

COLUMBIA SPORTSWEAR CO

Form 10-Q

May 08, 2006

Table of Contents

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

Washington, DC 20549

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**FORM 10-Q**

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**x** **QUARTERLY REPORT PURSUANT TO SECTION 13 OR 15(D) OF THE SECURITIES EXCHANGE ACT OF 1934**  
For the quarterly period ended March 31, 2006

OR

**..** **TRANSITION REPORT PURSUANT TO SECTION 13 OR 15(D) OF THE EXCHANGE ACT OF 1934**  
For the transition period from \_\_\_\_\_ to \_\_\_\_\_

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**COLUMBIA SPORTSWEAR COMPANY**

(Exact name of registrant as specified in its charter)

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**Oregon**  
(State or other jurisdiction of

**0-23939**  
(Commission File Number)

**93-0498284**  
(IRS Employer

incorporation or organization)

Identification Number)

**14375 Northwest Science Park Drive**  
(Address of principal executive offices)

**Portland, Oregon**

**97229**  
(Zip Code)

**(503) 985-4000**

(Registrant's telephone number, including area code)

(Former name, former address and former fiscal year, if changed since last report)

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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 is a large accelerated filer, an accelerated filer, or a non-accelerated filer. See definition of accelerated filer and large accelerated filer in Rule 12b-2 of the Exchange Act.

Large accelerated filer  Accelerated filer  Non-accelerated filer

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 May 1, 2006 was 36,973,946.

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**Table of Contents**

**COLUMBIA SPORTSWEAR COMPANY**

**MARCH 31, 2006**

INDEX TO FORM 10-Q

|   | <b>PAGE NO.</b> |
|---|-----------------|
| <b>PART I. FINANCIAL INFORMATION</b>  |                 |
| Item 1 Financial Statements - Columbia Sportswear Company (Unaudited)                               |                 |
| <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> | 14              |
| <u>Item 3 Quantitative and Qualitative Disclosures About Market Risk</u>                            | 21              |
| <u>Item 4 Controls and Procedures</u>   | 21              |
| <b>PART II. OTHER INFORMATION</b>   |                 |
| <u>Item 1(A) Risk Factors</u>   | 22              |
| <u>Item 2 Unregistered Sales of Securities and Use of Proceeds</u>                                  | 26              |
| <u>Item 6 Exhibits</u>  | 26              |
| <u>Signature</u>  | 27              |

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

|   | <b>March 31,<br/>2006</b> | <b>December 31,<br/>2005</b> |
|---|---------------------------|------------------------------|
| <b>ASSETS</b>   |                           |                              |
| Current Assets:   |                           |                              |
| Cash and cash equivalents   | \$ 57,197                 | \$ 101,091                   |
| Short-term investments  | 181,835                   | 159,075                      |
| Accounts receivable, net of allowance of \$7,191 and \$7,340, respectively        | 218,986                   | 287,403                      |
| Inventories, net (Note 2)   | 194,599                   | 185,870                      |
| Deferred income taxes   | 22,835                    | 21,674                       |
| Prepaid expenses and other current assets   | 12,882                    | 11,151                       |
| <b>Total current assets</b>   | <b>688,334</b>            | <b>766,264</b>               |
| Property, plant, and equipment, net   | 176,985                   | 165,752                      |
| Intangibles and other assets (Note 3)   | 52,112                    | 26,103                       |
| Goodwill (Note 3)   | 17,494                    | 12,659                       |
| <b>Total assets</b>   | <b>\$ 934,925</b>         | <b>\$ 970,778</b>            |
| <b>LIABILITIES AND SHAREHOLDERS EQUITY</b>  |                           |                              |
| Current Liabilities:  |                           |                              |
| Notes payable   | \$ 15,609                 | \$ 39,727                    |
| Accounts payable  | 57,435                    | 91,390                       |
| Accrued liabilities   | 46,212                    | 49,518                       |
| Deferred income taxes   | 1,306                     | 1,416                        |
| Income taxes payable  | 24,531                    | 23,110                       |
| Current portion of long-term debt   | 4,640                     | 7,152                        |
| <b>Total current liabilities</b>  | <b>149,733</b>            | <b>212,313</b>               |
| Deferred income taxes   | 8,395                     | 7,414                        |
| Long-term debt and other liabilities  | 7,382                     | 8,261                        |
| <b>Total liabilities</b>  | <b>165,510</b>            | <b>227,988</b>               |
| Commitments and contingencies   |                           |                              |
| Shareholders' Equity:   |                           |                              |
| Preferred stock; 10,000 shares authorized; none issued and outstanding            |                           |                              |
| Common stock; 125,000 shares authorized; 36,925 and 36,863 issued and outstanding | 18,279                    | 13,104                       |
| Retained earnings   | 724,191                   | 704,724                      |
| Accumulated other comprehensive income (Note 4)                                   | 26,945                    | 24,962                       |
| <b>Total shareholders' equity</b>   | <b>769,415</b>            | <b>742,790</b>               |
| <b>Total liabilities and shareholders' equity</b>                                 | <b>\$ 934,925</b>         | <b>\$ 970,778</b>            |

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See accompanying notes to condensed consolidated financial statements.

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

|  | <b>Three Months Ended<br/>March 31,</b> |             |
|--|---|-------------|
|  | <b>2006</b>                             | <b>2005</b> |
| Net sales                                    | \$ 260,211                              | \$ 245,706  |
| Cost of sales                                | 148,574                                 | 138,463     |
| Gross profit                                 | 111,637                                 | 107,243     |
| Selling, general, and administrative expense | 84,819                                  | 76,791      |
| Net licensing income                         | (1,005)                                 | (716)       |
| Income from operations                       | 27,823                                  | 31,168      |
| Interest income                              | (2,138)                                 | (1,797)     |
| Interest expense                             | 240                                     | 390         |
| Income before income tax                     | 29,721                                  | 32,575      |
| Income tax expense                           | 10,254                                  | 11,238      |
| Net income                                   | \$ 19,467                               | \$ 21,337   |
| Earnings per share (Note 5):                 |   |             |
| Basic  | \$ 0.53                                 | \$ 0.53     |
| Diluted                                      | 0.52                                    | 0.52        |
| Weighted average shares outstanding :        |   |             |
| Basic  | 36,900                                  | 40,143      |
| Diluted                                      | 37,339                                  | 40,659      |

See accompanying notes to condensed consolidated financial statements.

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

|   | <b>Three Months Ended<br/>March 31,</b> |                |
|---|---|----------------|
|   | <b>2006</b>                             | <b>2005</b>    |
| <b>Cash Provided By (Used In) Operating Activities:</b>                                     |   |                |
| Net income  | \$ 19,467                               | \$ 21,337      |
| Adjustments to reconcile net income to net cash provided by (used in) operating activities: |   |                |
| Depreciation and amortization   | 5,980                                   | 5,742          |
| Loss on disposal of property, plant, and equipment  | 170                                     | 69             |
| Deferred income taxes   | (1,011)                                 | 915            |
| Stock-based compensation  | 3,417                                   |                |
| Tax benefit from employee stock plans   | 654                                     | 2,324          |
| Excess tax benefit from exercise of employee stock options                                  | (264)                                   |                |
| Changes in operating assets and liabilities:  |   |                |
| Accounts receivable   | 71,547                                  | 35,015         |
| Inventories   | (797)                                   | (953)          |
| Prepaid expenses and other current assets   | (1,585)                                 | 1,051          |
| Other assets  | 130                                     | 126            |
| Accounts payable  | (35,427)                                | (2,368)        |
| Accrued liabilities   | (3,784)                                 | (11,986)       |
| Income taxes payable  | 1,033                                   | 3,144          |
| Net cash provided by operating activities   | 59,530                                  | 54,416         |
| <b>Cash Provided by (Used in) Investing Activities:</b>                                     |   |                |
| Purchases of short-term investments   | (132,152)                               | (77,745)       |
| Sales of short-term investments   | 109,375                                 | 56,900         |
| Capital expenditures  | (15,577)                                | (4,762)        |
| Proceeds from sale of property, plant, and equipment  | 6                                       |                |
| Acquisitions, net of cash acquired  | (35,377)                                |                |
| Proceeds from sale of licenses  | 1,700                                   |                |
| Other liabilities   | (26)                                    | (26)           |
| Net cash used in investing activities   | (72,051)                                | (25,633)       |
| <b>Cash Provided by (Used in) Financing Activities:</b>                                     |   |                |
| Proceeds from notes payable   | 4,117                                   | 446            |
| Repayments on notes payable   | (34,611)                                | (446)          |
| Repayment of long-term debt   | (2,555)                                 | (521)          |
| Proceeds from issuance of common stock  | 2,852                                   | 5,340          |
| Excess tax benefit from exercise of employee stock options                                  | 264                                     |                |
| Repurchase of common stock  | (1,748)                                 | (4,514)        |
| Net cash provided by (used in) financing activities   | (31,681)                                | 305            |
| <b>Net Effect of Exchange Rate Changes on Cash</b>  | <b>308</b>                              | <b>(1,828)</b> |

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|   |           |            |
|---|-----------|------------|
| <b>Net Increase (Decrease) in Cash and Cash Equivalents</b>           | (43,894)  | 27,260     |
| <b>Cash and Cash Equivalents, Beginning of Period</b>                 | 101,091   | 130,023    |
| <b>Cash and Cash Equivalents, End of Period</b>                       | \$ 57,197 | \$ 157,283 |
| <b>Supplemental Disclosures of Cash Flow Information:</b>             |           |            |
| Cash paid during the period for interest, net of capitalized interest | \$ 338    | \$ 392     |
| Cash paid during the period for income taxes                          | 9,445     | 5,194      |
| <b>Supplemental Disclosures of Non-Cash Financing Activities:</b>     |           |            |
| Assumption of long-term debt from property acquisition                |           | \$ 3,075   |
| Assumption of Montrail debt   | \$ 5,833  |            |

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 contain all adjustments, consisting only of normal recurring adjustments, necessary to present fairly the Company's financial position as of March 31, 2006, the results of operations for the three months ended March 31, 2006 and 2005 and cash flows for the three months ended March 31, 2006 and 2005. The results of operations for the three months ended March 31, 2006 are not necessarily indicative of the results to be expected for the full year.

