

COLUMBIA SPORTSWEAR CO

Form 10-Q

August 07, 2009

[Table of Contents](#)

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

Washington, DC 20549

**FORM 10-Q**

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

For the quarterly period ended June 30, 2009

OR

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

For the transition period from            to

Commission file number 0-23939

**COLUMBIA SPORTSWEAR COMPANY**

(Exact name of registrant as specified in its charter)

Edgar Filing: COLUMBIA SPORTSWEAR CO - Form 10-Q

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

**14375 Northwest Science Park Drive**

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

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

**97229**  
(Zip Code)

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

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

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

Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, a non-accelerated filer, or a smaller reporting company. See definitions of "accelerated filer," "large 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 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 July 24, 2009 was 33,914,179.

**Table of Contents**

**COLUMBIA SPORTSWEAR COMPANY**

**JUNE 30, 2009**

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>	15
<u>Item 3 - Quantitative and Qualitative Disclosures About Market Risk</u>	25
<u>Item 4 - Controls and Procedures</u>	25
<b><u>PART II. OTHER INFORMATION</u></b>	
<u>Item 1 - Legal Proceedings</u>	26
<u>Item 1A - Risk Factors</u>	26
<u>Item 2 - Unregistered Sales of Securities and Use of Proceeds</u>	32
<u>Item 4 - Submissions of Matters to a Vote of Security Holders</u>	32
<u>Item 6 - Exhibits</u>	33
<u>Signature</u>	34

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

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

(In thousands)

(Unaudited)

	June 30, 2009	December 31, 2008
<b>ASSETS</b>		
Current Assets:		
Cash and cash equivalents	\$ 315,266	\$ 230,617
Short-term investments	2,394	22,433
Accounts receivable, net of allowance of \$8,844 and \$9,542, respectively	146,789	299,585
Inventories, net (Note 2)	293,407	256,312
Deferred income taxes	30,437	33,867
Prepaid expenses and other current assets	40,171	29,705
<b>Total current assets</b>	<b>828,464</b>	<b>872,519</b>
Property, plant and equipment, net of accumulated depreciation of \$205,315 and \$190,906, respectively	232,605	229,693
Intangibles and other non-current assets (Note 3)	38,131	33,365
Goodwill (Note 3)	12,659	12,659
<b>Total assets</b>	<b>\$ 1,111,859</b>	<b>\$ 1,148,236</b>
<b>LIABILITIES AND SHAREHOLDERS EQUITY</b>		
Current Liabilities:		
Accounts payable	\$ 93,584	\$ 104,354
Accrued liabilities	47,780	58,085
Income taxes payable	5,104	8,718
Deferred income taxes	1,970	1,969
Other current liabilities	63	63
<b>Total current liabilities</b>	<b>148,501</b>	<b>173,189</b>
Income taxes payable	20,567	20,412
Other long-term liabilities	12,012	10,545
<b>Total liabilities</b>	<b>181,080</b>	<b>204,146</b>
Commitments and contingencies (Note 9)		
Shareholders' Equity:		
Preferred stock; 10,000 shares authorized; none issued and outstanding		
Common stock (no par value); 125,000 shares authorized; 33,912 and 33,865 issued and outstanding (Note 6)	3,838	1,481
Retained earnings	895,621	909,443
Accumulated other comprehensive income (Note 5)	31,320	33,166
<b>Total shareholders' equity</b>	<b>930,779</b>	<b>944,090</b>

Edgar Filing: COLUMBIA SPORTSWEAR CO - Form 10-Q

Total liabilities and shareholders' equity	\$ 1,111,859	\$ 1,148,236
--	--------------	--------------

See accompanying notes to condensed consolidated financial statements.

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

	<b>Three Months Ended</b>		<b>Six Months Ended</b>	
	<b>June 30,</b>		<b>June 30,</b>	
	<b>2009</b>	<b>2008</b>	<b>2009</b>	<b>2008</b>
Net sales	\$ 179,268	\$ 213,147	\$ 451,234	\$ 510,510
Cost of sales	104,961	127,382	266,432	294,190
Gross profit	74,307	85,765	184,802	216,320
Selling, general, and administrative expenses	92,246	91,256	194,255	195,168
Net licensing income	2,053	1,161	3,961	2,004
Income (loss) from operations	(15,886)	(4,330)	(5,492)	23,156
Interest income, net	566	2,327	1,480	4,589
Income (loss) before income tax	(15,320)	(2,003)	(4,012)	27,745
Income tax benefit (expense)	5,442	233	1,032	(9,584)
Net income (loss)	\$ (9,878)	\$ (1,770)	\$ (2,980)	\$ 18,161
Earnings (loss) per share:				
Basic	\$ (0.29)	\$ (0.05)	\$ (0.09)	\$ 0.52
Diluted	(0.29)	(0.05)	(0.09)	0.52
Cash dividends per share	\$ 0.16	\$ 0.16	\$ 0.32	\$ 0.32
Weighted average shares outstanding (Note 6):				
Basic	33,904	34,817	33,888	35,084
Diluted	33,904	34,817	33,888	35,190

See accompanying notes to condensed consolidated financial statements.

