

COLUMBIA SPORTSWEAR CO

Form 10-Q

November 05, 2010

[Table of Contents](#)

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

Washington, DC 20549

**FORM 10-Q**

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

For the quarterly period ended September 30, 2010

OR

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

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

Commission file number 0-23939

**COLUMBIA SPORTSWEAR COMPANY**

(Exact name of registrant as specified in its charter)

Edgar Filing: COLUMBIA SPORTSWEAR CO - Form 10-Q

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

**14375 Northwest Science Park Drive**

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

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

**97229**  
(Zip Code)

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

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

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

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

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

The number of shares of Common Stock outstanding on October 22, 2010 was 33,637,698.

**Table of Contents**

**COLUMBIA SPORTSWEAR COMPANY**

**September 30, 2010**

INDEX TO FORM 10-Q

	<b>PAGE NO.</b>
<b><u>PART I. FINANCIAL INFORMATION</u></b>	
<u>Item 1 - Financial Statements - Columbia Sportswear Company (Unaudited)</u>	
<u>Condensed Consolidated Balance Sheets</u>	2
<u>Condensed Consolidated Statements of Operations</u>	3
<u>Condensed Consolidated Statements of Cash Flows</u>	4
<u>Notes to Condensed Consolidated Financial Statements</u>	5
<u>Item 2 - Management's Discussion and Analysis of Financial Condition and Results of Operations</u>	14
<u>Item 3 - Quantitative and Qualitative Disclosures About Market Risk</u>	23
<u>Item 4 - Controls and Procedures</u>	23
<b><u>PART II. OTHER INFORMATION</u></b>	
<u>Item 1 - Legal Proceedings</u>	24
<u>Item 1A - Risk Factors</u>	24
<u>Item 2 - Unregistered Sales of Equity Securities and Use of Proceeds</u>	31
<u>Item 6 - Exhibits</u>	31
<u>Signature</u>	32

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

**COLUMBIA SPORTSWEAR COMPANY**  
**CONDENSED CONSOLIDATED BALANCE SHEETS**

(In thousands)

(Unaudited)

	September 30, 2010	December 31, 2009
<b>ASSETS</b>		
Current Assets:		
Cash and cash equivalents	\$ 173,937	\$ 386,664
Short-term investments	62,357	22,759
Accounts receivable, net of allowance of \$9,774 and \$7,347, respectively	364,015	226,548
Inventories, net (Note 4)	358,210	222,161
Deferred income taxes	42,258	31,550
Prepaid expenses and other current assets	35,227	32,030
<b>Total current assets</b>	<b>1,036,004</b>	<b>921,712</b>
Property, plant and equipment, at cost, net of accumulated depreciation of \$246,228 and \$223,887, respectively	227,769	235,440
Intangibles and other non-current assets (Note 5)	54,032	43,072
Goodwill	14,760	12,659
<b>Total assets</b>	<b>\$ 1,332,565</b>	<b>\$ 1,212,883</b>
<b>LIABILITIES AND SHAREHOLDERS EQUITY</b>		
Current Liabilities:		
Accounts payable	\$ 141,929	\$ 102,494
Accrued liabilities	101,451	67,312
Income taxes payable	13,397	6,884
Deferred income taxes	7,142	2,597
<b>Total current liabilities</b>	<b>263,919</b>	<b>179,287</b>
Income taxes payable	18,569	19,830
Deferred income taxes		1,494
Other long-term liabilities	20,663	15,044
<b>Total liabilities</b>	<b>303,151</b>	<b>215,655</b>
Commitments and contingencies (Note 12)		
Shareholders' Equity:		
Preferred stock; 10,000 shares authorized; none issued and outstanding		
Common stock (no par value); 125,000 shares authorized; 33,635 and 33,736 issued and outstanding (Note 9)	1,426	836
Retained earnings	981,230	952,948
Accumulated other comprehensive income (Note 8)	46,758	43,444

Edgar Filing: COLUMBIA SPORTSWEAR CO - Form 10-Q

Total shareholders' equity	1,029,414	997,228
Total liabilities and shareholders' equity	\$ 1,332,565	\$ 1,212,883

See accompanying notes to condensed consolidated financial statements.

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

	<b>Three Months Ended September 30,</b>		<b>Nine Months Ended September 30,</b>	
	<b>2010</b>	<b>2009</b>	<b>2010</b>	<b>2009</b>
Net sales	\$ 504,028	\$ 434,473	\$ 1,026,265	\$ 885,707
Cost of sales	289,747	245,874	587,758	512,306
Gross profit	214,281	188,599	438,507	373,401
Selling, general and administrative expenses	148,072	124,184	377,069	318,439
Net licensing income	2,334	1,322	4,878	5,283
Income from operations	68,543	65,737	66,316	60,245
Interest income, net	147	319	1,073	1,799
Income before income tax	68,690	66,056	67,389	62,044
Income tax expense	(16,485)	(19,141)	(16,560)	(18,109)
Net income	\$ 52,205	\$ 46,915	\$ 50,829	\$ 43,935
Earnings per share:				
Basic	\$ 1.55	\$ 1.39	\$ 1.51	\$ 1.30
Diluted	1.53	1.38	1.49	1.29
Cash dividends per share	\$ 0.18	\$ 0.16	\$ 0.54	\$ 0.48
Weighted average shares outstanding (Note 9):				
Basic	33,709	33,850	33,747	33,875
Diluted	34,046	33,993	34,075	33,993

See accompanying notes to condensed consolidated financial statements.

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

	<b>Nine Months Ended September 30,</b>	
	<b>2010</b>	<b>2009</b>
<b>Cash flows from operating activities:</b>		
Net income	\$ 50,829	\$ 43,935
Adjustments to reconcile net income to net cash provided by (used in) operating activities:		
Depreciation and amortization	27,899	25,901
Loss on disposal or impairment of property, plant, and equipment	665	156
Deferred income taxes	(2,714)	4,070
Stock-based compensation	5,004	4,899
Excess tax benefit from employee stock plans	(427)	(20)
Changes in operating assets and liabilities:		
Accounts receivable	(135,337)	(15,070)
Inventories	(132,663)	(39,608)
Prepaid expenses and other current assets	(3,146)	(1,009)
Intangibles and other assets	(997)	(1,862)
Accounts payable	37,720	(37,532)
Accrued liabilities	34,546	11,969
Income taxes payable	4,993	813
Other liabilities	5,540	3,440
Net cash provided by (used in) operating activities	(108,088)	82
<b>Cash flows from investing activities:</b>		
Purchases of short-term investments	(52,602)	(20,228)
Sales of short-term investments	13,024	25,163
Capital expenditures	(20,997)	(24,681)
Proceeds from sale of property, plant, and equipment	30	9
Acquisition, net of cash acquired	(16,315)	
Net cash used in investing activities	(76,860)	(19,737)
<b>Cash flows from financing activities:</b>		
Proceeds from notes payable	26,107	51,768
Repayments on notes payable	(26,107)	(51,768)
Repayment on long-term debt and other long-term liabilities		(4)
Proceeds from issuance of common stock under employee stock plans, net	4,722	369
Excess tax benefit from employee stock plans	427	20
Repurchase of common stock	(13,838)	(5,481)
Cash dividends paid	(18,208)	(16,259)
Net cash used in financing activities	(26,897)	(21,355)
<b>Net effect of exchange rate changes on cash</b>	<b>(882)</b>	<b>3,272</b>

<b>Net decrease in cash and cash equivalents</b>	(212,727)	(37,738)
<b>Cash and cash equivalents, beginning of period</b>	386,664	230,617
<b>Cash and cash equivalents, end of period</b>	\$ 173,937	\$ 192,879

**Supplemental disclosures of cash flow information:**

Cash paid during the period for interest	\$ 53	\$ 29
Cash paid during the period for income taxes	10,154	13,037

**Supplemental disclosures of non-cash investing activities:**

Capital expenditures incurred but not yet paid	\$ 1,525	\$ 5,166
--	----------	----------

See accompanying notes to condensed consolidated financial statements.