Certain information and footnote disclosures normally included in financial statements prepared in accordance with accounting principles generally accepted in the United States of America (generally accepted accounting principles) have been condensed or omitted pursuant to the rules and regulations of the Securities and Exchange Commission. The Company, however, believes that the disclosures contained in this report comply with the requirements of Section 13(a) of the Securities Exchange Act of 1934 for a Quarterly Report on Form 10-Q and are adequate to make the information presented not misleading. These unaudited condensed consolidated financial statements should be read in conjunction with the financial statements and notes thereto included in the Company's Annual Report on Form 10-K for the year ended December 31, 2005.

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

***Use of estimates:***

The preparation of condensed consolidated 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 disclosures of contingent assets and liabilities at the date of the condensed consolidated financial statements and the reported amounts of revenues and expenses during the reported period. Actual results could differ materially from these estimates and assumptions. Some of these more significant estimates relate to revenue recognition, allowance for doubtful accounts, inventory, product warranty, and income taxes.

***Cash and cash equivalents:***

Cash and cash equivalents are stated at cost and include investments with maturities of three months or less at the date of acquisition. Cash and cash equivalents were \$57,197,000 and \$101,091,000 at March 31, 2006 and December 31, 2005, respectively, primarily consisting of money market funds and certificates of deposit.

***Short-term investments:***

Short-term investments consist of variable rate demand notes and obligations and municipal auction rate notes that generally mature up to 30 years from the purchase date. Investments with maturities beyond one year may be classified as short-term based on their highly liquid nature and because such marketable securities represent the investment of cash that is available for current operations. All cash and 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. The Company has no investments considered to be trading securities. The carrying value of available-for-sale securities approximates fair market value due to their short maturities.

***Stock-based compensation:***

Prior to the January 1, 2006 adoption of Statement of Financial Accounting Standards (SFAS) No. 123R, Share-Based Payment, the Company accounted for stock-based compensation using the intrinsic value method prescribed in Accounting Principles Board (APB) Opinion No. 25, Accounting for Stock Issued to Employees, and related interpretations. Accordingly, under APB Opinion No. 25, no compensation expense was

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recognized because the exercise price of the Company's employee stock options was equal to the market price of the underlying stock on the date of grant. The Company applied the disclosure provisions of SFAS No. 123, Accounting for Stock Based Compensation, as amended by SFAS No. 148, Accounting for Stock Based Compensation - Transition and Disclosure, as if the fair value method had been applied in measuring compensation expense.

**Table of Contents**

Effective January 1, 2006, the Company adopted the fair value recognition provisions of SFAS No. 123R, under which compensation expense is recognized in the Consolidated Statement of Operations for the fair value of employee stock-based compensation. The Company has elected the modified-prospective transition method as permitted by SFAS No. 123R and accordingly, prior periods have not been restated to reflect the effect of SFAS No. 123R. The modified-prospective transition method requires that stock-based compensation expense recognized in the first quarter of fiscal 2006 include (1) quarterly amortization of all stock-based payments granted prior to, but not vested as of January 1, 2006, based on the grant date fair value estimated in accordance with the original provisions of SFAS No. 123 and (2) quarterly amortization of all stock-based payments granted subsequent to January 1, 2006, based on the grant date fair value estimated in accordance with the provisions of SFAS No. 123R. In addition, pursuant to SFAS No. 123R, the Company is required to estimate the amount of expected forfeitures when calculating stock-based compensation expense, rather than accounting for forfeitures as incurred, which was the Company's previous method. Compensation expense will be recognized over the requisite service (vesting) period using the straight-line attribution method. As a result of adopting SFAS 123R effective January 1, 2006, net income for the quarter ended March 31, 2006 was \$2,248,000 lower than if the Company had continued to account for stock-based compensation under APB Opinion No. 25, as the Company did in the comparable period in 2005. The effect of recording stock-based compensation on basic and diluted earnings per share for the quarter ended March 31, 2006 was a per share reduction of \$0.06.

Prior to the adoption of SFAS No. 123R, the Company presented all benefits of tax deductions resulting from the exercise of stock-based compensation as operating cash flows in the Consolidated Statement of Cash Flows. SFAS No. 123R requires that benefits of tax deductions in excess of stock-based compensation recognized for those awards (excess tax benefits), be presented in the Consolidated Statement of Cash Flows as financing cash inflows, on a prospective basis. For the three months ended March 31, 2006, \$264,000 of excess tax benefits was reported as a financing cash inflow.

The following table shows total stock-based compensation expense included in the Consolidated Statement of Operations for the three months ended March 31, 2006 (in thousands):

|  |          |
|--|----------|
| Cost of sales                                      | \$ 332   |
| Selling, general, and administrative expense       | 3,073    |
| Licensing  | 12       |
| Pre-tax stock-based compensation expense           | 3,417    |
| Income tax benefits                                | (1,169)  |
| Total stock-based compensation expense, net of tax | \$ 2,248 |

No stock-based compensation costs were capitalized during the three months ended March 31, 2006.

The following table illustrates the effect on net income and earnings per share for the three months ended March 31, 2005 if the Company had applied the fair value recognition provisions of SFAS No. 123 to stock-based compensation (in thousands, except per share amounts):

|   | Three Months Ended |
|---|--------------------|
|   | March 31, 2005 (1) |
| Net income, as reported   | \$ 21,337          |
| Add: Stock-based employee compensation expense included in reported net income, net of tax                                  |                    |
| Deduct: Total stock-based employee compensation expense determined under fair value based method for all awards, net of tax | 2,329              |
| Pro forma net income  | \$ 19,008          |
| Earnings per share - basic  |                    |
| As reported   | \$ 0.53            |

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|                            |    |      |
|----------------------------|----|------|
| Pro forma                  |    | 0.47 |
| Earnings per share diluted |    |      |
| As reported                | \$ | 0.52 |
| Pro forma                  |    | 0.47 |

- (1) Disclosures for the period ended March 31, 2006 are not presented because the amounts are recognized in the consolidated financial statements.

### 1997 Stock Incentive Plan

The Company's 1997 Stock Incentive Plan (the Plan) provides for issuance of up to 7,400,000 shares of the Company's Common Stock, of which 1,669,734 shares were available for future grants under the Plan at March 31, 2006. The Plan allows for

**Table of Contents**

grants of incentive stock options, non-statutory stock options, restricted stock awards, restricted stock units and other stock-based awards. The Company uses newly issued 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 become exercisable ratably over a five-year period beginning from the date of grant and expire ten years from the date of grant. Options granted after 2000 generally vest and become exercisable over a period of four years (25 percent on the first anniversary date following the date of grant and monthly thereafter) and expire ten years from the date of the grant, with the exception of most options granted under the 2005 annual grant program. Generally, most options under the 2005 annual grant program cliff vest after one year and expire ten years from the grant date.

The Company estimates the fair value of stock options using the Black-Scholes Merton (BSM) option-pricing model. Key input 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 expected annual dividend yield. The expected term of the stock options was determined using the simplified method for estimating expected option life, which qualify as plain-vanilla options. Prior to adoption of SFAS No. 123R, the expected term represented the estimated time until exercise and was based on historical experience of similar awards, giving consideration to the contractual terms, vesting schedules and expected employee behavior. The expected stock price volatility was based on historical volatility of the Company's stock over the most recent period equal to the expected term of the option, adjusted for activity which is not expected to occur in the future. The risk-free interest rate was based on the U.S. Treasury yield curve in effect at the time of grant for periods corresponding with the expected term of the option. The Company has never paid a dividend, and as such the dividend yield is 0.0%. Prospectively, the assumptions will be 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 persons who receive equity awards.

The following table shows the weighted average assumptions for the three months ended March 31, 2006 and 2005:

|   | Options   |              | ESPP       |             |
|---|-----------|--------------|------------|-------------|
|   | 2006      | (Pro forma)  | 2006 (1)   | (Pro forma) |
| Expected term                                   | 6.5 years | 2 to 7 years | 0.25 years | 0.25 years  |
| Expected stock price volatility                 | 41.75%    | 46.00%       | 20.00%     | 20.00%      |
| Risk-free interest rate                         | 4.46%     | 3.10 4.02%   | 2.79%      | 2.79%       |
| Expected dividend yield                         | 0%        | 0%           | 0%         | 0%          |
| Estimated average fair value per option granted | \$23.91   | \$22.26      | \$11.03    | \$11.03     |

(1) The Company's Employee Stock Purchase Plan was suspended indefinitely effective July 1, 2005. The following table summarizes stock option activity for the three months ended March 31, 2006:

|  | Number of Shares | Weighted Average Exercise Price | Weighted Average Remaining Contractual Term | Aggregate Intrinsic Value (in thousands) |
|--|------------------|---------------------------------|---|--|
| Options outstanding at December 31, 2005 | 2,310,093        | \$ 39.07                        |   |  |
| Granted                                  | 7,000            | 48.78                           |   |  |
| Cancelled                                | (54,720)         | 47.38                           |   |  |
| Exercised                                | (96,755)         | 29.47                           |   |  |
| Options outstanding at March 31, 2006    | 2,165,618        | \$ 39.33                        | 6.93  | \$ 30,431                                |

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|                                       |           |          |      |           |
|---------------------------------------|-----------|----------|------|-----------|
| Options exercisable at March 31, 2006 | 1,275,242 | \$ 33.96 | 5.74 | \$ 24,726 |
|---------------------------------------|-----------|----------|------|-----------|

The aggregate intrinsic value in the table above represents pre-tax intrinsic value, based on the Company's closing stock price of \$53.33 on the last business day of the three month period ended March 31, 2006. Total stock option compensation expense for the three months ended March 31, 2006 was \$3,399,000 and is being amortized over the related vesting period using the straight-line attribution method. At March 31, 2006, unrecognized costs related to stock options totaled approximately \$11,870,000 (before any related tax benefit) and are expected to be recognized over a weighted average period of 1.27 years. The aggregate intrinsic value of stock options exercised was \$2,108,000 and \$6,239,000 for the three months ended March 31, 2006 and 2005, respectively. The total cash received as a result of stock option exercises for the three months ended March 31, 2006 and 2005 was \$2,852,000 and

**Table of Contents**

\$4,762,000, respectively. In connection with these exercises, the tax benefit realized by the Company was \$639,000 and \$2,301,000 for the three months ended March 31, 2006 and 2005, respectively.