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

	<b>Six Months Ended June 30,</b>	
	<b>2009</b>	<b>2008</b>
<b>Cash flows from operating activities:</b>		
Net income (loss)	\$ (2,980)	\$ 18,161
Adjustments to reconcile net income (loss) to net cash provided by operating activities:		
Depreciation and amortization	16,666	15,232
Loss on disposal of property, plant, and equipment	108	115
Deferred income taxes	(630)	(3,530)
Stock-based compensation	3,187	3,587
Excess tax benefit from employee stock plans	(15)	(14)
Changes in operating assets and liabilities:		
Accounts receivable	152,235	130,455
Inventories	(37,960)	(5,936)
Prepaid expenses and other current assets	(10,296)	(14,721)
Intangibles and other assets	(876)	(36)
Accounts payable	(19,073)	(9,119)
Accrued liabilities	(10,551)	(6,653)
Income taxes payable	(3,048)	(1,097)
Other liabilities	1,483	5,020
Net cash provided by operating activities	88,250	131,464
<b>Cash flows from investing activities:</b>		
Purchases of short-term investments	(5,163)	(52,337)
Sales of short-term investments	25,163	131,565
Capital expenditures	(14,465)	(23,898)
Proceeds from sale of property, plant, and equipment	8	27
Net cash provided by investing activities	5,543	55,357
<b>Cash flows from financing activities:</b>		
Proceeds from notes payable	28,478	8,797
Repayments on notes payable	(28,478)	(8,797)
Proceeds from long-term debt		23
Repayment of long-term debt and other liabilities	(4)	(11)
Proceeds from issuance of common stock	262	2,675
Excess tax benefit from employee stock plans	15	14
Repurchase of common stock	(336)	(44,628)
Cash dividends paid	(10,842)	(11,172)
Net cash used in financing activities	(10,905)	(53,099)
<b>Net effect of exchange rate changes on cash</b>	<b>1,761</b>	<b>(787)</b>

<b>Net increase in cash and cash equivalents</b>	84,649	132,935
<b>Cash and cash equivalents, beginning of period</b>	230,617	191,950
<b>Cash and cash equivalents, end of period</b>	\$ 315,266	\$ 324,885
<b>Supplemental disclosures of cash flow information:</b>		
Cash paid during the period for interest, net of capitalized interest	\$ 28	\$ 25
Cash paid during the period for income taxes	11,309	12,890
<b>Supplemental disclosures of non-cash investing activities:</b>		
Capital expenditures incurred but not yet paid	4,612	4,471

See accompanying notes to condensed consolidated financial statements.



**Table of Contents**

**COLUMBIA SPORTSWEAR COMPANY**

**NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS**

**(Unaudited)**

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

***Basis of presentation:***

The accompanying unaudited condensed consolidated financial statements have been prepared by the management of Columbia Sportswear Company (the Company) and in the opinion of management include all material adjustments, consisting only of normal recurring adjustments, necessary to present fairly the Company's financial position as of June 30, 2009, the results of operations for the three and six months ended June 30, 2009 and 2008 and cash flows for the six months ended June 30, 2009 and 2008. A significant part of the Company's business is of a seasonal nature; therefore, the results of operations for the three and six months ended June 30, 2009 are not necessarily indicative of the results to be expected for the full year.

Certain information and footnote disclosures normally included in financial statements prepared in accordance with accounting principles generally accepted in the United States of America (generally accepted accounting principles) have been condensed or omitted pursuant to the rules and regulations of the Securities and Exchange Commission (SEC). The Company, however, believes that the disclosures contained in this report comply with the requirements of Section 13(a) of the Securities Exchange Act of 1934 for a Quarterly Report on Form 10-Q and are adequate to make the information presented not misleading. Further, the Company has evaluated subsequent events through August 7, 2009, which was the date this Form 10-Q was filed with the SEC. These unaudited condensed consolidated financial statements should be read in conjunction with the financial statements and notes thereto included in the Company's Annual Report on Form 10-K for the year ended December 31, 2008.

***Estimates and assumptions:***

The preparation of financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the consolidated financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results may differ from these estimates and assumptions. Some of these more significant estimates relate to revenue recognition, allowance for doubtful accounts, inventory, product warranty, intangible assets and income taxes.

***Reclassifications:***

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

***Concentration of credit risk:***

***Trade Receivables***

At June 30, 2009, the Company had one customer that accounted for approximately 11.1% of consolidated accounts receivable. Accounts receivable from this customer are included in both the United States and Canada segments. At December 31, 2008, the Company had one customer in its Europe, Middle East and Africa (EMEA) segment and one customer in its Canadian segment that accounted for approximately 13.5% and 10.2% of consolidated accounts receivable, respectively. No single customer accounted for greater than or equal to 10% of consolidated net sales for the three or six months ended June 30, 2009 or 2008.

***Cash and Investments***

At June 30, 2009, approximately 80% of the Company's cash and cash equivalents were concentrated in domestic and international money market mutual funds. Substantially all of the Company's money market mutual funds were assigned a AAA or analogous rating from Standard &

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

Poor's (S&P), Moody's Investor Services (Moody's) or Fitch Ratings.

The U.S. Treasury Department is temporarily guaranteeing certain amounts held in money market mutual funds up to the balance held at September 19, 2008. To qualify for the guarantee, the fund must be regulated under Rule 2a-7 of the Investment Company Act of 1940 and the managing institution must continue participation in the guarantee program. On September 19, 2008, the Company had a total of approximately \$50,000,000 of investments with two institutions qualifying for this guarantee program. At June 30, 2009, the eligible \$50,000,000 remained invested and both institutions were actively participating in the guarantee program.

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

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

*Derivatives*

The Company uses derivative instruments primarily to hedge the exchange rate risk of anticipated transactions denominated in non-functional currencies. At June 30, 2009, no contract had a remaining maturity longer than one year. All the counterparties to these transactions had a S&P / Moody's short-term credit rating of A-2 / P-2 or better. The net exposure to any single counterparty, which is generally limited to the aggregate unrealized gain of all contracts with that counterparty, was less than \$1,000,000 at June 30, 2009. The majority of the Company's derivative counterparties have strong credit ratings and as a result, the Company does not require collateral to facilitate transactions. See Note 8 for further disclosures concerning derivatives.

*Cash and cash equivalents:*

Cash and cash equivalents are stated at cost, which approximates fair value, and include investments with maturities of three months or less at the date of acquisition. Cash and cash equivalents consisted of money market funds and bank deposits.

*Short-term investments:*

At June 30, 2009, short-term investments consisted of time deposits with maturities of six months or less. At December 31, 2008, short-term investments consisted of debt security mutual fund shares available for use in current operations and time deposits with maturities of six months or less. All short-term investments are classified as available-for-sale securities and are recorded at fair value with any unrealized gains and losses reported, net of tax, in other comprehensive income. Realized gains or losses are determined based on the specific identification method.