**Table of Contents**

**COLUMBIA SPORTSWEAR COMPANY**

**NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS**

**(Unaudited)**

**NOTE 1 BASIS OF PRESENTATION AND ORGANIZATION**

The accompanying unaudited condensed consolidated financial statements have been prepared by the management of Columbia Sportswear Company (the Company) and in the opinion of management include all material adjustments, consisting only of normal recurring adjustments, necessary to present fairly the Company's financial position as of September 30, 2010, the results of operations for the three and nine months ended September 30, 2010 and 2009 and cash flows for the nine months ended September 30, 2010 and 2009. A significant part of the Company's business is of a seasonal nature; therefore, the results of operations for the three and nine months ended September 30, 2010 are not necessarily indicative of the results to be expected for the full year.

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

***Estimates and assumptions:***

The preparation of financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the consolidated financial statements and the reported amounts of revenues and expenses during the reporting period. Certain costs are estimated for the full year and allocated to interim periods based on estimates of time expired, benefit received, or activity associated with the interim period. Actual results may differ from management's estimates and assumptions. Some of these more significant estimates relate to revenue recognition, allowance for doubtful accounts, inventory obsolescence, product warranty, long-lived and intangible assets, income taxes and stock-based compensation.

**NOTE 2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES**

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

***Recent accounting pronouncements:***

In January 2010, the FASB issued Accounting Standards Update (ASU) 2010-06, *Improving Disclosures about Fair Value Measurements*. ASU 2010-06 requires additional disclosures about fair value measurements including transfers in and out of Levels 1 and 2 and a higher level of disaggregation for the different types of financial instruments. For the reconciliation of Level 3 fair value measurements, information about purchases, sales, issuances and settlements are presented separately. This standard is effective for interim and annual reporting periods beginning after December 15, 2009 with the exception of revised Level 3 disclosure requirements, which are effective for interim and annual reporting periods beginning after December 15, 2010. The adoption of this standard did not have a material effect on the Company's consolidated financial position, statement of operations or cash flows. See Note 13.

**NOTE 3 PRODUCT WARRANTY**

Some of the Company's products carry limited warranty provisions for defects in quality and workmanship. A warranty reserve is established at the time of sale to cover estimated costs based on the Company's history of warranty repairs and replacements and is recorded in cost of sales. A summary of accrued warranties for the three and nine months ended September 30, 2010 and 2009 is as follows (in thousands):

Edgar Filing: COLUMBIA SPORTSWEAR CO - Form 10-Q

	Three Months Ended		Nine Months Ended	
	September 30,		September 30,	
	2010	2009	2010	2009
Balance at beginning of period	\$ 11,058	\$ 9,686	\$ 12,112	\$ 9,746
Charged to costs and expenses	794	727	2,365	2,311
Claims settled	(555)	(576)	(2,639)	(2,296)
Other	412	219	(129)	295
Balance at end of period	\$ 11,709	\$ 10,056	\$ 11,709	\$ 10,056

**Table of Contents****COLUMBIA SPORTSWEAR COMPANY****NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (Continued)****(Unaudited)****NOTE 4 - INVENTORIES, NET**

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

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

	September 30, 2010	December 31, 2009
Raw materials	\$ 2,063	\$ 1,021
Work in process	572	163
Finished goods	355,575	220,977
	\$ 358,210	\$ 222,161

**NOTE 5 INTANGIBLES AND OTHER NON-CURRENT ASSETS**

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

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

	September 30, 2010			December 31, 2009		
	Gross Carrying Amount	Accumulated Amortization	Net Carrying Amount	Gross Carrying Amount	Accumulated Amortization	Net Carrying Amount
Intangible assets subject to amortization:						
Patents and purchased technology	\$ 14,198	\$ (840)	\$ 13,358	\$ 898	\$ (643)	\$ 255
Intangible assets not subject to amortization:						
Trademarks and trade names	27,202		27,202	26,872		26,872
Identifiable intangible assets, net			\$ 40,560			\$ 27,127

On September 1, 2010, the Company acquired OutDry® Technologies S.r.l. which included patents, purchased technology and trademarks. These acquired patents and purchased technology are subject to amortization over 10 years from the date of acquisition.

Amortization expense for intangible assets subject to amortization is estimated to be \$553,000 in 2010, \$1,402,000 per year in both 2011 and 2012 and \$1,330,000 in 2013 through 2014.

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

	September 30, 2010	December 31, 2009
Deferred tax assets	\$ 1,743	\$ 5,435
Long-term deposits	9,259	8,360
Other	2,470	2,150
	\$ 13,472	\$ 15,945

**NOTE 6 SHORT-TERM BORROWINGS AND CREDIT LINES**

The Company entered into a domestic credit agreement for an unsecured, committed \$125,000,000 revolving line of credit effective June 15, 2010. The maturity date of this agreement is July 1, 2012. Interest, payable monthly, is based on the Company's applicable funded debt ratio, ranging from LIBOR plus 100 to 175 basis points. This line of credit requires the Company to comply with certain financial covenants covering net income, tangible net worth and borrowing basis. At September 30, 2010, the Company

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

was in compliance with all associated covenants. If the Company is in default, it is prohibited from paying dividends or repurchasing common stock. At September 30, 2010, no balance was outstanding under this line of credit. At December 31, 2009, the Company had domestic unsecured lines of credit with aggregate seasonal limits ranging from \$50,000,000 to \$125,000,000, of which \$25,000,000 to \$100,000,000 was committed. These lines of credit were terminated June 15, 2010 upon entering into the \$125,000,000 agreement referred to above.

**NOTE 7 - STOCK-BASED COMPENSATION**1997 Stock Incentive Plan

The Company's 1997 Stock Incentive Plan (the Plan) allows for grants of incentive stock options, non-statutory stock options, restricted stock awards, restricted stock units and other stock-based awards. The majority of all stock option and restricted stock unit grants outstanding under the 1997 Stock Incentive Plan were granted in the first quarter of each fiscal year.

The following table summarizes the Company's total stock-based compensation expense (in thousands):

	Three Months Ended		Nine Months Ended	
	September 30, 2010	September 30, 2009	September 30, 2010	September 30, 2009
Stock options	\$ 826	\$ 825	\$ 2,477	\$ 2,165
Restricted stock units	906	887	2,527	2,734
<b>Total</b>	<b>\$ 1,732</b>	<b>\$ 1,712</b>	<b>\$ 5,004</b>	<b>\$ 4,899</b>

Stock Options

The Company estimates the fair value of stock options using the Black-Scholes model. Key inputs and assumptions used to estimate the fair value of stock options include the exercise price of the award, the expected option term, the expected volatility of the Company's stock over the option's expected term, the risk-free interest rate over the option's expected term, and the Company's estimated annual dividend yield.

The following table shows the weighted average assumptions:

	Three Months Ended		Nine Months Ended	
	September 30, 2010 <sup>(1)</sup>	September 30, 2009	September 30, 2010	September 30, 2009
Expected term	4.38 years	4.53 years	4.53 years	4.72 years
Expected stock price volatility	28.98%	28.79%	28.79%	29.54%
Risk-free interest rate	1.88%	1.91%	1.91%	1.72%
Expected dividend yield	1.55%	1.64%	1.64%	2.18%
Weighted average grant date fair value per share	\$ 9.38	\$ 10.08	\$ 10.08	\$ 6.51

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

<sup>(1)</sup> During the three months ended September 30, 2010, the Company did not grant any stock options. During the nine months ended September 30, 2010 and 2009, the Company granted 385,924 and 378,672 stock options, respectively. At September 30, 2010 and 2009, unrecognized costs related to outstanding stock options totaled approximately \$5,518,000 and \$5,423,000, respectively, before any related tax benefit. The unrecognized costs related to stock options are amortized over the related vesting period using the straight-line attribution method. Unrecognized costs related to stock options at September 30, 2010 are expected to be recognized over a weighted average period of 2.59 years.

### *Restricted Stock Units*

The Company estimates the fair value of service-based and performance-based restricted stock units using the Black-Scholes model. Key inputs and assumptions used to estimate the fair value of restricted stock units include the vesting period, dividend yield and closing price of the Company's common stock on the date of grant.

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

The following table presents the weighted average assumptions:

	Three Months Ended		Nine Months Ended	
	September 30,		September 30,	
	2010	2009	2010	2009
Vesting period	4.00 years	4.00 years	3.75 years	3.82 years
Expected dividend yield	1.37%	1.60%	1.57%	2.19%
Weighted average grant date fair value per restricted stock unit	\$ 55.33	\$ 37.52	\$ 43.89	\$ 27.00

During the nine months ended September 30, 2010 and 2009, the Company granted 127,960 and 133,983 restricted stock units, respectively. At September 30, 2010 and 2009, unrecognized costs related to outstanding restricted stock units totaled approximately \$6,390,000 and \$5,070,000, respectively, before any related tax benefit. The unrecognized costs related to restricted stock units are being amortized over the related vesting period using the straight-line attribution method. These unrecognized costs at September 30, 2010 are expected to be recognized over a weighted average period of 2.01 years.