The following table provides additional disclosure about stock options outstanding at March 31, 2006:

| Range of Exercise Prices | Options Outstanding |   | Options Exercisable             |                  |                                 |  |
|--------------------------|---------------------|---|---------------------------------|------------------|---------------------------------|--|
|                          | Number of Shares    | Weighted Average Remaining Contractual Life (yrs) | Weighted Average Exercise Price | Number of Shares | Weighted Average Exercise Price |  |
| \$ 6.45-31.35            | 478,718             | 3.80  | \$ 20.36                        | 477,856          | \$ 20.35                        |  |
| \$ 31.36-38.29           | 615,202             | 6.46  | 36.31                           | 490,812          | 36.68                           |  |
| \$ 38.30-47.27           | 546,223             | 9.02  | 45.97                           | 82,194           | 44.35                           |  |
| \$ 47.28-52.8            | 15,963              | 8.57  | 49.66                           | 4,330            | 50.04                           |  |
| \$ 52.81-58.08           | 509,512             | 8.16  | 53.34                           | 220,050          | 53.26                           |  |
|                          | 2,165,618           | 6.93  | \$ 39.33                        | 1,275,242        | \$ 33.96                        |  |

*Restricted Stock Units*

The Company granted 25,250 restricted stock units to certain key employees. Restricted stock units vest over three years beginning one year from the date of grant. The restricted stock units are non-transferable until vested and unvested units are subject to forfeiture upon certain early termination events and also subject to accelerated vesting in certain circumstances. The fair value of restricted stock units is determined based on the number of units granted and the quoted price of the Company's common stock on the date of grant.

The following table summarizes the restricted stock unit activity for the three months ended March 31, 2006:

|   | Number of Shares | Weighted Average Grant Date Fair Value Per Share |
|---|------------------|--|
| Restricted stock units outstanding at December 31, 2005 |                  | \$   |
| Granted   | 25,250           | 53.50  |
| Vested  |                  |  |
| Forfeited   |                  |  |
| Restricted stock units outstanding at March 31, 2006    | 25,250           | \$ 53.50   |

Restricted stock unit compensation expense for the three months ended March 31, 2006 was \$18,000 and is being amortized over the vesting period using the straight-line attribution method. At March 31, 2006, unrecognized costs related to restricted stock units totaled approximately \$1,215,000 (before any related tax benefit) and are expected to be recognized over a weighted average period of 2.96 years. No restricted stock units vested in the three months ended March 31, 2006.

*1999 Employee Stock Purchase Plan*

On June 9, 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 the ESPP indefinitely. As of March 31, 2006, a total of 275,556 shares of common stock had been issued under the ESPP.

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In connection with disqualifying dispositions related to Employee Stock Purchase Plan shares, the tax benefit realized by the Company for the three months ended March 31, 2006 and 2005 was \$15,000 and \$23,000, respectively.

### ***Product warranty:***

Some of the Company's products carry limited warranty provisions for defects in quality and workmanship. A reserve is established at the time of sale to cover estimated warranty costs based on the Company's history of warranty repairs and replacements. A summary of accrued warranties and related activity for the three months ended March 31, 2006 and 2005 is as follows (in thousands):

|                                | <b>Three Months Ended</b> |             |
|--------------------------------|---------------------------|-------------|
|                                | <b>March 31,</b>          |             |
|                                | <b>2006</b>               | <b>2005</b> |
| Balance at beginning of period | \$ 9,907                  | \$ 9,140    |
| Charged to costs and expenses  | 1,373                     | 1,542       |
| Claims settled                 | (1,217)                   | (1,284)     |
| Balance at end of period       | \$ 10,063                 | \$ 9,398    |



**Table of Contents****Recent Accounting Pronouncements:**

In May 2005, the Financial Accounting Standards Board ( FASB ) issued SFAS No. 154, Accounting Changes and Error Corrections A Replacement of APB Opinion No. 20 and FASB Statement No. 3 . SFAS No. 154 requires the retrospective application to prior periods financial statements of changes in accounting principle, unless it is impracticable to determine either the period-specific effects or cumulative effect of the accounting change. SFAS No. 154 also requires that a change in depreciation, amortization, or depletion method for long-lived non-financial assets be accounted for as a change in accounting estimate affected by a change in accounting principle. SFAS No. 154 is effective for accounting changes and corrections of errors made in fiscal years beginning after December 15, 2005. The adoption of this statement did not have a material effect on the Company s financial position, results of operations or cash flows.

In December 2004, the FASB issued SFAS No. 153, Exchange of Nonmonetary Assets An Amendment of Accounting Principles Board ( APB ) Opinion No. 29. SFAS No. 153 eliminates the exception from fair value measurement for nonmonetary exchanges of similar productive assets in paragraph 21(b) of APB Opinion No. 29 and replaces it with an exception for exchanges that do not have commercial substance. SFAS No. 153 specifies that a nonmonetary exchange has commercial substance if the future cash flows of the entity are expected to change significantly as a result of the exchange. SFAS No. 153 is effective for the fiscal periods beginning after June 15, 2005. The adoption of this statement did not have a material effect on the Company s financial position, results of operations or cash flows.

In November 2004, the FASB issued SFAS No. 151, Inventory Costs An Amendment of Accounting Research Bulletin ( ARB ) No. 43, Chapter 4. SFAS No. 151 requires abnormal amounts of inventory costs related to idle facility, freight, handling costs and wasted material (spoilage) expenses to be recognized as current period charges. In addition, SFAS No. 151 requires that the allocation of fixed production overheads to the costs of conversion be based on the normal capacity of the production facilities. SFAS No. 151 is effective for the fiscal years beginning after June 15, 2005. The adoption of this statement did not have a material effect on the Company s financial position, results of operations or cash flows.

**NOTE 2 - INVENTORIES**

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 consist of the following (in thousands):

|                 | March 31,<br>2006 | December 31,<br>2005 |
|-----------------|-------------------|----------------------|
| Raw materials   | \$ 2,288          | \$ 2,643             |
| Work in process | 12,146            | 8,288                |
| Finished goods  | 180,165           | 174,939              |
|                 | \$ 194,599        | \$ 185,870           |

**NOTE 3 - INTANGIBLE ASSETS AND GOODWILL**

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

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

|  | March 31, 2006     |                             | December 31, 2005  |                             |
|--|--------------------|-----------------------------|--------------------|-----------------------------|
|  | Carrying<br>Amount | Accumulated<br>Amortization | Carrying<br>Amount | Accumulated<br>Amortization |
| Intangible assets subject to amortization: |                    |                             |                    |                             |
| Patents                                    | \$ 2,000           | \$ (265)                    | \$ 1,200           | \$ (231)                    |

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|  |           |           |
|--|-----------|-----------|
| Intangible assets not subject to amortization: |           |           |
| Trademarks and trade names                     | \$ 46,871 | \$ 22,071 |
| Goodwill                                       | 17,494    | 12,659    |
|  | \$ 64,365 | \$ 34,730 |

**Table of Contents**

Amortization expense for intangible assets subject to amortization is estimated to be \$151,000 in 2006 and \$156,000 in each of 2007, 2008, 2009 and 2010.

Other non-current assets totaled \$3,506,000 and \$3,063,000 at March 31, 2006 and December 31, 2005, respectively.

**NOTE 4 - COMPREHENSIVE INCOME**

Accumulated other comprehensive income (loss) reported on the Company's consolidated balance sheets consists of foreign currency translation adjustments, net of applicable taxes, and the unrealized gains and losses, net of applicable taxes, on derivative transactions. A summary of comprehensive income (loss), net of related tax effects, is as follows (in thousands):

|   | Three months ended<br>March 31, |           |
|---|---------------------------------|-----------|
|   | 2006                            | 2005      |
| Net income  | \$ 19,467                       | \$ 21,337 |
| Other comprehensive income:   |                                 |           |
| Unrealized derivative holding (losses) and gains arising during period                  | (792)                           | 2,019     |
| Reclassification to net income of previously deferred losses on derivative transactions | 470                             | 1,360     |
| Foreign currency translation adjustments  | 2,305                           | (7,483)   |
| Other comprehensive income (loss)   | 1,983                           | (4,104)   |
| Comprehensive income  | \$ 21,450                       | \$ 17,233 |

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

|  | Foreign<br>currency<br>translation | Unrealized<br>holding gains<br>(losses) on<br>derivative<br>transactions | Accumulated<br>other<br>comprehensive<br>income |
|--|------------------------------------|--|---|
| Balance at December 31, 2005                       | \$ 24,497                          | \$ 465   | \$ 24,962                                       |
| Activity for the three months ended March 31, 2006 | 2,305                              | (322)  | 1,983   |
| Balance at March 31, 2006                          | \$ 26,802                          | \$ 143   | \$ 26,945                                       |

**NOTE 5 - EARNINGS PER SHARE**

SFAS No. 128, Earnings per Share requires dual presentation of basic and diluted earnings per share (EPS). Basic EPS is based on the weighted average number of common shares outstanding. Diluted EPS reflects the potential dilution that could occur if 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 option and restricted stock units determined using the treasury stock method. While the conceptual computation of EPS is not changed by SFAS No. 123R, the inclusion of stock-based compensation expense affects the mechanics of the calculation. Stock-based compensation expense is recognized under SFAS No. 123R only for awards that are expected to vest (determined by applying a pre-vesting expected forfeiture rate assumption), while all stock option or restricted stock units that have not been forfeited are included in diluted EPS. As such, the amount of stock-based compensation cost in the numerator includes a forfeiture rate assumption while the number of shares in the denominator does not.