*Property, plant and equipment:*

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

*Product warranty:*

Some of the Company's products carry limited warranty provisions for defects in quality and workmanship. A warranty reserve is established at the time of sale to cover estimated costs based on the Company's history of warranty repairs and replacements and is recorded in cost of sales. A summary of accrued warranties for the three and six months ended June 30, 2009 and 2008 is as follows (in thousands):

	Three Months Ended		Six Months Ended	
	June 30,		June 30,	
	2009	2008	2009	2008
Balance at beginning of period	\$ 9,492	\$ 11,016	\$ 9,746	\$ 10,862
Charged to costs and expenses	700	871	1,584	2,088
Claims settled	(736)	(928)	(1,698)	(2,178)
Other	230	(13)	54	174

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

Balance at end of period	\$ 9,686	\$ 10,946	\$ 9,686	\$ 10,946
--------------------------	----------	-----------	----------	-----------

### ***Recent accounting pronouncements:***

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

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

In May 2009, the FASB issued SFAS No. 165, *Subsequent Events*. SFAS No. 165 establishes general standards of accounting for and disclosure of events that occur after the balance sheet date but before financial statements are issued or are available to be issued. SFAS No. 165 requires disclosure of the date through which subsequent events have been evaluated and whether that is the date on which the financial statements were issued or were available to be issued. SFAS No. 165 is effective for interim or annual financial periods ending after June 15, 2009. The adoption of this statement did not have a material effect on the Company's consolidated financial position, results of operations or cash flows. See Basis of presentation under Note 1.

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

In December 2007, the FASB issued SFAS No. 160, *Noncontrolling Interests in Consolidated Financial Statements*. This statement amends Accounting Research Bulletin No. 51, *Consolidated Financial Statements*, to establish accounting and reporting standards for the noncontrolling interest in a subsidiary and for the deconsolidation of a subsidiary. SFAS No. 160 is effective for fiscal years beginning after December 15, 2008. The adoption of this statement did not have a material effect on the Company's consolidated financial position, results of operations or cash flows.

In December 2007, the FASB issued SFAS No. 141R, *Business Combinations*. This statement replaces SFAS No. 141 and requires the acquirer of a business to recognize and measure the identifiable assets acquired, the liabilities assumed, and any non-controlling interest in the acquiree at fair value. SFAS No. 141R also requires transaction costs related to the business combination to be expensed as incurred. SFAS No. 141R is effective for business combinations for which the acquisition date is on or after fiscal years beginning after December 15, 2008. The adoption of this statement did not have a material effect on the Company's consolidated financial position, results of operations or cash flows.

**NOTE 2 - INVENTORIES, NET**

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

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

	<b>June 30, 2009</b>	<b>December 31, 2008</b>
Raw materials	\$ 478	\$ 621
Work in process	1,610	1,065
Finished goods	291,319	254,626
	<b>\$ 293,407</b>	<b>\$ 256,312</b>

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

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



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

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

	June 30, 2009		December 31, 2008	
	Gross Carrying Amount	Accumulated Amortization	Gross Carrying Amount	Accumulated Amortization
<b>Intangible assets subject to amortization:</b>				
Patents	\$ 898	\$ (589)	\$ 898	\$ (534)
<b>Intangible assets not subject to amortization:</b>				
Trademarks and trade names	\$ 26,872		\$ 26,872	
Goodwill	12,659		12,659	
	\$ 39,531		\$ 39,531	

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

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

	June 30, 2009	December 31, 2008
Deferred tax assets	\$ 4,868	\$ 723
Long-term deposits	5,267	4,483
Other	815	923
	\$ 10,950	\$ 6,129

**NOTE 4 - STOCK-BASED COMPENSATION**1997 Stock Incentive Plan

The Company's 1997 Stock Incentive Plan (the "Plan"), as amended, provides for issuance of up to 8,900,000 shares of the Company's Common Stock, of which 2,027,735 shares were available for future grants under the Plan at June 30, 2009. The Plan allows for grants of incentive stock options, non-statutory stock options, restricted stock awards, restricted stock units and other stock-based awards. The Company uses original issuance shares to satisfy share-based payments.

Stock Options

Options to purchase the Company's common stock are granted at prices equal to or greater than the fair market value on the date of grant. Options granted prior to 2001 generally vested and became exercisable ratably on a monthly basis over a period of five years from the date of grant and expire ten years from the date of grant. Options granted after 2000 and prior to 2009 generally vest and become exercisable over a period of four years (twenty-five percent on the first anniversary date following the date of grant and monthly thereafter) and expire ten years

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

from the date of the grant, with the exception of most options granted in 2005. Most options granted in 2005 vested and became exercisable one year from the date of grant and expire ten years from the date of grant. Options granted in 2009 generally vest and become exercisable ratably on an annual basis over a period of four years and expire ten years from the date of the grant.

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



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

The following table shows the weighted average assumptions for the three and six months ended June 30, 2009 and 2008:

	<b>Three Months Ended</b>		<b>Six Months Ended</b>	
	<b>June 30,</b>		<b>June 30,</b>	
	<b>2009</b>	<b>2008</b>	<b>2009</b>	<b>2008</b>
Expected term	6.67 years	6.12 years	4.72 years	4.43 years
Expected stock price volatility	29.01%	31.31%	29.54%	25.00%
Risk-free interest rate	2.67%	3.25%	1.72%	2.53%
Expected dividend yield	2.10%	1.54%	2.18%	1.56%
Estimated average fair value per option granted	\$ 8.10	\$ 12.89	\$ 6.49	\$ 8.63

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

The following table summarizes stock option activity for the six months ended June 30, 2009:

	Number of Shares	Weighted Average Exercise Price	Weighted Average Remaining Contractual Term	Aggregate Intrinsic Value (in thousands)
Options outstanding at December 31, 2008	1,653,639	\$ 45.10	6.73	\$1,042
Granted	377,121	29.51		
Cancelled	(187,528)	45.03		
Exercised	(13,500)	19.44		
Options outstanding at June 30, 2009	1,829,732	\$ 42.09	7.02	\$1,026
Options vested and expected to vest at June 30, 2009	1,753,545	\$ 42.37	6.93	\$ 954
Options exercisable at June 30, 2009	1,008,865	\$ 45.45	5.48	\$ 445

The aggregate intrinsic value in the table above represents pre-tax intrinsic value that would have been realized if all options had been exercised on the last business day of the period indicated, based on the Company's closing stock price on that day. Total stock option compensation expense for the six months ended June 30, 2009 and 2008 was \$1,340,000 and \$1,878,000, respectively. At June 30, 2009 and 2008, unrecognized costs related to stock options totaled approximately \$6,263,000 and \$8,281,000, respectively, before any related tax benefit. The unrecognized costs related to stock options are being amortized over the related vesting period using the straight-line attribution method. Unrecognized costs related to stock options at June 30, 2009 are expected to be recognized over a weighted average period of 2.83 years. The aggregate intrinsic value of stock options exercised was \$153,000 and \$716,000 for the six months ended June 30, 2009 and 2008, respectively. The total cash received as a result of stock option exercises for the six months ended June 30, 2009 and 2008 was \$262,000 and \$2,675,000, respectively. The realized tax benefit for the deduction from stock option transactions for the six months ended June 30, 2009 and 2008 was \$56,000 and \$197,000, respectively.

*Restricted Stock Units*

Service-based restricted stock units are granted at no cost to key employees and shares granted prior to 2009 generally vest over three years from the date of grant. Service-based restricted stock units granted in 2009 generally vest over a period of four years. Performance-based restricted stock units are granted at no cost to certain members of the Company's senior executive team, excluding the Chairman and the President and Chief Executive Officer, and generally vest over a performance period of between two and one-half and three years with an additional required service period of one year. Restricted stock units vest in accordance with the terms and conditions established by the Compensation Committee of the Board of Directors, and are based on continued service and, in some instances, on individual performance and/or Company performance. For the majority of restricted stock units granted, the number of shares issued on the date the restricted stock units vest is net of the minimum statutory withholding requirements that the Company pays in cash to the appropriate taxing authorities on behalf of its employees. For the six months ended June 30, 2009 and 2008, the Company withheld 12,254 and 1,617 shares, respectively, to satisfy \$336,000 and \$68,000 of employees' tax obligations, respectively. These shares withheld are not issued, but rather treated as common stock repurchases in the Company's financial statements because they reduce the number of shares that would have been issued upon vesting.

The fair value of service-based and performance-based restricted stock units is discounted by the present value of the estimated future stream of dividends over the vesting period using the Black-Scholes model. The relevant assumptions used in the Black-Scholes model to compute the

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

discount are the vesting period, dividend yield and closing price of the Company's common stock on the date of grant.

The following table presents the weighted average assumptions for the three and six months ended June 30, 2009 and 2008:

	<b>Three Months Ended</b>		<b>Six Months Ended</b>	
	<b>June 30,</b>		<b>June 30,</b>	
	<b>2009</b>	<b>2008</b>	<b>2009</b>	<b>2008</b>
Vesting period	2.77 years	2.20 years	3.82 years	3.06 years
Expected dividend yield	2.10%	1.51%	2.20%	1.55%
Estimated average fair value per restricted stock unit granted	\$ 28.80	\$ 40.87	\$ 26.91	\$ 39.37

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

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

	<b>Number of Shares</b>	<b>Weighted Average Grant Date Fair Value Per Share</b>
Restricted stock units outstanding at December 31, 2008	260,509	\$ 46.32
Granted	132,904	26.91
Vested	(46,261)	55.81
Forfeited	(24,467)	41.50
Restricted stock units outstanding at June 30, 2009	322,685	\$ 37.33

Restricted stock unit compensation expense for the six months ended June 30, 2009 and 2008 was \$1,847,000 and \$1,709,000, respectively. At June 30, 2009 and 2008, unrecognized costs related to restricted stock units totaled approximately \$6,000,000 and \$8,943,000, 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 June 30, 2009 are expected to be recognized over a weighted average period of 2.24 years. The total grant date fair value of restricted stock units vested during the six months ended June 30, 2009 and 2008 was \$2,582,000 and \$530,000, respectively. The realized tax benefit for the deduction from restricted stock unit transactions for the six months ended June 30, 2009 and 2008 was \$462,000 and \$149,000, respectively.

1999 Employee Stock Purchase Plan

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

**NOTE 5 - COMPREHENSIVE INCOME**

Accumulated other comprehensive income, net of applicable taxes, reported on the Company's Condensed Consolidated Balance Sheets consists of foreign currency translation adjustments, unrealized gains and losses on derivative transactions and unrealized gains and losses on available-for-sale securities. A summary of comprehensive income, net of related tax effects, for the three and six months ended June 30, 2009 and 2008 is as follows (in thousands):

	<b>Three Months Ended June 30,</b>		<b>Six Months Ended June 30,</b>	
	<b>2009</b>	<b>2008</b>	<b>2009</b>	<b>2008</b>
Net income (loss)	\$ (9,878)	\$ (1,770)	\$ (2,980)	\$ 18,161
Other comprehensive income (loss):				
Unrealized holding losses on available-for-sale securities	(260)			
Unrealized derivative holding gains (losses) arising during period	(3,642)	341	(1,778)	907

Edgar Filing: COLUMBIA SPORTSWEAR CO - Form 10-Q

Reclassification to net income or loss of previously deferred (gains) losses on derivative transactions	(63)	748	(1,715)	(45)
Foreign currency translation adjustments	14,615	(2,475)	1,647	8,387
<b>Other comprehensive income (loss)</b>	<b>10,650</b>	<b>(1,386)</b>	<b>(1,846)</b>	<b>9,249</b>
Comprehensive income (loss)	\$ 772	\$ (3,156)	\$ (4,826)	\$ 27,410