**NOTE 8 - COMPREHENSIVE INCOME**

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

	Three Months Ended		Nine Months Ended	
	September 30,		September 30,	
	2010	2009	2010	2009
Net income	\$ 52,205	\$ 46,915	\$ 50,829	\$ 43,935
Other comprehensive income:				
Unrealized holding gains on available-for-sale securities	14	39	9	39
Unrealized derivative holding gains (losses) arising during period	(4,082)	(1,926)	1,072	(3,703)
Reclassification to net income of previously deferred (gains) losses on derivative transactions	(1,941)	405	(512)	(1,311)
Foreign currency translation adjustments	16,104	13,279	2,745	14,926
Other comprehensive income	10,095	11,797	3,314	9,951
Comprehensive income	\$ 62,300	\$ 58,712	\$ 54,143	\$ 53,886

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

Foreign currency translation adjustments	Unrealized holding gains (losses) on derivative	Unrealized holding gains on	Accumulated other comprehensive income
---	--	-----------------------------------	---

Edgar Filing: COLUMBIA SPORTSWEAR CO - Form 10-Q

		transactions	available- for-sale securities	
Balance at December 31, 2009	\$ 44,538	\$ (1,158)	\$ 64	\$ 43,444
Activity for the nine months ended September 30, 2010	2,745	560	9	3,314
Balance at September 30, 2010	\$ 47,283	\$ (598)	\$ 73	\$ 46,758

**NOTE 9 - EARNINGS PER SHARE**

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



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

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

	<b>Three Months Ended September 30,</b>		<b>Nine Months Ended September 30,</b>	
	<b>2010</b>	<b>2009</b>	<b>2010</b>	<b>2009</b>
Weighted average shares of common stock outstanding, used in computing basic earnings per share	33,709	33,850	33,747	33,875
Effect of dilutive stock options and restricted stock units	337	143	328	118
Weighted average shares of common stock outstanding, used in computing diluted earnings per share	34,046	33,993	34,075	33,993

Earnings per share of common stock:

Basic	\$ 1.55	\$ 1.39	\$ 1.51	\$ 1.30
Diluted	1.53	1.38	1.49	1.29

Stock options and service-based restricted stock units representing 512,039 and 1,390,965 shares of common stock for the three months ended September 30, 2010 and 2009, respectively, and 501,319 and 1,641,559 shares of common stock for the nine months ended September 30, 2010 and 2009, respectively, were outstanding but were excluded from the computation of diluted EPS because their effect would be anti-dilutive as a result of applying the treasury stock method. In addition, performance-based restricted stock units representing 46,091 and 44,908 shares of common stock for the three months ended September 30, 2010 and 2009, respectively, and 42,390 and 43,751 shares of common stock for the nine months ended September 30, 2010 and 2009, respectively, were outstanding but were excluded from the computation of diluted EPS because these shares were subject to performance conditions that had not been met.

Since the inception of the Company's stock repurchase plan in 2004 through September 30, 2010, the Company's Board of Directors has authorized the repurchase of \$500,000,000 of the Company's common stock. As of September 30, 2010, the Company had repurchased 9,190,890 shares under this program at an aggregate purchase price of approximately \$421,237,000. During the three months ended September 30, 2010 the Company repurchased an aggregate of \$10,000,000 of its common stock. During the nine months ended September 30, 2010 the Company repurchased an aggregate of \$13,838,000 of common stock under the stock repurchase plan, of which \$4,339,000 was recorded as a reduction to total retained earnings; otherwise, the aggregate purchase price would have resulted in a negative common stock carrying amount. During the nine months ended September 30, 2009 the Company repurchased an aggregate of \$4,833,000 of its common stock, of which \$175,000 was recorded as a reduction to total retained earnings; otherwise the aggregate purchase price would have resulted in a negative common stock carrying amount.

**NOTE 10 - SEGMENT INFORMATION**

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

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

Edgar Filing: COLUMBIA SPORTSWEAR CO - Form 10-Q

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2010	2009	2010	2009
<b>Net sales:</b>				
United States	\$ 325,602	\$ 267,435	\$ 622,494	\$ 521,423
EMEA	66,407	67,722	151,928	151,233
LAAP	58,925	44,222	166,876	130,282
Canada	53,094	55,094	84,967	82,769
	\$ 504,028	\$ 434,473	\$ 1,026,265	\$ 885,707
<b>Income before income tax:</b>				
United States	\$ 47,754	\$ 46,082	\$ 36,346	\$ 29,670
EMEA	9,642	6,998	6,945	6,933
LAAP	2,463	4,598	15,738	15,153
Canada	8,684	8,059	7,287	8,489
Interest income, net	147	319	1,073	1,799
	\$ 68,690	\$ 66,056	\$ 67,389	\$ 62,044

**Table of Contents****COLUMBIA SPORTSWEAR COMPANY****NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (Continued)****(Unaudited)****NOTE 11 - FINANCIAL INSTRUMENTS AND RISK MANAGEMENT**

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

The Company's primary exchange rate risk management objective is to mitigate the uncertainty of anticipated cash flows attributable to changes in exchange rates. The Company primarily focuses on mitigating changes in functional currency equivalent cash flows resulting from anticipated U.S. dollar denominated inventory purchases by subsidiaries that use European euros, Canadian dollars, Japanese yen or Korean won as their functional currency. The Company manages this risk primarily by using currency forward and option contracts. If the anticipated transactions are deemed probable, the resulting relationships are formally designated as cash flow hedges. The Company also uses foreign currency forward and option contracts to hedge net balance sheet exposures related primarily to intercompany loan agreements and payables.

The effective change in fair value of financial instruments formally designated in cash flow hedging relationships is initially offset to accumulated other comprehensive income and any ineffective portion is offset to current income. Amounts accumulated in other comprehensive income are subsequently reclassified to cost of sales when the underlying transaction is included in income. Hedge effectiveness is determined by evaluating the ability of a hedging instrument's cumulative change in fair value to offset the cumulative change in the present value of expected cash flows on the underlying exposures. For forward contracts, the change in fair value attributable to changes in forward points are excluded from the determination of hedge effectiveness and included in current cost of sales. For option contracts, the hedging relationship is assumed to have no ineffectiveness if the critical terms of the option contract match the hedged transaction's terms, the strike price, or prices, match the specified levels beyond or within that of the exposure being hedged, the option's cash flows completely offset the hedged item's cash flow at maturity and the option can only be exercised on a specified date. Hedge ineffectiveness was not material during the three and nine months ended September 30, 2010 and 2009.

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

The Company uses derivative instruments not formally designated as hedges to manage the exchange rate risk associated with both the remeasurement of monetary assets and liabilities and anticipated transactions that do not qualify as the hedged items in cash flow hedging relationships. The change in fair value of these instruments is recognized immediately in cost of sales or selling, general and administrative (SG&A) expense, depending on the underlying exposure.

The following table presents the gross notional amount of outstanding derivative instruments (in thousands):

	September 30, 2010	December 31, 2009
Derivative instruments designated as cash flow hedges:		
Currency forward contracts	\$ 86,725	\$ 82,730
Currency option contracts	9,000	

Edgar Filing: COLUMBIA SPORTSWEAR CO - Form 10-Q

Derivative instruments not designated as cash flow hedges:

Currency forward contracts	48,563	61,017
----------------------------	--------	--------

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

At September 30, 2010, approximately \$476,000 of deferred net gains on both outstanding and matured derivatives accumulated in other comprehensive income are expected to be reclassified to net income during the next twelve months as a result of underlying hedged transactions also being recorded in net income. Actual amounts ultimately reclassified to net income are dependent on U.S. dollar exchange rates in effect against the European euro, Canadian dollar, Japanese yen and Korean won when outstanding derivative contracts mature.