A reconciliation of the common shares used in the denominator for computing basic and diluted EPS is as follows (in thousands, except per share amounts):

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|   | <b>Three months ended</b> |               |
|---|---------------------------|---------------|
|   | <b>March 31,</b>          |               |
|   | <b>2006</b>               | <b>2005</b>   |
| Weighted average common shares outstanding, used in computing basic earnings per share          | 36,900                    | 40,143        |
| Effect of dilutive stock options  | 439                       | 516           |
| <b>Weighted-average common shares outstanding, used in computing diluted earnings per share</b> | <b>37,339</b>             | <b>40,659</b> |
| Earnings per share of common stock:   |                           |               |
| Basic   | \$ 0.53                   | \$ 0.53       |
| Diluted   | 0.52                      | 0.52          |

**Table of Contents**

Options to purchase an additional 877,879 and 15,500 shares of common stock were outstanding for the three months ended March 31, 2006 and 2005, respectively, but these shares were excluded in the computation of diluted EPS because their effect would be anti-dilutive.

Since the inception of the Company's stock repurchase plan in April 2004, the Company's Board of Directors has authorized the repurchase of \$400,000,000 of the Company's common stock and the Company has repurchased 4,503,119 shares under this program at an aggregate purchase price of approximately \$210,576,000. 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 6 - SEGMENT INFORMATION**

The Company operates in one industry segment: the design, production, marketing and selling of active outdoor apparel, including outerwear, sportswear, footwear, related accessories and equipment.

The geographic distribution of the Company's net sales, income before income tax, and identifiable assets are summarized in the tables below (in thousands). In addition to the geographic distribution of net sales, the Company's net sales by major product line are also summarized below. Inter-geographic net sales, which are recorded at a negotiated mark-up and eliminated in consolidation, are not material.

|  | <b>Three months ended<br/>March 31,</b> |             |
|--|---|-------------|
|  | <b>2006</b>                             | <b>2005</b> |
| <b>Net sales to unrelated entities:</b>              |   |             |
| United States  | \$ 144,387                              | \$ 136,335  |
| Europe   | 47,975                                  | 46,589      |
| Canada   | 26,381                                  | 25,867      |
| Other International                                  | 41,468                                  | 36,915      |
|  | \$ 260,211                              | \$ 245,706  |
| <b>Income before income tax:</b>                     |   |             |
| United States  | \$ 13,387                               | \$ 11,888   |
| Europe   | 4,434                                   | 9,425       |
| Canada   | 4,982                                   | 4,691       |
| Other International                                  | 4,782                                   | 4,765       |
| Interest and other income (expense) and eliminations | 2,136                                   | 1,806       |
|  | \$ 29,721                               | \$ 32,575   |
| <b>Interest (income) expense, net:</b>               |   |             |
| United States  | \$ (2,383)                              | \$ (1,148)  |
| Europe   | 228                                     | (3)         |
| Canada   | 38                                      | (236)       |
| Other International                                  | 219                                     | (20)        |
|  | \$ (1,898)                              | \$ (1,407)  |
| <b>Income tax expense:</b>                           |   |             |
| United States  | \$ 6,833                                | \$ 8,075    |
| Europe   | 1,084                                   | 590         |
| Canada   | 1,714                                   | 1,615       |
| Other International                                  | 605                                     | 809         |
| Eliminations   | 18                                      | 149         |
|  | \$ 10,254                               | \$ 11,238   |

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|  |          |          |
|--|----------|----------|
| Depreciation and amortization expense: |          |          |
| United States                          | \$ 4,171 | \$ 3,774 |
| Europe                                 | 1,489    | 1,654    |
| Canada                                 | 104      | 119      |
| Other International                    | 216      | 195      |
|  | \$ 5,980 | \$ 5,742 |

**Table of Contents**

|                                    | March 31,<br>2006 | December 31,<br>2005 |
|------------------------------------|-------------------|----------------------|
| <b>Assets:</b>                     |                   |                      |
| United States                      | \$ 923,903        | \$ 930,469           |
| Europe                             | 256,355           | 74,207               |
| Canada                             | 52,663            | 281,004              |
| Other International                | 95,390            | 84,650               |
| <br>                               |                   |                      |
| Total identifiable assets          | 1,328,311         | 1,370,330            |
| Eliminations and reclassifications | (393,386)         | (399,552)            |
| <br>                               |                   |                      |
| Total assets                       | \$ 934,925        | \$ 970,778           |

|   | Three months ended |                   |
|---|--------------------|-------------------|
|   | March 31,<br>2006  | March 31,<br>2005 |
| <b>Net sales to unrelated entities:</b> |                    |                   |
| Outerwear                               | \$ 55,201          | \$ 51,217         |
| Sportswear                              | 141,808            | 132,156           |
| Footwear                                | 50,718             | 49,847            |
| Accessories                             | 7,289              | 9,121             |
| Equipment                               | 5,195              | 3,365             |
| <br>                                    |                    |                   |
|   | \$ 260,211         | \$ 245,706        |

**NOTE 7 - FINANCIAL INSTRUMENTS AND RISK MANAGEMENT**

As part of the Company's risk management programs, the Company uses a variety of financial instruments, including foreign currency option and forward exchange contracts. The Company does not hold or issue derivative financial instruments for trading purposes.

The Company hedges against the currency risk associated with firmly committed and anticipated transactions for the next twelve months denominated in European euros, Canadian dollars and Japanese yen.

The Company accounts for these instruments as cash flow hedges. In accordance with SFAS No. 133, Accounting for Derivative Instruments and Hedging Activity, as amended, such financial instruments are marked to market with the offset to accumulated other comprehensive income and subsequently recognized as a component of cost of goods sold when the underlying transaction is recognized. Hedge effectiveness is determined by evaluating whether gains and losses on hedges will offset gains and losses on the underlying exposures. Hedge ineffectiveness was not material during the three months ended March 31, 2006 and 2005.

**NOTE 8 - ACQUISITIONS**

On January 26, 2006, the Company acquired substantially all of the assets of Montrail, Inc. ( Montrail ) for cash consideration of \$15,000,000 plus the assumption of certain liabilities. Montrail is recognized around the world as a premium outdoor footwear brand with a reputation for delivering technical, high performance trail running, hiking, and climbing footwear for outdoor enthusiasts. The acquisition was accounted for under the purchase method of accounting and the results of operations of Montrail have been recorded in the Company's consolidated financial statements beginning on January 26, 2006. The cost of the acquisition was allocated on the basis of the estimated fair value of the assets acquired and the liabilities assumed. The fair values of assets and liabilities acquired are presented below (in thousands):

|                     |       |
|---------------------|-------|
| Cash                | \$ 23 |
| Accounts receivable | 1,778 |

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|  |                  |
|--|------------------|
| Inventory                                | 6,878            |
| Prepays and other assets                 | 112              |
| Property, plant and equipment            | 597              |
| Intangible assets                        | 12,235           |
| <b>Total assets acquired</b>             | <b>21,623</b>    |
| Accounts payable and accrued liabilities | 790              |
| Note payable                             | 5,833            |
| <b>Total liabilities assumed</b>         | <b>6,623</b>     |
| <b>Net assets acquired</b>               | <b>\$ 15,000</b> |



**Table of Contents**

Intangible assets acquired consisted of \$10,000,000 related to the trademark of Montrail, \$935,000 for goodwill, \$800,000 related to patents, and \$500,000 related to Montrail's order backlog. The \$11,300,000 of purchase price allocated to the trademark, patents and order backlog was determined by management based in part on a third party appraisal using established valuation techniques. The purchase price allocation is subject to revision until completion of final review and verification which the Company expects to occur during the second quarter of this year. Patents are subject to amortization over 17 years from the date filed with the U.S. Patent and Trademark Office. At the time of the acquisition, the remaining useful lives of these patents ranged from 11 to 16 years and the weighted average useful life was 11.4 years. The goodwill and trademark are not subject to amortization because these assets are deemed to have indefinite useful lives. The order backlog is being amortized over the period for which the orders are being shipped, which is expected to be less than one year from the date of acquisition. These intangible assets will be reviewed for impairment in accordance with SFAS No. 142, Goodwill and Other Intangible Assets.

On March 31, 2006, the Company acquired a group of Pacific Trail, Inc. ( Pacific Trail ) trade names, trademarks, brands, and goodwill for \$20,400,000. The acquisition was the result of the March 29, 2006 auction in bankruptcy court of specified assets of Pacific Trail and London Fog, Inc. On March 31, 2006, the Company sold Pacific Trail's Dockers brand licenses for \$1,700,000. Intangible assets acquired consisted of \$14,800,000 for the trade names, trademarks and brands of Pacific Trail and \$3,900,000 for goodwill. The \$14,800,000 of purchase price allocated to the trade names, trademarks, and brands was determined by management, based in part on a third party appraisal using established valuation techniques. The purchase price allocation is subject to revision until completion of final review and verification which the Company expects to occur during the second quarter of this year. The trade names, trademarks, brands, and goodwill are not subject to amortization because these assets are deemed to have indefinite useful lives. These intangible assets will be reviewed for impairment in accordance with SFAS No. 142.

**NOTE 9 - INCOME TAXES**

The following is a reconciliation of the normal expected statutory federal income tax rate to the effective tax rate reported in the financial statements:

|  | <b>Three Months Ended</b> |              |
|--|---------------------------|--------------|
|  | <b>March 31,</b>          |              |
|  | <b>2006</b>               | <b>2005</b>  |
| Provision for federal income taxes at the statutory rate | 35.0%                     | 35.0%        |
| State and local income taxes, net of federal benefit     | 1.6                       | 1.8          |
| Non-U.S. income taxed at different rates                 | (1.6)                     | (2.7)        |
| Other  | (0.5)                     | 0.4          |
| <b>Actual provision for income taxes</b>                 | <b>34.5%</b>              | <b>34.5%</b> |

The Company's tax returns are audited by various taxing authorities globally from time to time. Although the Company believes that adequate accruals have been provided for all years, any adjustment resulting from these audits could have a material effect on the Company's financial statements.

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**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 conditions, including any statements regarding anticipated sales growth across markets, distribution channels, and product categories, access to and the cost of 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 could cause actual results to differ materially from those projected in forward-looking statements, including the risks described below under the heading *Factors That May Affect Our Business and the Price of Our Common Stock*. 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.

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 Consolidated Financial Statements and Accompanying Notes that appear elsewhere in this quarterly report.