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

	<b>Foreign currency translation adjustments</b>	<b>Unrealized holding gains (losses) on derivative transactions</b>	<b>Accumulated other comprehensive income (loss)</b>
Balance at December 31, 2008	\$ 30,550	\$ 2,616	\$ 33,166
Activity for the six months ended June 30, 2009	1,647	(3,493)	(1,846)
Balance at June 30, 2009	\$ 32,197	\$ (877)	\$ 31,320

**Table of Contents****COLUMBIA SPORTSWEAR COMPANY****NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (Continued)****(Unaudited)****NOTE 6 - EARNINGS PER SHARE**

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

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

	Three Months Ended June 30,		Six Months Ended June 30,	
	2009	2008	2009	2008
Weighted average shares of common stock outstanding, used in computing basic earnings (loss) per share	33,904	34,817	33,888	35,084
Effect of dilutive stock options and restricted stock units				106
Weighted-average shares of common stock outstanding, used in computing diluted earnings (loss) per share	33,904	34,817	33,888	35,190

Earnings (loss) per share of common stock:

Basic	\$ (0.29)	\$ (0.05)	\$ (0.09)	\$ 0.52
Diluted	(0.29)	(0.05)	(0.09)	0.52

Stock options and service-based restricted stock units representing 2,105,619 and 2,104,802 shares of common stock for the three months ended June 30, 2009 and 2008, respectively, and 2,086,379 and 1,383,555 shares of common stock for the six months ended June 30, 2009 and 2008, respectively, were outstanding but were excluded in the computation of diluted EPS because their effect would be anti-dilutive either due to a net loss in the period or as a result of applying the treasury stock method. In addition, performance-based restricted stock units representing 54,595 and 48,919 shares of common stock for the three months ended June 30, 2009 and 2008, respectively, and 54,595 and 42,883 shares of common stock for the six months ended June 30, 2009 and 2008, respectively, were outstanding but were excluded from the computation of diluted EPS either due to a net loss in the period or 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 June 30, 2009, the Company's Board of Directors has authorized the repurchase of \$500,000,000 of the Company's common stock. As of June 30, 2009, the Company has repurchased 8,694,657 shares under this program at an aggregate purchase price of approximately \$400,000,000. The Company did not repurchase any shares of common stock under this program for the three and six months ended June 30, 2009. Shares of the Company's common stock may be purchased in the open market or through privately negotiated transactions, subject to market conditions. The repurchase program does not obligate the Company to acquire any specific number of shares or to acquire shares over any specified period of time.

**NOTE 7 - SEGMENT INFORMATION**

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

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

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

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

	Three Months Ended June 30,		Six Months Ended June 30,	
	2009	2008	2009	2008
Net sales to unrelated entities:				
United States	\$ 97,710	\$ 95,581	\$ 253,988	\$ 251,365
EMEA	33,703	63,500	83,511	129,157
LAAP	39,975	40,077	86,060	89,104
Canada	7,880	13,989	27,675	40,884
	\$ 179,268	\$ 213,147	\$ 451,234	\$ 510,510
Income (loss) before income tax:				
United States	\$ (13,796)	\$ (14,088)	\$ (16,412)	\$ (6,793)
EMEA	(4,713)	1,877	(65)	10,955
LAAP	5,181	5,933	10,555	12,870
Canada	(2,558)	1,264	430	6,445
Interest and other income and eliminations	566	3,011	1,480	4,268
	\$ (15,320)	\$ (2,003)	\$ (4,012)	\$ 27,745

	June 30, 2009	December 31, 2008
Assets:		
United States	\$ 828,211	\$ 857,228
EMEA	217,056	246,072
LAAP	82,010	93,773
Canada	88,837	89,463
Total identifiable assets	1,216,114	1,286,536
Eliminations and reclassifications	(104,255)	(138,300)
Total assets	\$ 1,111,859	\$ 1,148,236

**NOTE 8 - FINANCIAL INSTRUMENTS AND RISK MANAGEMENT**

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

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



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

options. Anticipated transactions that are hedged carry a high level of certainty and are expected to be recognized within one year. In addition, the Company may use cross-currency swaps to hedge foreign currency denominated payments related to intercompany loan agreements.

The Company hedges against the exchange rate risk associated with anticipated transactions denominated in non-functional currencies and accounts for these instruments as cash flow hedges. The effective change in fair value of these financial instruments is initially offset to accumulated other comprehensive income and any ineffective portion offset to current income. Amounts accumulated in other comprehensive income are subsequently reclassified to cost of sales when the underlying transaction is included in income. Hedge effectiveness is determined by evaluating the ability of a hedging instrument's cumulative change in fair value to offset the cumulative change in the present value of expected cash flows on the underlying exposures. For forward contracts and options, the change in fair value attributable to changes in forward points and time value, respectively, are excluded from the determination of hedge effectiveness and included in current cost of sales. Hedge ineffectiveness was not material during the three and six months ended June 30, 2009 and 2008. The Company did not discontinue any cash flow hedging relationships during the three and six months ended June 30, 2009 and 2008 because it remained probable that the forecasted transactions would occur by the end of the specified period.

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

At June 30, 2009, the notional value of outstanding forward contracts designated as hedging anticipated inventory purchases was approximately \$60,000,000. At June 30, 2009, deferred losses (net of tax) on both outstanding and matured derivatives accumulated in other comprehensive income are expected to be reclassified to net income during the next twelve months as a result of underlying hedged transactions also being recorded in net income. Actual amounts ultimately reclassified to net income are dependent on U.S. dollar exchange rates in effect against the European euro, Canadian dollar and Japanese yen when outstanding derivative contracts mature.

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

The Company also uses derivative instruments not formally designated as hedges to manage the exchange rate risk associated with the functional currency remeasurement of monetary assets and liabilities. At June 30, 2009, the notional value of outstanding forward contracts not formally designated as hedges was approximately \$10,000,000. The change in fair value of these instruments is recognized immediately in cost of sales.