At September 30, 2010, the Company's derivative contracts had a remaining maturity of approximately two years or less. All the counterparties to these transactions had a S&P / Moody's short-term credit rating of A-2 / P-2 or better with a substantial majority having a rating of A-1/P-1 or better. The maximum net exposure to any single counterparty, which is generally limited to the aggregate unrealized gain of all contracts with that counterparty, was less than \$1,000,000 at September 30, 2010. The majority of the Company's derivative counterparties have strong credit ratings and, as a result, the Company does not require collateral to facilitate transactions. The Company does not hold derivatives featuring credit-related contingent terms. In addition, the Company is not a party to any derivative master agreement featuring credit-related contingent terms. Finally, the Company has not pledged assets or posted collateral as a requirement for entering into or maintaining derivative positions.

The following table presents the balance sheet classification and fair value of derivative instruments (in thousands):

Balance Sheet Classification	September 30, 2010	December 31, 2009
Derivative instruments designated as cash flow hedges:		
Derivative instruments in asset positions:		
Currency forward contracts	Prepaid expenses and other current assets \$ 787	\$ 1,099
Currency option contracts	Prepaid expenses and other current assets 45	
Derivative instruments in liability positions:		
Currency forward contracts	Accrued liabilities 2,618	890
Currency option contracts	Accrued liabilities 269	

Balance Sheet Classification	September 30, 2010	December 31, 2009
Derivative instruments not designated as cash flow hedges:		
Derivative instruments in asset positions:		
Currency forward contracts	Prepaid expenses and other current assets \$ 416	\$ 453
Derivative instruments in liability positions:		
Currency forward contracts	Accrued liabilities 416	1,065

The following table presents the effect and classification of derivative instruments for the three and nine months ended September 30, 2010 and 2009 (in thousands):

Statement Of	Three Months Ended September 30,	Nine Months Ended September 30,
--------------	-------------------------------------	------------------------------------

Edgar Filing: COLUMBIA SPORTSWEAR CO - Form 10-Q

	Operations	2010	2009	2010	2009
Classification					
Currency Forward Contracts:					
Derivative instruments designated as cash flow hedges:					
Gain (Loss) recognized in other comprehensive income, net of tax		\$ (4,082)	\$ (1,926)	\$ 1,072	\$ (3,703)
Gain (Loss) reclassified from accumulated other comprehensive income to income for the effective portion, net of tax	Cost of sales	2,054	(456)	614	1,249
Gain (Loss) recognized in income for amount excluded from effectiveness testing and for the ineffective portion	Cost of sales	95	42	(1)	24
Derivative instruments not designated as cash flow hedges:					
Loss recognized in income	Cost of sales	(1,078)	(564)	(7)	(162)
Gain (Loss) recognized in income	SG&A	(2,274)		2,040	

**Table of Contents****COLUMBIA SPORTSWEAR COMPANY****NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (Continued)****(Unaudited)****NOTE 12 - COMMITMENTS AND CONTINGENCIES***Inventory Purchase Obligations*

Product purchase obligations for open production purchase orders for sourced apparel, footwear, accessories and equipment, and related materials were \$290,543,000 and \$258,069,000 at September 30, 2010 and December 31, 2009, respectively. To support certain inventory purchase obligations, letters of credit were outstanding for \$2,730,000 and \$7,771,000 at September 30, 2010 and December 31, 2009, respectively.

**NOTE 13 - FAIR VALUE MEASURES**

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

- Level 1 observable inputs such as quoted prices in active liquid markets;
- Level 2 inputs, other than the quoted market prices in active markets, which are observable, either directly or indirectly, or observable market prices in markets with insufficient volume and/or infrequent transactions; and
- Level 3 unobservable inputs for which there is little or no market data available, which require the reporting entity to develop its own assumptions.

Assets and liabilities measured at fair value on a recurring basis at September 30, 2010 are as follows (in thousands):

	Level 1	Level 2	Level 3	Total
<b>Assets:</b>				
Cash equivalents				
Money market funds	\$ 119,484	\$	\$	\$ 119,484
Time deposits	7,505			7,505
U.S. Government-backed municipal bonds		6,238		6,238
Available-for-sale short-term investments <sup>(1)</sup>				
Short-term municipal bond fund	25,572			25,572
U.S. Government-backed municipal bonds		36,785		36,785
Other current assets				
Derivative financial instruments (Note 11)		832		832
<b>Non-current assets</b>				
Mutual fund shares	1,452			1,452
<b>Total assets measured at fair value</b>	<b>\$ 154,013</b>	<b>\$ 43,855</b>	<b>\$</b>	<b>\$ 197,868</b>

Liabilities:

Edgar Filing: COLUMBIA SPORTSWEAR CO - Form 10-Q

Accrued liabilities				
Derivative financial instruments (Note 11)	\$	\$ 3,303	\$	\$ 3,303
Total liabilities measured at fair value	\$	\$ 3,303	\$	\$ 3,303



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

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

	Level 1	Level 2	Level 3	Total
<b>Assets:</b>				
Cash equivalents				
Money market funds	\$ 332,574	\$	\$	\$ 332,574
Time deposits	16,844			16,844
Available-for-sale short-term investments <sup>(1)</sup>				
Short-term municipal bond fund	20,247			20,247
Time deposits	2,512			2,512
Other current assets				
Derivative financial instruments (Note 11)		1,552		1,552
Non-current assets				
Mutual fund shares	826			826
<b>Total assets measured at fair value</b>	<b>\$ 373,003</b>	<b>\$ 1,552</b>	<b>\$</b>	<b>\$ 374,555</b>
<b>Liabilities:</b>				
Accrued liabilities				
Derivative financial instruments (Note 11)	\$	\$ 1,955	\$	\$ 1,955
<b>Total liabilities measured at fair value</b>	<b>\$</b>	<b>\$ 1,955</b>	<b>\$</b>	<b>\$ 1,955</b>

<sup>(1)</sup> Investments have remaining maturities greater than three months but less than one year. Level 1 instrument valuations are obtained from real-time quotes for transactions in active exchange markets involving identical assets. Level 2 instrument valuations are obtained from inputs, other than quoted market prices in active markets, that are directly or indirectly observable in the marketplace and quoted prices in markets with limited volume or infrequent transactions.

There were no assets and liabilities measured at fair value on a nonrecurring basis at September 30, 2010 or December 31, 2009.

**NOTE 14 - SUBSEQUENT EVENT**

In October 2010, the Board of Directors approved a fourth quarter dividend of \$0.20 per share, payable on November 24, 2010 to shareholders of record on November 10, 2010.

## **Table of Contents**

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

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

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

#### **Our Business**

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

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

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

Our business is affected by the general seasonal trends common to the outdoor industry and is heavily dependent upon discretionary consumer spending patterns. Our products are marketed on a seasonal basis and our product mix is weighted substantially toward the fall season, resulting in sales and profits being highest in the third calendar quarter. The recent expansion of our own direct-to-consumer operations beginning in 2008 has increased the proportion of sales and profits that we generate in the fourth calendar quarter.

Results of operations in any period should not be considered indicative of the results to be expected for any future period, particularly in light of persistent volatility in economic conditions. Sales of our products are subject to substantial cyclical fluctuation, the effects of unseasonable weather conditions, and the continued popularity of outdoor activities as part of an active lifestyle in key markets. The current economic environment in key markets, coupled with challenging capacity constraints across the independent manufacturing and transportation segments of our supply chain, have reduced the predictability of our business throughout 2010. In addition, our fourth quarter results are more variable because they rely more heavily on fall weather patterns and the pace of retail sell-through, which can stimulate customer reorders or, conversely, result in cancellations. In addition, sales from our own direct-to-consumer channels represent a larger part of our fourth quarter business than they have historically.

#### **Business Outlook for the Remainder of 2010**

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

Unseasonable weather conditions impacting consumer demand and the resulting effect on order cancellations and reorders;

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

Edgar Filing: COLUMBIA SPORTSWEAR CO - Form 10-Q

Incremental sales through our expanding direct-to-consumer operations, which are not included in backlog;

Changes in consumer spending activity and sales fluctuations in our own retail stores; and

Fluctuating currency exchange rates.

## **Table of Contents**

Like other branded consumer product companies, our business is heavily dependent upon discretionary consumer spending patterns. Continuing high levels of unemployment in our key markets and restricted credit markets for consumers and retailers continue to pose significant challenges and risks to the stabilization of our direct-to-consumer sales. As a result, a more cautious approach by our wholesale and direct-to-consumer customers may persist, resulting in risk of reduction, delay or cancellation of advance orders prior to shipment.