All references to quarters relate to the quarter ended March 31 of the particular year.

**Overview**

Since our initial public offering in 1998, our net sales have steadily increased from \$427.3 million in 1998 to \$1,155.8 million in 2005, which equates to a compound annual growth rate of 15.3% for this period. Although we cannot predict future results with certainty, our long-term goal is to capitalize on global market opportunities for each of our key product categories. We are committed to our growth strategies of enhancing the retail productivity of our customers, leveraging our brands in international markets, further developing our product categories, selectively broadening our retail distribution channels and expanding the global awareness of our brands through license agreements. With our well-developed sourcing and distribution infrastructure and proven design and product development team, we believe that we are well positioned for future long-term growth.

Highlights as of and for the quarter ended March 31, 2006 are as follows:

Our backlog for the fall 2006 selling season as of March 31, 2006 increased \$75.1 million, or 11.6%, to \$720.7 million from \$645.6 million as of March 31, 2005. Excluding changes in currency exchange rates, fall 2006 backlog increased \$82.1 million, or 12.7%. Excluding future orders from the Montrail and Pacific Trail businesses, fall 2006 backlog increased 7.6%. The increase in our fall backlog is largely the result of strong sportswear orders in the United States. We attribute the strength of our sportswear backlog to the continued retail and consumer demand for our sportswear products. Although we cannot predict with certainty any future results, our reported backlog is one indicator of our anticipated sales for the fall 2006 selling season. Many factors, however, could cause actual sales to differ materially from reported future order backlog, including the potential cancellation of orders by customers. Moreover, our fall 2006 backlog is not indicative of, and should not be utilized in forecasting sales beyond the fall 2006 selling season.

We acquired the Montrail brand and a group of Pacific Trail brands. Montrail is a premium outdoor footwear brand with a reputation for technical, high performance trail running and hiking products. The Montrail acquisition was slightly dilutive to our first quarter earnings as a result of recording the Montrail inventory at fair value in purchase accounting, and we continue to expect the acquisition to be slightly dilutive to 2006 earnings. The Pacific Trail group of brands includes the Pacific Trail outerwear brand, the Towne outerwear and rainwear brand, the Pac Tec high-performance outerwear brand, the Black Dot Clothing snowboard apparel brand, the Moonstone mountain equipment brand and several other brands. We expect the Pacific Trail acquisition to be slightly dilutive to 2006 earnings.

Net sales increased \$14.5 million, or 5.9%, to \$260.2 million from \$245.7 million for the comparable period in 2005. Excluding changes in currency exchange rates, net sales increased 7.7%. Our sales growth is largely attributable to increased shipments in the United States and our Other International businesses, which include our direct business in Japan and Korea and our international distributor markets worldwide. From a product categorical perspective, the sales increase was attributable to increased sales of

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sportswear and outerwear.

Gross profit decreased 70 basis points to 42.9% of net sales from 43.6% of net sales for the comparable period in 2005. Gross margins increased in the United States primarily as a result of improved margins of fall 2005 closeout product sales partially offset by the results of recording the Montrail inventory at fair value in purchase accounting. European margins, however,

**Table of Contents**

decreased due to a challenging competitive environment, foreign currency exchange rates and costs associated with certain promotional campaigns.

Selling, general and administrative expenses ( SG&A ) increased to 32.6% of net sales from 31.2% of net sales for the comparable period in 2005. This increase was primarily attributable to additional personnel-related costs, including stock-based compensation of approximately \$3.1 million. We expect full year 2006 SG&A expense, as a percentage of net sales, to remain relatively constant compared to 2005, excluding stock-based compensation of approximately \$10.5 million.

Net income was \$19.5 million or \$0.52 per diluted share compared to \$21.3 million or \$0.52 per diluted share for the comparable period in 2005. Stock-based compensation expense equated to approximately \$0.06 per share.

Since the inception of our stock repurchase plan in April 2004, our Board of Directors has authorized the repurchase of \$400 million of our common stock and we have repurchased approximately 4.5 million shares at an aggregate purchase price of \$210.6 million through March 31, 2006. The repurchase program does not obligate us to acquire any specific number of shares or acquire shares over any specified period of time.

**Results of Operations**

Net income decreased \$1.8 million, or 8.5%, to \$19.5 million for the first quarter of 2006 from \$21.3 million for the comparable period in 2005. Diluted earnings per share remained constant at \$0.52 for both the first quarter of 2006 and 2005.

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

|                                     | Three Months Ended |        |
|-------------------------------------|--------------------|--------|
|                                     | March 31,          |        |
|                                     | 2006               | 2005   |
| Net sales                           | 100.0%             | 100.0% |
| Cost of sales                       | 57.1               | 56.4   |
| Gross profit                        | 42.9               | 43.6   |
| Selling, general and administrative | 32.6               | 31.2   |
| Net licensing income                | (0.4)              | (0.3)  |
| Income from operations              | 10.7               | 12.7   |
| Interest income, net                | (0.7)              | (0.6)  |
| Income before income tax            | 11.4               | 13.3   |
| Income tax expense                  | 3.9                | 4.6    |
| Net income                          | 7.5%               | 8.7%   |

***Quarter Ended March 31, 2006 Compared to Quarter Ended March 31, 2005***

**Net Sales:** Consolidated net sales increased 5.9% to \$260.2 million for the first quarter of 2006 from \$245.7 million for the comparable period in 2005. Excluding changes in currency exchange rates, consolidated net sales increased 7.7%.

***Reconciliation of Net Sales Changes to Net Sales Changes Excluding Changes in Currency Exchange Rates***

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Net sales from year to year are affected by changes in selling prices and unit volume as well as changes in currency exchange rates where we have sales in foreign locations. Our net sales changes excluding the effect of changes in currency exchange rates are presented below. We disclose changes in sales excluding changes in currency exchange rates because we use the measure to understand sales growth excluding any effect of foreign currency exchange rate changes. In addition, our foreign management teams are generally evaluated and compensated in part based on the results of operations excluding currency exchange rate changes for their respective regions. Amounts calculated in accordance with accounting principles generally accepted in the United States of America, or GAAP, are denoted.

**Table of Contents**

|   | <b>Quarter ended March 31, 2006</b> |               |
|---|-------------------------------------|---------------|
|   | <b>Amount</b>                       | <b>%</b>      |
|   | <b>(millions)</b>                   | <b>Change</b> |
| <i>Consolidated:</i>  |                                     |               |
| Net sales increase (GAAP)                                       | \$ 14.5                             | 5.9%          |
| Increase due to currency exchange rate changes                  | 4.4                                 | 1.8           |
| Net sales increase excluding changes in currency exchange rates | \$ 18.9                             | 7.7%          |
| <i>United States:</i>   |                                     |               |
| Net sales increase (GAAP)                                       | \$ 8.1                              | 5.9%          |
| <i>Europe:</i>  |                                     |               |
| Net sales increase (GAAP)                                       | \$ 1.4                              | 3.0%          |
| Increase due to currency exchange rate changes                  | 5.0                                 | 10.7          |
| Net sales increase excluding changes in currency exchange rates | \$ 6.4                              | 13.7%         |
| <i>Canada:</i>  |                                     |               |
| Net sales increase (GAAP)                                       | \$ 0.5                              | 1.9%          |
| Decrease due to currency exchange rate changes                  | (1.9)                               | (7.3)         |
| Net sales decrease excluding changes in currency exchange rates | \$ (1.4)                            | (5.4)%        |
| <i>Other International:</i>                                     |                                     |               |
| Net sales increase (GAAP)                                       | \$ 4.5                              | 12.2%         |
| Increase due to currency exchange rate changes                  | 1.3                                 | 3.6           |
| Net sales increase excluding changes in currency exchange rates | \$ 5.8                              | 15.8%         |

The increase in net sales was led by our United States business, followed by our Other International, European and Canadian businesses. Sales growth was primarily the result of an increase in the quantity of units sold in each geographic region except the United States. Despite the decrease in the quantity of units sold for the first quarter of 2006, sales in the United States increased. This was the result of a higher level of discounted closeout sales in the first quarter of 2005 compared to the same period in 2006. By product category, consolidated unit sales quantity increases were led by sportswear, followed by equipment and outerwear while unit sales quantities of accessories and footwear decreased.

Net sales from outerwear increased \$4.0 million, or 7.8%, to \$55.2 million for the first quarter of 2006 from \$51.2 million for the comparable period in 2005. The increase in outerwear sales stemmed primarily from increased shipments in Europe and, to a lesser degree, an increase in our Other International businesses. Cold weather had a favorable effect on outerwear sales in Europe. Sales of outerwear in the United States were relatively flat. Excluding United States closeout sales which were elevated in the first quarter of 2005, outerwear sales increased in the first quarter of 2006.

Net sales from sportswear increased \$9.6 million, or 7.3%, to \$141.8 million for the first quarter of 2006 from \$132.2 million for the comparable period in 2005. The increase in sportswear sales was predominantly the result of continued growth in the United States, which represented over 85% of the total sportswear sales growth. Sportswear sales growth in the United States occurred across major distribution channels, which was primarily the result of our broad product assortment and related consumer demand for our sportswear products. Internationally, sportswear sales increased in Other International and Canada partially offset by decreased sales in Europe. The decrease in European sales was primarily due to a shift in the timing of sportswear shipments. Sales of sportswear in Europe for the spring 2006 season are expected to increase compared to the spring 2005 season.

Net sales from footwear increased \$0.9 million, or 1.8%, to \$50.7 million for the first quarter of 2006 from \$49.8 million for the comparable period in 2005. Footwear sales growth was led by Europe and Other International offset by decreased sales in Canada and the United States. Europe's footwear sales growth was largely attributable to incremental footwear sales resulting from our acquisition of Montrail. Sales of footwear decreased in the United States despite the incremental footwear sales contributed by the Montrail brand. The decrease in United States footwear sales was partially attributable to a reduction in closeout footwear sales as well as warm weather in the United States which hampered sales of cold weather footwear.

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Net sales from accessories decreased \$1.8 million, or 19.8%, to \$7.3 million for the first quarter of 2006 from \$9.1 million for the comparable period in 2005. Accessories sales decreased across all geographies, led by the United States. The decrease in the United States sales was the result of a higher level of closeout sales in the first quarter of 2005 compared to the same period in 2006.