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

The following table presents the balance sheet classification and fair value of derivative instruments as of June 30, 2009 (in thousands):

	Classification	Fair Value
Derivative instruments designated as cash flow hedges <sup>(1)</sup> :		
Derivative instruments in asset positions:		
Currency forward contracts	Prepaid expenses and other current assets	\$ 350
Derivative instruments in liability positions:		
Currency forward contracts	Accrued liabilities	1,642

<sup>(1)</sup> Includes a \$66,000 net asset position attributable to the component excluded from effectiveness testing.

	Classification	Fair Value
Derivative instruments not designated as hedges:		
Derivative instruments in asset positions: Currency forward contracts		
	Prepaid expenses and other current assets	\$ 153
Derivative instruments in liability positions: Currency forward contracts		
	Accrued liabilities	14

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

Edgar Filing: COLUMBIA SPORTSWEAR CO - Form 10-Q

	Three Months Ended June 30, 2009		Six Months Ended June 30, 2009	
	Statement Of Operations Classification	Gain (loss)	Statement Of Operations Classification	Gain (loss)
Currency Forward Contracts:				
Derivative instruments designated as cash flow hedges:				
Gain (loss) recognized in other comprehensive income, net of tax		\$ (3,642)		\$ (1,778)
Gain reclassified from accumulated other comprehensive income to income for the effective portion, net of tax	Cost of sales	53	Cost of sales	1,705
Gain (loss) recognized in income for amount excluded from effectiveness testing and for the ineffective portion <sup>(1)</sup>	Cost of sales	99	Cost of sales	(18)
Derivative instruments not designated as cash flow hedges:				
Gain recognized in income	Cost of sales	62	Cost of sales	402

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

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

Letters of credit outstanding for purchase orders for inventory were \$6,932,000 and \$8,338,000 at June 30, 2009 and December 31, 2008, respectively.

Product purchase obligations for open production purchase orders for sourced apparel, footwear, accessories and equipment, and materials used to manufacture apparel were \$244,825,000 and \$157,774,000 at June 30, 2009 and December 31, 2008, respectively.

*Operating Leases*

Future minimum operating lease payments, including rent escalation clauses, were \$273,690,000 and \$235,119,000 at June 30, 2009 and December 31, 2008, respectively. Future minimum payments do not include real estate taxes, insurance, common area maintenance and other costs for which the Company may be obligated.

There have not been any other material changes relating to the commitments and contingencies reported on the Company's Annual Report on Form 10-K for the year ended December 31, 2008.

**NOTE 10 - FAIR VALUE MEASURES**

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

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

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

	Total	Level 1 <sup>(1)</sup>	Level 2 <sup>(2)</sup>	Level 3
<b>Assets:</b>				
Cash equivalents	\$ 315,266	\$ 315,266	\$	\$
Short-term investments	2,394	2,394		
Derivative financial instruments	503		503	
<b>Liabilities:</b>				
Derivative financial instruments	1,656		1,656	

<sup>(1)</sup> Level 1 assets include money market funds, bank deposits and time deposits for which cost approximates fair value.

Edgar Filing: COLUMBIA SPORTSWEAR CO - Form 10-Q

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

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

---

**Table of Contents**

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

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

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

**Our Business**

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

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

**Strategy and Outlook Update**

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

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

Although we cannot predict future results with certainty and despite current global economic conditions, we are committed to our business strategies including demand creation and direct-to-consumer initiatives intended to stimulate consumer demand and improve inventory management with minimal disruption to our wholesale distribution channels. Our direct-to-consumer initiatives include our retail expansion strategy and e-commerce platforms for the Columbia and Sorel brands in the United States. With our commitment to investment in these strategies, a well-developed sourcing and distribution infrastructure and emphasis on innovative design and product development, we believe that we are well positioned to establish sustainable platforms that will support long-term growth and profitability.

**Table of Contents****Overview**

The following discussion of our results of operations and liquidity and capital resources, including known trends and uncertainties identified by management, should be read in conjunction with the condensed consolidated financial statements and accompanying notes that appear elsewhere in this quarterly report.

The second quarter is our smallest revenue quarter, historically accounting for approximately 15 percent of annual net sales. As a result, geographic, product category and brand net sales results often produce large percentage variances when compared with the prior year's comparable period due to the small base of comparison and because of shifts in the timing of shipments to international distributors which may occur late in the second quarter or early in the third quarter.

All references to quarters relate to the quarter ended June 30 of the particular year. Highlights for the second quarter of 2009 are as follows:

Net sales decreased \$33.9 million, or 16%, to \$179.2 million from \$213.1 million for the comparable period in 2008. Changes in foreign currency exchange rates compared with the second quarter of 2008 negatively affected the consolidated net sales comparison by approximately four percentage points. The decrease in net sales was primarily concentrated in our Columbia brand business with the largest decline in the EMEA region, followed by Canada and the LAAP region. Net sales in the United States increased in the quarter due to incremental sales through our expanded base of Company-owned retail stores which more than offset a decline in our wholesale business in comparison to the second quarter of 2008. Net sales by geographical segment, product category and brand category are summarized in the following table.