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

Sharpened our focus on product innovation;

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

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

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

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

### **Wholesale Backlog**

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

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

Our spring wholesale backlog at September 30, 2010 increased \$43.4 million, or 12%, to \$394.2 million from \$350.8 million at September 30, 2009. Changes in foreign currency exchange rates compared with 2009 affected the spring wholesale backlog comparison by less than 1%. Our spring wholesale backlog reflects growth across each major brand, product category and region. The increase in our spring wholesale backlog was led by the United States, followed by the LAAP region, the EMEA region and Canada. By product category, the spring wholesale backlog increase was led by sportswear, followed by footwear, outerwear and accessories and equipment. By brand, the spring wholesale backlog increase was led by the Columbia brand, followed by the Sorel brand and the Mountain Hardware brand. Wholesale backlog does not include anticipated sales to consumers through our own direct-to-consumer channels. Although we cannot predict with certainty any future results, our reported spring wholesale backlog is one indicator of our anticipated net sales for the spring 2011 selling season. Many factors, however, could cause actual sales to differ materially from the reported spring wholesale backlog, including the potential cancellation of orders by customers, capacity constraints at our independent manufacturing partners' facilities resulting in delivery delays, changes in foreign currency exchange rates and changes in macro-economic conditions. Moreover, our spring wholesale backlog should not be used in forecasting sales beyond the spring 2011 selling season.

Our consolidated wholesale backlog for the combined spring and fall selling seasons at September 30, 2010 increased \$77.4 million, or 13%, to \$667.4 million from \$590.0 million at September 30, 2009. Changes in foreign currency exchange rates compared with 2009 affected the consolidated wholesale backlog comparison by less than 1%.

**Results of Operations**

The following discussion of our results of operations and liquidity and capital resources, including material known trends and uncertainties identified by management, should be read in conjunction with the Condensed Consolidated Financial Statements and accompanying Notes that appear elsewhere in this quarterly report. All references to quarters relate to the quarter ended September 30 of the particular year.

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

Net sales for the third quarter of 2010 increased \$69.5 million, or 16%, to \$504.0 million from \$434.5 million for the third quarter of 2009, with changes in foreign currency exchange rates affecting the net sales comparison by less than 1%.

Net income for the third quarter of 2010 was \$52.2 million, or \$1.53 per diluted share, including a \$0.10 per share benefit from a lower tax rate, compared to net income of \$46.9 million, or \$1.38 per diluted share, for the third quarter of 2009.

In October 2010, the Board of Directors declared a fourth quarter dividend of \$0.20 per share, an increase of \$0.02, or 11 percent, over the prior quarterly dividend of \$0.18 per share.

Cash and short-term investments as of September 30, 2010 totaled approximately \$236.3 million.

The following table sets forth, for the periods indicated, the percentage relationship to net sales of specified items in our Condensed Consolidated Statements of Operations:

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2010	2009	2010	2009
Net sales	100.0%	100.0%	100.0%	100.0%
Cost of sales	57.5	56.6	57.3	57.8
Gross profit	42.5	43.4	42.7	42.2
Selling, general and administrative expense	29.4	28.6	36.7	36.0
Net licensing income	0.5	0.3	0.5	0.6
Income from operations	13.6	15.1	6.5	6.8
Interest income, net	0.0	0.1	0.1	0.2
Income before income tax	13.6	15.2	6.6	7.0
Income tax expense	(3.3)	(4.4)	(1.6)	(2.0)
Net income	10.3%	10.8%	5.0%	5.0%

***Quarter Ended September 30, 2010 Compared to Quarter Ended September 30, 2009***

**Net Sales:** Consolidated net sales increased \$69.5 million, or 16%, to \$504.0 million for the third quarter of 2010 from \$434.5 million for the comparable period in 2009. Changes in foreign currency exchange rates compared with the third quarter of 2009 affected the net sales comparison by less than 1%.

***Sales by Geographic Region***

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

Edgar Filing: COLUMBIA SPORTSWEAR CO - Form 10-Q

	Three Months Ended September 30,		
	2010	2009	Change
	(In millions, except for percentage changes)		
United States	\$ 325.6	\$ 267.4	22%
EMEA	66.3	67.7	(2)%
LAAP	59.0	44.3	33%
Canada	53.1	55.1	(4)%
	\$ 504.0	\$ 434.5	16%

Net sales in the United States increased \$58.2 million, or 22%, to \$325.6 million for the third quarter of 2010 from \$267.4 million for the comparable period in 2009. The increase in net sales in the United States was led by outerwear, followed by sportswear, footwear and accessories and equipment. The net sales increase was led by our wholesale business, followed by our direct-to-consumer business. The increase in net sales in our wholesale business was primarily due to increased demand for the Columbia brand. The net sales increase in our direct-to-consumer business was driven by increased sales within existing stores, increased sales through our Columbia brand ecommerce site, as well as incremental sales from our Sorel and Mountain Hardwear brand e-commerce sites, which were launched after the third quarter of 2009, and an increase in the number of retail stores. As of September 30, 2010, we operated 40 outlet retail stores and 8 branded retail stores in the United States, compared with 38 outlet retail stores and 6 branded retail stores as of September 30, 2009.

**Table of Contents**

Net sales in the EMEA region decreased \$1.4 million, or 2%, to \$66.3 million for the third quarter of 2010 from \$67.7 million for the comparable period in 2009. Changes in foreign currency exchange rates, compared with the third quarter of 2009, negatively affected the EMEA net sales comparison by approximately eight percentage points. The decrease in net sales in the EMEA region was led by outerwear, followed by sportswear and accessories and equipment, partially offset by a net sales increase in footwear. The net sales decrease in the EMEA region consisted of a net sales decrease in our EMEA direct business, partially offset by a net sales increase in our EMEA distributor business. The EMEA direct business net sales decrease was primarily due to the later receipts of inventory due to sourcing capacity constraints in Asia, resulting in a shift in timing of fall shipments from the third quarter of 2010 into the fourth quarter of 2010 and unfavorable changes in foreign currency exchange rates, compared to the third quarter of 2009. The net sales increase in our EMEA distributor business was concentrated in the Columbia brand.

Net sales in the LAAP region increased \$14.7 million, or 33%, to \$59.0 million for the third quarter of 2010 from \$44.3 million for the comparable period in 2009. Changes in foreign currency exchange rates, compared with the third quarter of 2009, contributed approximately a six percentage point benefit to the LAAP net sales comparison. The increase in net sales in the LAAP region was led by sportswear, followed by outerwear, footwear and accessories and equipment. The net sales increase in the LAAP region was led by LAAP distributors, followed by Japan and Korea. Net sales to our LAAP distributors increased due, in part, to a shift in the timing of shipments as a higher volume of fall shipments occurred in the third quarter of 2010, while a higher volume of fall shipments occurred in the second quarter of 2009, reflecting sourcing capacity constraints in Asia and resulting in later deliveries to our LAAP distributors. The increase in Japan net sales was primarily concentrated in Columbia-branded apparel and was aided by a favorable effect of foreign currency exchange rates. The increase in Korea net sales was led by the Columbia brand and was also aided by a favorable effect of foreign currency exchange rates.

Net sales in Canada decreased \$2.0 million, or 4%, to \$53.1 million for the third quarter of 2010 from \$55.1 million for the comparable period in 2009. Changes in foreign currency exchange rates, compared with the third quarter of 2009, contributed approximately a four percentage point benefit to the Canada net sales comparison. The decrease in net sales in Canada was led by outerwear, followed by footwear and accessories and equipment, partially offset by a net sales increase in sportswear. The net sales decrease was primarily due to the later receipts of inventory due to sourcing capacity constraints in Asia, resulting in a shift in timing of shipments from the third quarter of 2010 into the fourth quarter of 2010.