Net sales from equipment increased \$1.8 million, or 52.9%, to \$5.2 million for the first quarter of 2006 from \$3.4 million for the comparable period in 2005. Equipment sales growth was led by Other International, followed by the United States, Europe and

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**Table of Contents**

Canada. Although the majority of our equipment sales are from Mountain Hardware branded product, our sales growth was attributed to sales of Columbia bags and packs which were previously designed and sold by one of our licensees.

Net sales in the United States increased \$8.1 million, or 5.9%, to \$144.4 million for the first quarter of 2006 from \$136.3 million for the comparable period in 2005. The increase in net sales in the United States was predominantly the result of a significant increase in sales of sportswear. Equipment and outerwear sales also increased, while sales of accessories and footwear decreased.

Net sales in Europe increased \$1.4 million, or 3.0%, to \$48.0 million for the first quarter of 2006 from \$46.6 million for the comparable period in 2005. Excluding changes in currency exchange rates, Europe's net sales increased 13.7%. Net sales growth was led by outerwear, followed by footwear and equipment, offset by decreased sales of sportswear and accessories.

Net sales in Canada increased \$0.5 million, or 1.9%, to \$26.4 million for the first quarter of 2006 from \$25.9 million for the comparable period in 2005. Excluding changes in currency exchange rates, Canada's net sales decreased 5.4%. The decrease was primarily due to decreased sales of footwear, outerwear and accessories partially offset by increased sales of sportswear and equipment. Canada's first quarter sales growth was less than expected due to a shift in the timing of shipments from the first quarter to the second quarter.

Net sales from Other International, which includes our direct business in Japan and Korea and our international distributor markets worldwide, increased \$4.5 million, or 12.2%, to \$41.4 million for the first quarter of 2006 from \$36.9 million for the comparable period in 2005. Excluding changes in currency exchange rates, Other International sales increased 15.8%. Sales growth for Other International was led by our Japanese and Korean businesses followed by our international distributors. Net sales growth was led by sportswear, followed by outerwear, equipment and footwear partially offset by decreased sales of accessories. Sportswear sales were particularly strong in our Japanese business due to a shift in timing of shipments into the first quarter as well as customer account growth in the department store channel and increased sales to existing accounts.

**Gross Profit:** Gross profit, as a percentage of net sales, decreased to 42.9% for the first quarter of 2006 from 43.6% for the comparable period in 2005. The decrease in gross profit was primarily due to the effect of recording Montrail's inventory at fair value in purchasing accounting, weakness in foreign currency hedge rates for our spring 2006 selling season and increased competitive pressure. These unfavorable gross profit effects were partially offset by improved margins on close-out product sales in the United States in the first quarter of 2006.

Recording the Montrail inventory at fair value in purchase accounting had an unfavorable effect on our gross profit of approximately 30 basis points. The remaining mark-to-market inventory valuation adjustments will continue to unfavorably affect our gross profit throughout 2006.

Weakness in foreign currency hedge rates for our spring 2006 selling season unfavorably affected our gross profit. Since our global supply of inventory is generally purchased with U.S. dollars, the gross profit of our direct international businesses is partially dependent on the valuation of the U.S. dollar. For our spring 2006 selling season, the hedge rates for our European, Canadian and Japanese businesses have weakened compared to our spring 2005 selling season.

The unfavorable effects on gross profit resulting from the mark-to-market adjustments associated with our acquisition of Montrail, weakness in foreign currency hedge rates and increased competitive pressure were partially offset by improved margins on close-out product sales. In the first quarter of 2005, sales of close-out products increased significantly due to unseasonably warm weather in North America during the fourth quarter of 2004 which led to higher than normal excess inventory that was eventually sold at reduced close-out margins in the first quarter of 2005. Conversely, sales of close-out products decreased in the first quarter of 2006 while the margins realized from close-out sales improved.

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

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

SG&A expense increased \$8.0 million, or 10.4%, to \$84.8 million for the first quarter of 2006 from \$76.8 million for the comparable period in 2005. Selling expenses decreased \$0.4 million, or 1.6%, while general and administrative expenses increased \$8.4 million, or 16.5%. As a percentage of net sales, SG&A increased to 32.6% of net sales for the first quarter of 2006 from 31.2% of net sales for the comparable period in 2005.





## **Table of Contents**

Selling expenses, including commissions and advertising, decreased to 9.8% of net sales for the first quarter of 2006 from 10.5% of net sales for the comparable period in 2005. The decrease in selling expenses was attributable to a reduction in advertising expenses, which have been reduced to past spending levels.

The increase in general and administrative expenses primarily resulted from an increase in personnel related costs. The increase in personnel costs was attributable to stock-based compensation of \$3.1 million, additional European sales, merchandising and administrative personnel hired to execute strategic growth initiatives and additional United States personnel hired after the first quarter of 2005. Depreciation and amortization included in SG&A totaled \$5.7 million for the first quarter of 2006 compared to \$5.6 million for the comparable period in 2005.

We expect full year 2006 SG&A expense, as a percentage of net sales, to be comparable to 2005, excluding stock-based compensation of approximately \$10.5 million.

**Net Licensing Income:** As our licensees have become more established in the marketplace with the sale of branded products, our licensing arrangements have produced highly profitable income for the Company. We derive net licensing income from income that we earn through licensing our trademarks across a range of categories that complement our current product offerings.

For the first quarter of 2006, we recognized licensing income from fourteen licensees. Products distributed by our licensees included socks, packs, leather, eyewear, watches, camping gear, home furnishings, bicycles, insulated products and other accessories.

Net licensing income increased \$0.3 million, or 42.9%, to \$1.0 million for the first quarter of 2006 from \$0.7 million for the comparable period in 2005. The components of licensing income were led by Columbia licensed camping gear, followed by licensed socks, bicycles, eyewear and insulated products.

**Interest (Income) Expense, Net:** Interest income was \$2.1 million for the first quarter of 2006 compared to \$1.8 million for the comparable period in 2005. The increase in interest income was due to the higher interest rate environment compared to the same period in 2005. Interest expense was \$0.2 million for the first quarter of 2006 compared to \$0.4 million for the comparable period in 2005. The decrease in interest expense was primarily attributable to higher capitalized interest related to distribution related capital projects, which reduced interest expense in the first quarter of 2006.

**Income Tax Expense:** The provision for income taxes decreased to \$10.3 million for the first quarter of 2006 from \$11.2 million for the comparable period in 2005 due to lower income for the first quarter of 2006 compared to the same period in 2005. Our effective income tax rate was 34.5% for the quarter, consistent with the effective tax rate of 34.5% for the comparable period in 2005.

## **Backlog**

We typically receive the bulk of our orders for each of the fall and spring seasons at least three months prior to the date the products are shipped to customers. Generally, orders are subject to cancellation prior to the date of shipment. At March 31, 2006, our order backlog was \$848.9 million, compared to \$758.9 million at March 31, 2005. For a variety of reasons, including the timing of shipments, timing of order deadlines, timing of receipt of orders, product mix of customer orders and the amount of in-season orders, backlog at March 31 may not be a reliable measure of future sales for any succeeding period. For these reasons backlog figures in one year also may not be directly comparable to backlog figures in another year when measured at the same date.

## **Seasonality of Business**

Our business is affected by the general seasonal trends common to the outdoor apparel industry, with sales and profits highest in the third calendar quarter. Our products are marketed on a seasonal basis, with product sales mix weighted substantially toward the fall season. Results of operations in any period should not be considered indicative of the results to be expected for any future period. Sales of our products are subject to substantial cyclical fluctuation and impacts from unseasonable weather conditions. 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 results of operations, cash flows and financial position.

## **Liquidity and Capital Resources**

Our primary ongoing funding requirements are to finance working capital and to continue to grow the business. At March 31, 2006, we had total cash equivalents of \$57.2 million compared to \$101.1 million at December 31, 2005. Cash provided by operating activities was \$59.5 million for the three months ended March 31, 2006 compared to \$54.4 million for the comparable period in 2005. This change was primarily due to an

increase in cash receipts and the timing of cash disbursements.

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## **Table of Contents**

Our primary capital requirements are for working capital, investing activities associated with the expansion of our global operations and general corporate needs. Net cash used in investing activities was \$72.1 million for the three months ended March 31, 2006 and \$25.6 for the comparable period in 2005. For the 2006 period, net cash used in investing activities primarily consisted of \$35.4 million for the acquisitions of Montrail, Inc., net of cash acquired, and a group of Pacific Trail, Inc. tradenames, trademarks, and brands, \$22.8 million net purchases of short-term investments, and \$15.6 million for capital expenditures. For the 2005 period, net cash used in investing activities primarily consisted of net purchases of short-term investments of \$20.8 million and \$4.8 million for capital expenditures. The increase in capital expenditures for the 2006 period compared to the same period in 2005 was the result of \$7.7 million for the upgrade and expansion of the Rivergate distribution center in Portland, Oregon and \$5.5 million for expansion of the European distribution center in Cambrai, France.

Cash used in financing activities was \$31.7 million for the three months ended March 31, 2006. Cash provided by financing activities was \$0.3 million for the three months ended March 31, 2005. For the 2006 period, net cash used in financing activities primarily consisted of \$37.2 million for the repayment of notes and long-term debt, offset by proceeds from notes payable of \$4.1 million and proceeds from the issuance of common stock of \$2.9 million. For the 2005 period, net cash provided by financing activities primarily consisted of proceeds from the sale of stock under employee stock plans of \$5.3 million, offset by the repurchase of \$4.5 million of common stock.

To fund our domestic working capital requirements, we have available unsecured revolving lines of credit with aggregate seasonal limits ranging from \$50 million to \$125 million, of which \$25 million to \$100 million is committed. As of March 31, 2006, no balances were outstanding under these lines of credit. Internationally, our subsidiaries have local currency operating lines in place that we guarantee with a combined limit of approximately \$94.8 million at March 31, 2006, of which \$3.8 million is designated as a European customs guarantee. At March 31, 2006, \$15.6 million was outstanding under these lines of credit.