	Three Months Ended June 30,			Six Months Ended June 30,		
	2009	2008	% Change	2009	2008	% Change
	(In millions, except for percentage changes)					
<b>Geographical Net Sales to Unrelated Entities:</b>						
United States	\$ 97.7	\$ 95.6	2%	\$ 254.0	\$ 251.4	1%
EMEA	33.7	63.4	(47)%	83.5	129.1	(35)%
LAAP	39.9	40.1		86.0	89.1	(3)%
Canada	7.9	14.0	(44)%	27.7	40.9	(32)%
	\$ 179.2	\$ 213.1	(16)%	\$ 451.2	\$ 510.5	(12)%
<b>Categorical Net Sales to Unrelated Entities:</b>						
Sportswear	\$ 98.4	\$ 115.5	(15)%	\$ 236.6	\$ 276.6	(14)%
Outerwear	35.1	41.8	(16)%	111.9	111.4	
Footwear	33.4	42.5	(21)%	73.4	93.8	(22)%
Accessories and Equipment	12.3	13.3	(8)%	29.3	28.7	2%
	\$ 179.2	\$ 213.1	(16)%	\$ 451.2	\$ 510.5	(12)%
<b>Brand Net Sales to Unrelated Entities:</b>						
Columbia	\$ 162.0	\$ 194.1	(17)%	\$ 403.6	\$ 461.3	(13)%
Mountain Hardwear	13.2	13.8	(4)%	36.4	35.6	2%
Sorel	1.6	2.4	(33)%	4.6	6.1	(25)%
Montrail	2.4	2.8	(14)%	5.0	6.7	(25)%
Pacific Trail				1.6	0.8	100%
	\$ 179.2	\$ 213.1	(16)%	\$ 451.2	\$ 510.5	(12)%

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

Gross profit increased 130 basis points to 41.5% of net sales from 40.2% of net sales for the comparable period in 2008. This increase was primarily due to the favorable effect of the regional sales mix as the relative proportion of lower margin net sales through our international distributor business decreased and the relative proportion of higher margin net sales through our expanded base of United States Company-owned retail stores increased.

Selling, general and administrative ( SG&A ) expense increased \$0.9 million, or 1%, to \$92.2 million from \$91.3 million for the comparable period in 2008. We expect full year 2009 SG&A expense, as a percentage of net sales, to increase compared to 2008 due primarily to anticipated lower 2009 net sales in our wholesale and international distributor businesses compared to 2008, along with an increased fixed cost base resulting from our expanding direct-to-consumer initiatives.

Net loss was \$9.9 million or \$0.29 per diluted share, compared to a net loss of \$1.8 million or \$0.05 per diluted share, for the comparable period in 2008.



**Table of Contents****Results of Operations**

Net loss increased \$8.1 million to \$9.9 million for the second quarter of 2009 from \$1.8 million for the comparable period in 2008. Diluted loss per share was \$0.29 for the second quarter of 2009 compared to \$0.05 for the second quarter of 2008.

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

	Three Months Ended June 30,		Six Months Ended June 30,	
	2009	2008	2009	2008
Net sales	100.0%	100.0%	100.0%	100.0%
Cost of sales	58.5	59.8	59.0	57.6
Gross profit	41.5	40.2	41.0	42.4
Selling, general and administrative expense	51.5	42.8	43.0	38.2
Net licensing income	1.1	0.6	0.8	0.3
Income (loss) from operations	(8.9)	(2.0)	(1.2)	4.5
Interest income, net	0.4	1.1	0.3	0.9
Income (loss) before income tax	(8.5)	(0.9)	(0.9)	5.4
Income tax benefit (expense)	3.0	0.1	0.2	(1.8)
Net income (loss)	(5.5)%	(0.8)%	(0.7)%	3.6%

**Quarter Ended June 30, 2009 Compared to Quarter Ended June 30, 2008**

**Net Sales:** Consolidated net sales decreased 16% to \$179.2 million for the second quarter of 2009 from \$213.1 million for the comparable period in 2008. Changes in foreign currency exchange rates compared with the second quarter of 2008 negatively affected the consolidated net sales comparison by approximately four percentage points.

The decrease in net sales was primarily concentrated in our Columbia brand business in the EMEA region, followed by Canada and the LAAP region. Net sales in the United States increased in the second quarter of 2009 compared to the second quarter of 2008 as increased net sales through our expanded base of Company-owned retail stores more than offset a decrease in net sales in our wholesale business. By product category, the decrease in net sales was concentrated in sportswear, followed by footwear, outerwear and accessories and equipment.

**Sales by Geographic Region**

Net sales in the United States increased \$2.1 million, or 2%, to \$97.7 million for the second quarter of 2009 from \$95.6 million for the comparable period in 2008. The increase in net sales in the United States was attributable to an increase in net sales of outerwear, partially offset by decreases in net sales of sportswear, accessories and equipment and footwear. The net sales increase was primarily attributable to increased net sales of Columbia-branded products through our expanded base of Company-owned retail stores with 16 more retail stores operating at June 30, 2009 than were operating at June 30, 2008. The increase in net sales of our retail business was partially offset by decreased net sales in our wholesale business. The decrease in wholesale net sales was primarily concentrated in Columbia-branded sportswear, which is typically the largest category in our spring season business. The decrease in wholesale net sales reflected lower initial order volumes, increased cancellation rates of advance orders, customer credit limitations and the bankruptcy of several wholesale customers.

Net sales in the EMEA region decreased \$29.7 million, or 47%, to \$33.7 million for the second quarter of 2009 from \$63.4 million for the comparable period in 2008. Changes in foreign currency exchange rates compared with the second quarter of 2008 negatively affected the EMEA net sales comparison by approximately five percentage points. The decrease in net sales in the EMEA region was driven by outerwear, followed by sportswear, footwear and accessories and equipment. The net sales decrease for the EMEA region was driven by the EMEA distributors followed by our EMEA direct business. The net sales decrease for our EMEA distributor business reflected very difficult

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

macro-economic conditions in the largest distributors' regions, coupled with a shift in the timing of fall 2009 shipments into the third quarter of 2009 from the second quarter of 2009 as compared to the same periods in 2008. The decrease in net sales in our EMEA direct business was a result of lower initial order volumes reflecting difficult macro-economic conditions and continued product assortment and marketing challenges in that region.