*Sales by Product Category*

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

	<b>Three Months Ended September 30,</b>		
	<b>2010</b>	<b>2009</b>	<b>%</b>
	<b>(In millions, except for percentage changes)</b>		
			<b>Change</b>
Sportswear	\$ 168.2	\$ 142.9	18%
Outerwear	223.9	199.1	12%
Footwear	82.8	70.3	18%
Accessories and Equipment	29.1	22.2	31%
	<b>\$ 504.0</b>	<b>\$ 434.5</b>	<b>16%</b>

Net sales of sportswear increased \$25.3 million, or 18%, to \$168.2 million for the third quarter of 2010 from \$142.9 million for the comparable period in 2009. The increase in sportswear net sales was primarily concentrated in the Columbia brand and was led by the United States, followed by the LAAP region and Canada, while net sales in the EMEA region remained essentially flat compared with the third quarter of 2009. The sportswear net sales increase in the United States was led by our wholesale business, followed by our direct-to-consumer business.

Net sales of outerwear increased \$24.8 million, or 12%, to \$223.9 million for the third quarter of 2010 from \$199.1 million for the comparable period in 2009. The increase in outerwear net sales was primarily concentrated in the Columbia brand and was led by the United States, followed by the LAAP region, partially offset by net sales decreases in the EMEA region and Canada. The outerwear net sales increase in the United States was led by our wholesale business, followed by our direct-to-consumer business.



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

Net sales of footwear increased \$12.5 million, or 18%, to \$82.8 million for the third quarter of 2010 from \$70.3 million for the comparable period in 2009. The increase in footwear net sales was led by the Sorel brand, followed by the Columbia brand. The footwear net sales increase was led by the United States, followed by the LAAP and EMEA regions, partially offset by a net sales decrease in Canada. The footwear net sales increase in the United States was led by our wholesale business, followed by our direct-to-consumer business.

**Table of Contents**

Net sales of accessories and equipment increased \$6.9 million, or 31%, to \$29.1 million for the third quarter of 2010 from \$22.2 million for the comparable period in 2009. The increase in accessories and equipment net sales was led by the Columbia brand, followed by the Mountain Hardwear brand. The increase in accessories and equipment net sales was led by the United States, followed by the LAAP region, while net sales in the EMEA region and Canada remained essentially flat compared with the third quarter of 2009.

*Sales by Brand*

Net sales by brand are summarized in the following table:

	<b>Three Months Ended September 30,</b>		
	<b>2010</b>	<b>2009</b>	<b>% Change</b>
	<b>(In millions, except for percentage changes)</b>		
Columbia	\$ 430.3	\$ 370.3	16%
Mountain Hardwear	38.2	35.2	9%
Sorel	33.4	27.0	24%
Other	2.1	2.0	5%
	<b>\$ 504.0</b>	<b>\$ 434.5</b>	<b>16%</b>

The net sales increase for the third quarter of 2010 compared to the third quarter of 2009 was primarily concentrated in the Columbia brand, followed by the Sorel and Mountain Hardwear brands. The Columbia brand net sales increased across all product categories, led by outerwear, followed by sportswear, footwear and accessories and equipment. The Columbia brand net sales increase was led by the United States, followed by the LAAP region and partially offset by net sales decreases for the Columbia brand in the EMEA region and Canada.

**Gross Profit:** Gross profit, as a percentage of net sales, decreased to 42.5% in the third quarter of 2010 from 43.4% for the comparable period in 2009. Gross profit contraction was primarily due to incremental costs to expedite production and delivery of fall orders, partially offset by favorable foreign currency hedge rates and increased direct-to-consumer sales at higher gross margins compared to the third quarter of 2009.

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

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

SG&A expense increased \$23.9 million, or 19%, to \$148.1 million for the third quarter of 2010 from \$124.2 million for the comparable period in 2009. The SG&A expense increase was primarily due to:

an increase in global personnel costs related to the reinstatement of personnel and benefit programs that were curtailed or postponed in 2009,

an increase in advertising spend,

expenses associated with various initiatives to improve our information technology infrastructure, business processes, and enterprise data and information management across the organization, including costs to support our global ERP implementation, and

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

incremental costs to support our expanded direct-to-consumer businesses.

As a percentage of net sales, SG&A expense increased to 29.4% of net sales for the third quarter of 2010 from 28.6% of net sales for the comparable period in 2009. Depreciation and amortization included in SG&A expense totaled \$9.3 million for the third quarter of 2010, compared to \$9.1 million for the same period in 2009.

**Net Licensing Income:** We license our trademarks across a range of categories that complement our current product offerings. Net licensing income increased \$1.0 million to \$2.3 million for the third quarter of 2010 from \$1.3 million for the same period in 2009. The increase was primarily attributed to increased apparel and footwear net licensing income in the LAAP region.

**Interest Income, Net:** Net interest income was \$0.1 million for the third quarter of 2010 compared to \$0.3 million for the same period in 2009. The decrease in interest income was due to lower interest rates compared to the same period in 2009. Interest expense was nominal for the third quarter of 2010 and 2009.

**Income Tax Expense:** Income tax expense decreased to \$16.5 million for the third quarter of 2010 from \$19.1 million for the comparable period in 2009. Our effective income tax rate was 24.0% for the third quarter of 2010 compared to 29.0% for the same period in 2009. Our effective income tax rate decreased primarily as a result of the recognition of tax benefits resulting from statute of limitations expirations during the third quarter of 2010. Many factors could cause our annual effective tax rate to differ materially from our quarterly effective tax rates, including changes in the geographic mix of taxable income and discrete events that may occur in various quarters.

**Table of Contents**

**Net Income:** Net income increased \$5.3 million, or 11%, to \$52.2 million for the third quarter of 2010 from net income of \$46.9 million for the comparable period in 2009. Diluted earnings per share was \$1.53 for the third quarter of 2010 compared to \$1.38 for the third quarter of 2009.

**Nine Months Ended September 30, 2010 Compared to Nine Months Ended September 30, 2009**

**Net Sales:** Consolidated net sales increased 16% to \$1,026.2 million for the nine months ended September 30, 2010 from \$885.7 million for the comparable period in 2009. Changes in foreign currency exchange rates compared with the nine months ended September 30, 2009 contributed approximately a two percentage point benefit to the consolidated net sales comparison.

The increase in net sales was led by the United States, followed by the LAAP region, Canada and the EMEA region. By product category, the net sales increase was led by sportswear, followed by outerwear, footwear and accessories and equipment.

**Sales by Geographic Region**

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

	<b>Nine Months Ended September 30,</b>		
	<b>2010</b>	<b>2009</b>	<b>% Change</b>
	<b>(In millions, except for percentage changes)</b>		
United States	\$ 622.5	\$ 521.4	19%
EMEA	151.8	151.2	*
LAAP	166.9	130.3	28%
Canada	85.0	82.8	3%
	<b>\$ 1,026.2</b>	<b>\$ 885.7</b>	<b>16%</b>

\* less than 1%

Net sales in the United States increased \$101.1 million, or 19%, to \$622.5 million from \$521.4 million for the comparable period in 2009. The increase in net sales in the United States was led by sportswear, followed by outerwear, footwear and accessories and equipment. The net sales increase was led by our wholesale business, followed by our direct-to-consumer business. The increase in net sales in our wholesale business was primarily concentrated in the Columbia brand resulting from improved economic conditions compared to the same period in 2009, and stronger advance orders. The net sales increase in our direct-to-consumer business was driven by increased sales within existing stores, increased sales through our Columbia brand ecommerce site, incremental sales from our Sorel and Mountain Hardware brand e-commerce sites which were launched after the third quarter of 2009, and an increase in the number of retail stores, with 4 more retail stores operating at September 30, 2010 than were operating at September 30, 2009.

Net sales in the EMEA region increased \$0.6 million, or less than 1%, to \$151.8 million from \$151.2 million for the comparable period in 2009. Changes in foreign currency exchange rates, compared with the nine months ended September 30, 2009, negatively affected the EMEA net sales comparison by approximately three percentage points. The increase in net sales in the EMEA region was led by footwear, followed by accessories and equipment, partially offset by a net sales decrease in sportswear and outerwear. The increase in net sales in the EMEA region consisted of an increase in our EMEA distributor business, partially offset by a decrease in our EMEA direct business. The increase in net sales to EMEA distributors was partially the result of improved macro-economic conditions in Russia, coupled with a shift in the timing of shipments as a larger proportion of spring 2010 shipments occurred in the first quarter of 2010 while a larger percentage of spring 2009 shipments occurred in the fourth quarter of 2008. The EMEA direct business net sales decrease was predominantly due to a shift in timing of fall shipments from the third quarter of 2010 into the fourth quarter of 2010 due to later inventory receipts reflective of sourcing capacity constraints in Asia.

