have a material adverse effect on our financial condition, results of operations or cash flows.

Our Success Depends on Our Use 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

Table of Contents

and/or designs for which we have obtained and/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.

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 results 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 this 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, Which May Not be Sufficient to Support Our Business Initiatives, and System Improvements May Not be Successfully Implemented on a Timely Basis

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, breach 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 protect, maintain systems redundancy, 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 results of operations and financial condition.

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.

Table of Contents

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 potential 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 manufacturers 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.

Our Investments May be Adversely Affected by an Economic Downturn or Economic Uncertainty

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. This could result 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 Manufacturers

Our products are produced by independent manufacturers worldwide. We do not operate or own any production facilities. Although we enter into purchase order commitments with these independent manufacturers each season, we generally do not maintain long-term manufacturing commitments with them. Because of these factors, independent manufacturers 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 may have a material adverse effect on our financial condition, results of operations or cash flows.

Reliance on independent manufacturers 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 may 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 manufacturers to produce these materials as necessary, there are no guarantees that additional manufacturers 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.

Table of Contents

We Depend on Key Personnel

Our future success will depend in part on the continued service of key personnel, particularly Timothy Boyle, our President and Chief Executive Officer, and Gertrude Boyle, our Chairman and widely-recognized advertising icon. Our future success will also depend on 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.

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. Our operating margins are also sensitive to a number of factors that are beyond our control, including geographic sales trends, consumer spending patterns and currency exchange rate fluctuations, all of which we expect to continue as we expand our product offerings and geographic sales. 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 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 results of operations and financial condition. 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**

Period	Total Number of Shares Purchased	Average Price Paid per Share	Total Number of Shares Purchased as Part of Publicly Announced Plans or Programs ⁽¹⁾	Approximate Dollar Value of Shares that May Yet Be Purchased Under the Plans or Programs
July 1, 2009 through July 31, 2009				\$ 100,000,000
August 1, 2009 through August 31, 2009	135,800	\$ 35.59	135,800	95,167,000
September 1, 2009 through September 30, 2009				95,167,000
Total	135,800	\$ 35.59	135,800	\$ 95,167,000

⁽¹⁾ Since the inception of the Company's stock repurchase plan in April 2004 through September 30, 2009, the Company's Board of Directors has authorized the repurchase of \$500,000,000 of the Company's common stock. As of September 30, 2009, the Company has repurchased 8,830,457 shares under this program at an aggregate purchase price of approximately \$404,833,000. 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.

Item 6 EXHIBITS

(a) Exhibits

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, 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, Vice President, Chief Financial Officer and Treasurer

Table of Contents

SIGNATURES

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: November 6, 2009

/s/ THOMAS B. CUSICK
Thomas B. Cusick
Vice President,

Chief Financial Officer and Treasurer
(signing on behalf of the registrant and

as principal financial officer)