As we continue our investment in global infrastructure to support our growth, we anticipate that capital expenditures for 2006 will total approximately \$60.0 million, consisting of distribution and information technology projects and maintenance capital requirements. We expect to fund these capital expenditures with existing cash and cash provided by operations. If the need arises for additional expenditures, we may need to seek additional funding. Our ability to obtain additional credit facilities will depend on many factors, including prevailing market conditions, our financial condition, and our ability to negotiate favorable terms and conditions. There is no assurance that financing will 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 import lines of credit with a combined limit of approximately \$225.0 million at March 31, 2006, available for issuing documentary letters of credit. At March 31, 2006, we had letters of credit outstanding of \$40.3 million issued for purchase orders for inventory.

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

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

Management and our independent auditors regularly discuss with our audit committee each of our critical accounting estimates and 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



## **Table of Contents**

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 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.

In some countries outside of the United States where title passes upon receipt by the customer, predominantly where we sell directly in Western Europe, 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 four 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 had been established, we would record a reduction or increase to net revenues in the period in which we made such a determination. Over the three year period ended December 31, 2005, our actual annual sales returns and miscellaneous claims from customers have been less than two percent of net sales.

### ***Allowance for Uncollectible Accounts Receivable***

We make ongoing estimates for 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, current economic trends, and changes in customer payment terms. Because we cannot predict future changes in the financial stability of our customers, actual future losses from uncollectible accounts may differ from our estimates. If the financial condition of our customers were to deteriorate, resulting in their inability to make payments, a larger allowance could be required. If we determine a smaller or larger allowance is appropriate, we would record a credit or a charge to SG&A expense in the period in which we made the determination.

### ***Inventory Obsolescence and Product Warranty***

We make ongoing estimates of potential future excess, close-out or slow moving inventory and product warranty costs. We identify our excess inventory, a component of which is planned, and evaluate our purchase commitments, sales forecasts, and historical experience and make provisions as necessary to properly reflect inventory value at the lower of cost or estimated market value. When evaluating 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 smaller or larger reserves are appropriate, we would record a credit or a charge to cost of sales in the period we made the determination.

### ***Income Taxes***

We use the asset and liability method of accounting for income taxes. Under this method, income tax expense is recognized for the amount of taxes payable or refundable for the current year and for deferred tax liabilities and assets for the future tax consequences of events that have been recognized in our financial statements or tax returns. Management must make assumptions, judgments and estimates to determine our current provision for income taxes and also our deferred tax assets and liabilities and any valuation allowance to be recorded against a deferred tax asset. 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 impact 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 render our current assumptions, judgments and estimates of recoverable net deferred taxes inaccurate. Any of the assumptions, judgments and estimates mentioned above could cause our actual income tax obligations to differ from our estimates, thus materially impacting our financial position and results of operations.

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On a quarterly basis, we estimate what our effective tax rate will be for the full fiscal year and record a quarterly income tax provision in accordance with the anticipated effective rate. As the calendar year progresses, we periodically refine our estimate based on actual events and earnings by jurisdiction during the year. This ongoing estimation process can result in changes to our expected

**Table of Contents**

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 the year-to-date provision equals the expected annual effective tax rate.

***Stock-Based Compensation***

We account for stock-based compensation in accordance with Statement of Financial Accounting Standards ( SFAS ) No. 123(R), *Share-Based Payment* . Under the provisions of SFAS No. 123R, 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. Estimation of stock-based compensation for stock options granted, utilizing the Black-Scholes-Merton option-pricing model, requires various highly subjective assumptions including volatility and expected option life. Further, as required under SFAS No. 123R, we now 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**

In May 2005, the Financial Accounting Standards Board ( FASB ) issued SFAS No. 154, *Accounting Changes and Error Corrections - A Replacement of APB Opinion No. 20 and FASB Statement No. 3* . SFAS No. 154 requires the retrospective application to prior periods' financial statements of changes in accounting principle, unless it is impracticable to determine either the period-specific effects or cumulative effect of the accounting change. SFAS No. 154 also requires that a change in depreciation, amortization, or depletion method for long-lived non-financial assets be accounted for as a change in accounting estimate affected by a change in accounting principle. SFAS No. 154 is effective for accounting changes and corrections of errors made in fiscal years beginning after December 15, 2005. The adoption of this statement did not have a material effect on our financial position, results of operations or cash flows.

In December 2004, the FASB issued SFAS No. 153, *Exchange of Nonmonetary Assets - An Amendment of Accounting Principles Board ( APB ) Opinion No. 29* . SFAS No. 153 eliminates the exception from fair value measurement for nonmonetary exchanges of similar productive assets in paragraph 21(b) of APB Opinion No. 29 and replaces it with an exception for exchanges that do not have commercial substance. SFAS No. 153 specifies that a nonmonetary exchange has commercial substance if the future cash flows of the entity are expected to change significantly as a result of the exchange. SFAS No. 153 is effective for the fiscal periods beginning after June 15, 2005. The adoption of this statement did not have a material effect on our financial position, results of operations or cash flows.

In November 2004, the FASB issued SFAS No. 151, *Inventory Costs - An Amendment of Accounting Research Bulletin ( ARB ) No. 43, Chapter 4* . SFAS No. 151 requires abnormal amounts of inventory costs related to idle facility, freight, handling costs and wasted material (spoilage) expenses to be recognized as current period charges. In addition, SFAS No. 151 requires that the allocation of fixed production overheads to the costs of conversion be based on the normal capacity of the production facilities. SFAS No. 151 is effective for the fiscal years beginning after June 15, 2005. The adoption of this statement did not have a material effect on our financial position, results of operations or cash flows.

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

There has not been any material change in the market risk disclosure contained in the Company's Annual Report on Form 10-K for the year ended December 31, 2005.

**Item 4 *CONTROLS AND PROCEDURES***

Our management has evaluated, under the supervision and with the participation of our chief executive officer and chief financial officer, the effectiveness of our disclosure controls and procedures as of the end of the period covered by this report pursuant to Rule 13a-15(b) under the Securities Exchange Act of 1934 (the *Exchange Act* ). Based on that evaluation, our chief executive officer and chief financial officer have concluded that, as of the end of the period covered by this report, our disclosure controls and procedures are effective in ensuring that information required to be disclosed in our Exchange Act reports is (1) recorded, processed, summarized and reported in a timely manner, and (2) accumulated and communicated to our management, including our chief executive officer and chief financial officer, as appropriate to allow timely decisions regarding required disclosure.

There has been no change in our internal control over financial reporting that occurred during our fiscal quarter ended March 31, 2006 that has materially affected, or is reasonably likely to materially affect, our internal control over financial reporting.





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**Table of Contents**

**PART II. OTHER INFORMATION**

**Item 1(A) RISK FACTORS**

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

Our business is adversely affected by unseasonable weather conditions. Sales of our outerwear and cold weather footwear are dependent in part on the weather and may decline in years in which weather conditions do not favor the use of these products. For example, in fall 2004, unseasonably warm weather in the United States caused customers to delay, and in some cases reduce or cancel, orders for our outerwear, which had an adverse effect on our net sales and profitability. Periods of unseasonably warm weather in the fall or winter or unseasonably cold or wet weather in the spring could have a material adverse effect on our results of operations and financial condition.

***We May be Adversely Affected by an Economic Downturn or Economic Uncertainty***

Sales of our products are subject to substantial cyclical fluctuation. Consumer demand for our products may not reach our growth targets, or may decline, when there is an economic downturn or economic uncertainty in our key markets, particularly markets in North America and Europe. Weakness in the Japanese economy, for example, has limited growth opportunities in recent years, and a slower economy in the United States in 2002 and 2003 created additional uncertainties for our customers and our business. In addition, continued volatility in the global oil markets has resulted in rising fuel prices, which many shipping companies are passing on to their customers. Our shipping costs have continued to increase over the past several years, and we expect these increases to continue. Because we price our products to our customers in advance, we may not be able to pass these increased costs on to our customers. Rising oil prices and interest rates may also adversely affect consumer demand. Our sensitivity to economic cycles and any related fluctuation in consumer demand and rising shipping costs could have a material adverse effect on our results of operations and financial condition.

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

We are subject to the risks generally associated with doing business abroad. These risks include foreign laws and regulations, foreign consumer preferences, political unrest, disruptions or delays in shipments and changes in economic conditions in countries in which we manufacture or sell products. In addition, disease outbreaks, terrorist acts and U.S. military operations have increased the risks of doing business abroad. These factors, among others, could 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 could be materially and adversely affected. 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. For example, the European Commission recently proposed additional duties on certain leather footwear imported into Europe from Vietnam and China. These duties, which may be significant, could significantly affect the sale of our footwear in Europe. Any country in which our products are produced or sold may eliminate, adjust or impose new quotas, duties, tariffs, antidumping penalties or other charges or restrictions, any of which could have a material adverse effect on our results of operations and financial condition.

***We May be Adversely Affected by the Financial Health of Retailers***

We extend credit to our customers based on an assessment of a customer's financial circumstances, generally without requiring collateral. To assist in the scheduling of production and the shipping of seasonal products, we offer customers discounts for placing pre-season 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 when dealing with financially ailing retailers or retailers struggling with economic uncertainty. Some of our significant customers have experienced financial difficulties in the past, which in turn have had an adverse effect on our business, and we believe that retailers are being more cautious than usual with orders as a result of weakness in the retail economy. A slowing economy in our key markets could have an adverse effect on the financial health of our customers, which could in turn have a material adverse effect on our results of operations and financial condition.

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

The markets for outerwear, sportswear, rugged footwear, tents and sleeping bags 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 and footwear companies. In many instances, retailers who are our customers pose our most significant competitive threat by marketing apparel, footwear and equipment under their own labels. 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 and have substantially greater financial, distribution,

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marketing and other resources and have achieved greater recognition for their products than we have. Increased competition could result in reductions in display areas in retail locations, reductions in sales, or reductions in our profit margins, any of which could have a material adverse effect on our results of operations and financial condition.

## **Table of Contents**

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

When retailers 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 label may increase. Some of our significant customers have consolidated their operations in the past, which in turn has had a negative impact on our business. We expect retailer consolidation to continue, which could have a material adverse effect on our results of operations and financial condition.