Net sales in the LAAP region increased \$36.6 million, or 28%, to \$166.9 million from \$130.3 million for the comparable period in 2009. Changes in foreign currency exchange rates, compared with the nine months ended September 30, 2009, contributed approximately a seven percentage point benefit to the LAAP net sales comparison. The increase in net sales in the LAAP region was primarily concentrated in the

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

Columbia brand and was led by Korea, followed by Japan and our LAAP distributor business. The increase in Korea net sales was primarily due to increased sales from existing stores, the favorable effect of foreign currency exchange rates and a greater number of retail stores open during 2010. The increase in Japan net sales was primarily the result of the favorable effect of foreign currency exchange rates, continued growth in our company-owned retail channel and increased wholesale net sales to the sporting goods channel. Net sales to our LAAP distributors increased due to improved macro-economic conditions in certain distributor markets as well as stronger advanced orders.

**Table of Contents**

Net sales in Canada increased \$2.2 million, or 3%, to \$85.0 million from \$82.8 million for the comparable period in 2009. Changes in foreign currency exchange rates, compared with the nine months ended September 30, 2009, contributed approximately a nine percentage point benefit to the Canada net sales comparison. The increase in net sales in Canada was led by sportswear, followed by outerwear and accessories and equipment, partially offset by a net sales decrease in footwear. The increase in Canada net sales was due to favorable changes in foreign currency exchange rates compared to the nine months ended September 30, 2009 that offset a net sales decrease in local currency. The net sales decrease was primarily the result of later receipts of inventory due to sourcing capacity constraints in Asia, resulting in a shift in timing of fall shipments from the third quarter of 2010 into the fourth quarter of 2010.

*Sales by Product Category*

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

	<b>Nine Months Ended September 30,</b>		
	<b>2010</b>	<b>2009</b>	<b>% Change</b>
	<b>(In millions, except for percentage changes)</b>		
Sportswear	\$ 436.5	\$ 379.5	15%
Outerwear	354.9	311.0	14%
Footwear	167.6	143.7	17%
Accessories and Equipment	67.2	51.5	30%
	<b>\$ 1,026.2</b>	<b>\$ 885.7</b>	<b>16%</b>

Net sales of sportswear increased \$57.0 million, or 15%, to \$436.5 million from \$379.5 million for the comparable period in 2009. The increase in sportswear net sales was primarily concentrated in the Columbia brand, led by the United States, followed by the LAAP region and Canada, partially offset by a decrease in Columbia-branded sportswear net sales in the EMEA region. The sportswear net sales increase in the United States was led by our wholesale business, followed by our direct-to-consumer business. The sportswear net sales increase in the LAAP region was led by Korea, followed by the LAAP distributor business and Japan.

Net sales of outerwear increased \$43.9 million, or 14%, to \$354.9 million from \$311.0 million for the comparable period in 2009. The increase in outerwear net sales was primarily concentrated in the Columbia brand, led by the United States, followed by the LAAP region and Canada, partially offset by a net sales decrease in the EMEA region. The net sales increase in outerwear in the United States was led by our wholesale business, followed by our direct-to-consumer business. The outerwear net sales increase in the LAAP region was led by Korea, followed by Japan and our LAAP distributor business.

Net sales of footwear increased \$23.9 million, or 17%, to \$167.6 million from \$143.7 million for the comparable period in 2009. The increase in footwear net sales was led by the Columbia brand, followed by the Sorel brand and was primarily concentrated in the United States, followed by the LAAP and EMEA regions, partially offset by a net sales decrease in Canada. The net sales increase in footwear in the United States was led by our wholesale business, followed by our direct-to-consumer business. The LAAP footwear net sales increase was led by our LAAP distributor business, followed by Korea and Japan. The footwear net sales increase in the EMEA region was led by our EMEA direct business, followed by our EMEA distributor business.

Net sales of accessories and equipment increased \$15.7 million, or 30%, to \$67.2 million from \$51.5 million for the comparable period in 2009. Accessories and equipment net sales increased across all geographic regions and was primarily concentrated in the Columbia brand, followed by the Mountain Hardwear brand. Accessories and equipment net sales growth was led by the United States, followed by the LAAP region, the EMEA region and Canada.

*Sales by Brand*

Net sales by brand are summarized in the following table:

Edgar Filing: COLUMBIA SPORTSWEAR CO - Form 10-Q

	Nine Months Ended September 30,		
	2010	2009	% Change
	(In millions, except for percentage changes)		
Columbia	\$ 897.4	\$ 773.9	16%
Mountain Hardwear	82.1	71.6	15%
Sorel	39.2	31.6	24%
Other	7.5	8.6	(13)%
	\$ 1,026.2	\$ 885.7	16%

## Table of Contents

The net sales increase for the nine months ended September 30, 2010 compared to the nine months ended September 30, 2009 was concentrated in the Columbia brand, followed by the Mountain Hardwear and Sorel brands. The Columbia brand net sales increased across all product categories led by sportswear, followed by outerwear, footwear and accessories and equipment. The Columbia brand net sales increase was led by the United States, followed by the LAAP region and Canada, partially offset by a net sales decrease for the Columbia brand in the EMEA region.

**Gross Profit:** Gross profit increased 50 basis points to 42.7% of net sales for the nine months ended September 30, 2010 from 42.2% for the comparable period in 2009. Gross margin expansion for the nine months ended September 30, 2010 was primarily due to a higher volume of direct-to-consumer sales at higher gross margins in the U.S, a higher relative volume of full-price product sales at higher gross margins and favorable foreign currency hedge rates, largely offset by increased costs to expedite production and delivery of fall orders.

**Selling, General and Administrative Expense:** SG&A expense increased \$58.7 million, or 18%, to \$377.1 million for the nine months ended September 30, 2010 from \$318.4 million for the comparable period in 2009. The SG&A expense increase was primarily due to

incremental expenses to support our expanded direct-to-consumer channels in the United States, the EMEA region, and Canada,

an increase in advertising spend,

expenses associated with various initiatives to improve our information technology infrastructure, including costs to support our global ERP implementation,

an increase in global personnel costs related to the reinstatement of personnel and benefits programs that were curtailed or postponed in 2009 and

transitional costs associated with internalizing our sales organization in the United States, the EMEA region and Canada.

As a percentage of net sales, SG&A expense increased to 36.7% for the nine months ended September 30, 2010 from 36.0% for the comparable period in 2009. Depreciation and amortization included in SG&A expense totaled \$27.4 million for the nine months ended September 30, 2010 compared to \$25.4 million for the same period in 2009.

**Net Licensing Income:** Net licensing income decreased \$0.4 million to \$4.9 million for the nine months ended September 30, 2010 from \$5.3 million for the comparable period in 2009.

**Interest Income, Net:** Net interest income was \$1.1 million for the nine months ended September 30, 2010 compared to \$1.8 million for the same period in 2009. The decrease in interest income was primarily driven by lower interest rates compared to the same period in 2009. Interest expense was nominal for the nine months ended September 30, 2010 and 2009.

**Income Tax Expense:** Income tax expense decreased to \$16.6 million for the nine months ended September 30, 2010 from \$18.1 million for the comparable period in 2009. Our effective income tax rate was 24.6% for the nine months ended September 30, 2010 compared to 29.2% for the same period in 2009. Our effective income tax rate decreased primarily as a result of the recognition of tax benefits resulting from statute of limitations expirations during the third quarter of 2010.

**Net Income:** Net income increased \$6.9 million, or 16%, to \$50.8 million for the nine months ended September 30, 2010 from \$43.9 million for the comparable period in 2009. Diluted earnings per share was \$1.49 for the nine months ended September 30, 2010 compared to \$1.29 for the nine months ended September 30, 2009.



**Liquidity and Capital Resources**

Our primary ongoing funding requirements are for working capital, investing activities associated with the expansion of our global operations and general corporate needs. At September 30, 2010, we had total cash and cash equivalents of \$173.9 million compared to \$386.7 million at December 31, 2009. In addition, we had short-term investments of \$62.4 million at September 30, 2010 compared to \$22.8 million at December 31, 2009.

Net cash used in operating activities was \$108.1 million for the nine months ended September 30, 2010 compared to net cash provided by operating activities of \$0.1 million for the same period in 2009. The change for the nine months ended September 30, 2010 compared to the same period in 2009 was primarily due to larger increases in accounts receivable and inventory, partially offset by larger increases in accounts payable and accrued liabilities compared to the same period in 2009.

Net cash used in investing activities was \$76.9 million for the nine months ended September 30, 2010 compared to \$19.7 million for the comparable period in 2009. For the 2010 period, net cash used in investing activities primarily consisted of \$39.6 million for the net purchases of short-term investments and \$38.8 million for acquisitions and capital expenditures. For the 2009 period, net cash used in investing activities primarily consisted of \$29.8 million for capital expenditures, partially offset by \$4.9 million for net liquidations of short-term investments.

## **Table of Contents**

Net cash used in financing activities was \$26.9 million for the nine months ended September 30, 2010 compared to \$21.4 million for the comparable period in 2009. For the 2010 period, net cash used in financing activities primarily consisted of dividend payments of \$18.2 million and the repurchase of common stock at an aggregate price of \$13.8 million, partially offset by proceeds from issuance of common stock of \$4.7 million. For the 2009 period, net cash used in financing activities primarily consisted of dividend payments of \$16.3 million and \$5.5 million for the repurchase of common stock.

To fund our domestic working capital requirements, we have an unsecured, committed \$125.0 million revolving line of credit available. We entered into this credit agreement effective June 15, 2010. At September 30, 2010, no balance was outstanding under this line of credit and we were in compliance with all associated covenants. Internationally, our subsidiaries have local currency operating lines of credit in place guaranteed by us with a combined limit of approximately \$81.9 million at September 30, 2010, of which \$3.4 million is designated as a European customs guarantee. At September 30, 2010, no balance was outstanding under these lines of credit.

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

Our operations are affected by seasonal trends typical in the outdoor apparel industry, and have historically resulted in higher sales and profits in the third calendar quarter. This pattern has resulted primarily from the timing of shipments of fall season products to wholesale customers. 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 have arrangements in place to facilitate the import and purchase of inventory through import letters of credit. We maintain unsecured and uncommitted import lines of credit, with a combined limit of \$25.0 million at September 30, 2010, available for issuing documentary letters of credit. At September 30, 2010, we had outstanding letters of credit of \$2.7 million for purchase orders for inventory under this arrangement.

### **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 referred to in our Annual Report on Form 10-K for the year ended December 31, 2009, 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 in 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, closeout and slow moving inventory, product warranty, income taxes and stock-based compensation.

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

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

### **Recent Accounting Pronouncements**

Edgar Filing: COLUMBIA SPORTSWEAR CO - Form 10-Q

See Recent Accounting Pronouncements in Note 2 of the notes to the condensed consolidated financial statements.

**Table of Contents**

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

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

**Item 4 *CONTROLS AND PROCEDURES***

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

There has been no change in our internal control over financial reporting that occurred during our fiscal quarter ended September 30, 2010 that has materially affected, or is reasonably likely to materially affect, our internal control over financial reporting.

---

**Table of Contents**

**PART II. OTHER INFORMATION**

**Item 1. LEGAL PROCEEDINGS**

None.

**Item 1A. RISK FACTORS**

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

**Our Success Depends on Our Business Strategies**

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

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

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

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



## **Table of Contents**

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

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

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

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

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

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

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

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

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





## **Table of Contents**

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

Many factors may significantly affect demand for our products, including, among other things, economic conditions, fashion trends, consumer preferences and weather, making it difficult to accurately forecast demand for our products and our future results of operations. To minimize our purchasing costs, the time necessary to fill customer orders and the risk of non-delivery, we place a significant amount of orders for our products with independent factories prior to receiving all of our customers' orders and we maintain an inventory of various products that we anticipate will be in greater demand. In some cases, our production orders may not match actual demand, which could result in our inability to deliver product in a timely manner, higher transportation costs to expedite delivery and higher inventory levels. In addition, customers are generally allowed to cancel orders prior to shipment with sufficient notice. During periods of weak economic conditions we may experience a significant increase in the volume of order cancellations by our customers, including cancellations resulting from the bankruptcy, liquidation or contraction of certain customers' operations. We may not be able to sell all of the products we have ordered from independent factories or that we have in our inventory. Inventory levels in excess of customer demand may result in inventory write-downs and the sale of excess inventory at discounted prices through discount retail channels, which could have a material adverse effect on our brand image, financial condition, results of operations or cash flows. For certain demand and supply planning functions, we rely on manual processes and judgment that are subject to human error.

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

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

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

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

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

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

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

Moreover, if we encounter a significant need for liquidity domestically or at a particular location that we cannot fulfill through borrowings, equity offerings or other internal or external sources, we may experience unfavorable tax and earnings consequences as a result of cash transfers. These adverse consequences would occur, for example, if the transfer of cash into the United States is taxed and no offsetting foreign tax credit is available to offset the U.S. tax liability, resulting in lower earnings. Furthermore, we may be prohibited from transferring cash from a country such as China. Foreign exchange ceilings imposed by local governments and the sometimes lengthy approval processes that foreign governments require for international cash transfers may delay our internal cash transfers from time to time.

## **Table of Contents**

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

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

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

Retailers who are our customers often pose our most significant competitive threat by marketing apparel, footwear and equipment under their own private labels. For example, in the United States, several of our largest customers have developed significant private label brands during the past decade that compete directly with our products. These retailers have assumed an increasing degree of inventory risk in their private label products and, as a result, may first cancel advance orders with us in order to manage their own inventory levels downward during weak economic cycles.

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

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

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

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

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

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

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

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

technology, fabrics and processes used

## **Table of Contents**

to manufacture our products are generally owned or controlled by our suppliers and are generally not unique to us. In those cases, we may not be able to adequately protect our products or differentiate the performance characteristics and fabrications from those of our competitors. Actions or decisions in the management of our intellectual property portfolio may affect the strength of our brands, which may in turn have a material adverse effect on our financial condition, results of operations or cash flows.

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

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

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

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

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

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

### **We Rely on Our Highly Customized Information Management Systems**

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

## **Table of Contents**

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

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

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

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

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

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

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

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

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

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

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

If an independent manufacturer violates labor or other laws, or engages in practices that are not generally accepted as ethical in our key markets, we may be subject to production disruptions or significant negative publicity that could result in long-term damage to our brand images, consumer demand for our products may decrease, and in some circumstances we may be subject to liability for the independent manufacturer's

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

## **Table of Contents**

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

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

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

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

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

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

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

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

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

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

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

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

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



price of our common stock.

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

Period	Total Number of Shares Purchased	Average Price Paid per Share	Total Number of Shares Purchased as Part of Publicly Announced Plans or Programs <sup>(1)</sup>	Approximate Dollar Value of Shares that May Yet Be Purchased Under the Plans or Programs
July 1, 2010 through July 31, 2010	88,000	\$ 48.43	88,000	\$ 84,501,000
August 1, 2010 through August 31, 2010	115,469	49.69	115,469	78,763,000
September 1, 2010 through September 30, 2010				78,763,000
Total	203,469	\$ 49.15	203,469	\$ 78,763,000

<sup>(1)</sup> Since the inception of the Company's stock repurchase plan in April 2004 through September 30, 2010, the Company's Board of Directors has authorized the repurchase of \$500,000,000 of the Company's common stock. As of September 30, 2010, the Company had repurchased 9,190,890 shares under this program at an aggregate purchase price of approximately \$421,237,000. Shares of the Company's common stock may be purchased in the open market or through privately negotiated transactions, subject to market conditions. The repurchase program does not obligate the Company to acquire any specific number of shares or to acquire shares over any specified period of time.

**Item 6 EXHIBITS**

## (a) Exhibits

31.1 Rule 13a-14(a) Certification of Timothy P. Boyle, President and Chief Executive Officer

31.2 Rule 13a-14(a) Certification of Thomas B. Cusick, Senior Vice President, Chief Financial Officer and Treasurer

32.1 Section 1350 Certification of Timothy P. Boyle, President and Chief Executive Officer

32.2 Section 1350 Certification of Thomas B. Cusick, Senior Vice President, Chief Financial Officer and Treasurer

**Table of Contents**

**SIGNATURE**

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

**COLUMBIA SPORTSWEAR COMPANY**

Date: November 5, 2010

/s/ THOMAS B. CUSICK  
Thomas B. Cusick  
Senior Vice President, Chief Financial Officer and Treasurer  
(Principal Financial Officer)