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

Changes in consumer preferences or consumer interest in outdoor activities could have a material adverse effect on our business. In addition, although we believe that our products have not been significantly affected by past fashion trends, changes in fashion trends could have a greater impact as we expand our offerings to include more product categories in more geographic areas. We also face risks because our business requires us 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 production orders with manufacturers before we have received all of a season's orders, and orders may be cancelled by retailers before shipment. If we fail to anticipate accurately and respond to consumer preferences, we could experience lower sales, excess inventories and lower profit margins, any of which could have a material adverse effect on our results of operations and financial condition.

### ***Our Success Depends on Our Use of Proprietary 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 design knock offs, or that otherwise infringe on our proprietary rights. Counterfeiting activities typically increase as brand recognition increases, especially in markets outside the United States. If we are unsuccessful in challenging a party's products on the basis of trademark or design infringement, continued sales of these products could adversely affect our sales and our brand and result in the 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. Additionally, 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. 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 results of operations and financial condition.

Although we have not been materially inhibited from selling products in connection with trademark and trade dress disputes, as we extend our brand into new product categories and new product lines and expand the geographic scope of our marketing, we could become subject to litigation based on allegations of the infringement of intellectual property rights of third parties. Future litigation also may be necessary to defend us against such claims or to enforce and protect our intellectual property rights. Any intellectual property litigation could be costly and could divert management's attention from the operation of our business. Adverse determinations in any litigation could 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 could have a material adverse effect on our results of operations and financial condition.

### ***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 center in Strathroy, Ontario; and in Europe we rely primarily on our distribution center in Cambrai, France.

The implementation and performance of our Kentucky distribution facility is subject to many risks generally associated with transition and startup activities, including the risk that the new distribution facility may not successfully handle distribution activities and the risk that the transition may be disruptive to our business. 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, or other system failures. Risks associated with upgrading or expanding these facilities may significantly disrupt our operations.



## **Table of Contents**

Our distribution facilities could 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 could be caused by significant disruptions in our distribution facilities.

### ***Our Success Depends on Our Information Systems***

Our business is increasingly reliant on information technology. Information systems are used in all stages of our production cycle, from design to distribution, and are used as a method of communication between employees, our subsidiaries overseas, as well as our customers. We also rely on our information systems to allocate resources and forecast operating results. System failures or service interruptions may occur as the result of a number of factors, including computer viruses, hacking or other unlawful activities by third parties, disasters, or failure to properly protect, repair or maintain systems. Any interruption of critical business information systems may have a material adverse affect on our results of operations and financial condition.

### ***Our Success Depends on Our Growth Strategies***

We face many challenges in implementing our growth strategies. For example, our expansion into international markets involves countries where we have little sales or distribution experience and where our brand is not yet widely known. Expanding our product categories involves, among other things, gaining experience with new products, gaining consumer acceptance, and establishing and protecting intellectual property rights. Increasing sales to department stores, and improving the sales productivity of our customers, will each depend on various factors, including strength of our brand name, competitive conditions, our ability to manage increased sales and future expansion, the availability of desirable locations and the negotiation of terms with retailers. Future terms with customers may be less favorable to us than those under which we now operate. Large retailers in particular increasingly seek to transfer various costs of business to their vendors, such as the cost of lost profits from product price markdowns.

To implement our business strategy, we must manage growth effectively. We need to continue to change 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. Growth could place an increasing strain on management, financial, product design, marketing, distribution and other resources, and we could experience operating difficulties. For example, in recent years, we have undertaken a number of new initiatives that require significant management attention and corporate resources, including the development or expansion of distribution facilities on two continents, the acquisition, rejuvenation and expansion of the Sorel® brand, and the acquisition, integration and expansion of Mountain Hardwear, Inc. This growth involves many risks and uncertainties that, if not managed effectively, could have a material adverse effect on our results of operations and financial condition.

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

We generally purchase products in U.S. dollars. However, the cost of these products sourced overseas may be affected by changes in the value of the relevant currencies. Price increases caused by currency exchange rate fluctuations could 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 foreign currencies, and these revenues and expenses could be materially affected by currency fluctuations, including amounts recorded in foreign currencies and translated into U.S. dollars for consolidated financial reporting. Currency exchange rate fluctuations could 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. Foreign currency fluctuations could have a material adverse effect on our results of operations and financial condition.

### ***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 factories, shipping ports, transportation carriers, 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 could have a material adverse effect on our business, potentially resulting in cancelled orders by customers, unanticipated inventory accumulation, and reduced revenues and earnings.

## **Table of Contents**

### ***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 a number of purchase order commitments each season, we do not have long-term contracts with some manufacturers. We therefore face risks that manufacturing operations will fail to perform as expected or that our competitors will gain production or quota capacities that we need for our business. If a manufacturer fails to ship orders in a timely manner or to meet our standards, we could miss delivery deadlines, which could result in cancellation of orders, refusal to accept deliveries or a reduction in purchase prices, any of which could have a material adverse effect on our business.

Reliance on independent manufacturers also creates quality control risks. A failure in our quality control program could result in diminished product quality, which may have a material adverse affect on our results of operations and financial condition.

In an effort to ensure that our independent manufacturers operate with safe, ethical and humane working conditions, we regularly monitor factories and we enforce our requirements that each manufacturer agree to comply with our *Standards of Manufacturing Practices* and applicable laws and regulations, but we do not control these vendors or their labor practices. If a manufacturer violates labor or other laws, or engages in practices that are not generally accepted as ethical in our key markets, it could have a material adverse effect on our results of operations and financial condition.

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

Some of the materials that we use may be available, in the short-term, 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. From time to time, we have experienced difficulty satisfying our raw material and finished goods requirements. Although we believe that we could identify and qualify additional factories to produce these materials, the unavailability of some existing manufacturers for supply of these materials could have a material adverse effect on our results of operations and financial condition.

### ***Our Advance Purchases of Products May Result in Excess Inventories***

To minimize our purchasing costs, the time necessary to fill customer orders and the risk of non-delivery, we place orders for our products with manufacturers prior to receiving all of our customers' orders and maintain an inventory of various products that we anticipate will be in greater demand. We may not be able to sell the products we have ordered from manufacturers or that we have in our inventory. Customers are allowed to cancel an order prior to shipment with sufficient notice. Inventory levels in excess of customer demand may result in inventory write-downs and the sale of excess inventory at discounted prices, which could have a material adverse effect on our results of operations and financial condition.

### ***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 spokesperson. 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 (including NIKE, Inc. and adidas-Salomon AG). We may not be able to attract or retain these employees, which could have a material adverse effect on our results of operations and financial condition.

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

Our results of operations have fluctuated and are likely to fluctuate significantly from period to period. Our products are marketed on a seasonal basis, with a product sales mix now weighted substantially toward the fall season. Our results of operations for the quarter ended September 30 in the past have been much stronger than the results for the other quarters. This seasonality, along with other factors that are beyond our control, including general economic conditions, changes in consumer preferences, weather conditions, availability of import quotas and currency exchange rate fluctuations, could 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 shifts in product sales mix, geographic sales trends, and currency exchange rate fluctuations, all of which we expect to continue as we expand our product offerings and geographic penetration. Results of operations in any period should not be considered indicative of the results to be expected for any future period.





**Table of Contents*****We Face Risks of Product Liability and Warranty Claims***

Our products are used in outdoor activities, sometimes in severe conditions. Although we have not experienced any significant expense as the result of product recalls or product liability claims, recalls or these types of claims could occur in the future and have a material adverse effect on our business. Some of our products carry limited 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 could exceed the reserve and have a material adverse effect on our results of operations and financial condition.

***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 National Market, which has experienced and is likely to continue to experience significant price and volume fluctuations that could adversely affect the market price of our common stock without regard to our operating performance. We also believe factors such as fluctuations in financial results, variances from financial market expectations, changes in earnings estimates by analysts, or announcements by us or competitors may cause the market price of the common stock to fluctuate, perhaps substantially.

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

Three 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. The sale or prospect of the sale of a substantial number of these shares could have an adverse effect on the market price of our common stock.

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

| Period                                | Total Number of<br>Shares<br>Purchased | Average<br>Price Paid<br>per Share | Total Number of<br>Shares<br>Purchased as<br>Part of Publicly<br>Announced<br>Plans or<br>Programs <sup>(1)</sup> | Approximate<br>Dollar Value of<br>Shares that May<br>Yet Be Purchased<br>Under the Plans<br>or Programs |
|---------------------------------------|--|------------------------------------|---|---|
| January 1, 2006 to January 31, 2006   |  |                                    |   | \$ 191,172,319  |
| February 1, 2006 to February 31, 2006 |  |                                    |   | 191,172,319   |
| March 1, 2006 to March 31, 2006       | 34,968                                 | \$ 49.99                           | 34,968  | 189,424,265   |
| Total                                 | 34,968                                 | \$ 49.99                           | 34,968  | \$ 189,424,265  |

<sup>(1)</sup> Since the inception of our stock repurchase plan in April 2004, our Board of Directors has authorized the repurchase of \$400,000,000 of our common stock and we have repurchased 4,503,119 shares under this program at an aggregate purchase price of approximately \$210,576,000. The repurchase program does not obligate us to acquire any specific number of shares or to acquire shares over any specified period of time.

**Item 6 EXHIBITS**

(a) Exhibits

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- 31.1 Rule 13a-14(a) Certification of Timothy P. Boyle, President and Chief Executive Officer
- 31.2 Rule 13a-14(a) Certification of Bryan L. Timm, Vice President and Chief Financial Officer
- 32.1 Section 1350 Certification of Timothy P. Boyle, President and Chief Executive Officer
- 32.2 Section 1350 Certification of Bryan L. Timm, Vice President and Chief Financial Officer

**Table of Contents**

**SIGNATURE**

Pursuant to the requirements of the Securities Exchange Act of 1934, the registrant has duly caused this report to be signed on its behalf by the undersigned thereunto duly authorized.

**COLUMBIA SPORTSWEAR COMPANY**

Date: May 8, 2006

/s/ BRYAN L. TIMM  
Bryan L. Timm  
*Vice President and Chief Financial Officer*