Net sales in the LAAP region decreased \$0.2 million, or less than 1%, to \$39.9 million for the second quarter of 2009 from \$40.1 million for the comparable period in 2008. Changes in foreign currency exchange rates compared with the second quarter of 2008 negatively affected the LAAP net sales comparison by approximately seven percentage points. The decrease in net sales in the LAAP region was driven by outerwear followed by sportswear, partially offset by net sales increases in accessories and equipment and footwear. The net sales decrease in the LAAP region was driven by LAAP distributors, followed by our Korea business, partially

**Table of Contents**

offset by an increase in net sales in our Japan business. The net sales decrease for LAAP distributors primarily reflected difficult macro-economic conditions in the distributors' regions and the rescheduling of some shipments for southern hemisphere distributors from the second quarter of 2009 to the fourth quarter of 2009. This rescheduling better aligns with the selling seasons for southern hemisphere customers that lag our product seasons by six months. The decrease in Korea net sales was due to unfavorable changes in foreign currency exchange rates, compared to the second quarter of 2008, which offset a net sales increase in local currency. The increase in Japan net sales was primarily the result of continued expansion of our wholesale business and favorable changes in foreign exchange rates compared to the second quarter of 2008.

Net sales in Canada decreased \$6.1 million, or 44%, to \$7.9 million for the second quarter of 2009 from \$14.0 million for the comparable period in 2008. Changes in foreign currency exchange rates compared with 2008 negatively affected the Canada net sales comparison by approximately ten percentage points. The decrease in net sales in Canada was concentrated in sportswear while net sales of outerwear, footwear and accessories and equipment remained essentially flat compared to the second quarter of 2008. The net sales decrease was primarily attributable to lower initial order volumes from customers, which include planned reductions by us in some channels of distribution, as well as increased order cancellations and a shift in the timing of shipments of fall 2009 shipments from the second quarter of 2009 to the third quarter of 2009.

*Sales by Product Category*

Net sales of sportswear decreased \$17.1 million, or 15%, to \$98.4 million for the second quarter of 2009 from \$115.5 million for the comparable period in 2008. The decrease in sportswear net sales was concentrated in the EMEA region, followed by Canada, the United States and the LAAP region. The sportswear net sales decrease in the EMEA region was concentrated in our EMEA direct business and, to a lesser degree, our EMEA distributor business. The sportswear net sales decrease in the United States was primarily attributable to decreased net sales of Columbia-branded products to our wholesale customers, partially offset by increased net sales through our expanded base of Company-owned retail stores. We primarily attribute the decreases in EMEA direct, Canada and United States wholesale sportswear net sales to lower initial order volumes for the spring 2009 season resulting from difficult macro-economic conditions in those regions. The decreased net sales of sportswear to EMEA distributors reflected difficult macro-economic conditions in the distributors' regions coupled with a shift in the timing of fall 2009 shipments into the third quarter of 2009 from the second quarter of 2009 as compared to the same periods in 2008.

Net sales of outerwear decreased \$6.7 million, or 16%, to \$35.1 million for the second quarter of 2009 from \$41.8 million for the comparable period in 2008. The decrease in outerwear net sales primarily consisted of decreased net sales in the EMEA region, followed by the LAAP region, partially offset by net sales increases in the United States and Canada. The outerwear net sales decreases in the EMEA and LAAP regions were primarily attributable to decreased net sales to distributors in these regions compared to the same period in 2008.

Net sales of footwear decreased \$9.1 million, or 21%, to \$33.4 million for the second quarter of 2009 from \$42.5 million for the comparable period in 2008. The decrease in footwear net sales primarily consisted of decreased net sales in the EMEA region, followed by the United States and Canada, partially offset by an increase in net sales in the LAAP region. The decrease in net sales of footwear for the EMEA region was concentrated in our EMEA distributor business followed by our EMEA direct business. Net sales of footwear to EMEA distributors decreased reflecting very difficult macro-economic conditions in the largest distributors' regions, coupled with a shift in the timing of fall 2009 shipments into the third quarter of 2009 from the second quarter of 2009 as compared to the same periods in 2008. The decrease in footwear net sales for our EMEA direct business resulted from lower initial order volumes due to difficult macro-economic conditions and continued product assortment and marketing challenges in the region.

Net sales of accessories and equipment decreased \$1.0 million, or 8%, to \$12.3 million for the second quarter of 2009 from \$13.3 million for the comparable period in 2008. The decrease in accessories and equipment net sales was driven by the United States, followed by the EMEA region, partially offset by a net sales increase in the LAAP region. Net sales of accessories and equipment remained essentially flat in Canada. The decrease in accessories and equipment net sales in the United States was primarily attributable to decreased net sales in the Columbia brand wholesale business.

**Gross Profit:** Gross profit increased 130 basis points to 41.5% of net sales for the second quarter of 2009 from 40.2% of net sales for the comparable period in 2008. The increase was primarily due to the favorable effect of the regional sales mix as the relative proportion of lower margin net sales through our international distributor business decreased and the relative proportion of higher margin net sales through our expanded base of United States Company-owned retail stores increased.

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

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

**Table of Contents**

SG&A expense increased \$0.9 million, or 1%, to \$92.2 million for the second quarter of 2009 from \$91.3 million for the comparable period in 2008. As a percentage of net sales, SG&A expense increased to 51.5% for the second quarter of 2009 from 42.8% for the comparable period in 2008. The increase in SG&A expense as a percentage of net sales was largely the result of reduced net sales in our wholesale and distributor businesses coupled with an increased fixed cost base related to our expanding direct-to-consumer initiatives. This increase was partially offset by cost reduction initiatives that began after the first quarter of 2008 and positively affected the second quarter of 2009. The cost reduction initiatives included reductions in headcount, incentive compensation, benefits, and other discretionary costs.

Selling expenses, including commissions and advertising, decreased \$3.3 million, or 18%, to 8.5% of net sales for the second quarter of 2009 from 8.7% of net sales for the comparable period in 2008. We attribute the decrease in selling expenses as a percentage of net sales to lower commission expense as certain sales territories in the United States and the EMEA region have moved in-house. Operating expenses for the in-house sales territories are included in general and administrative expenses.

General and administrative expenses increased \$4.2 million, or 6%, to 43.0% of net sales for the second quarter of 2009 from 34.1% of net sales for the comparable period in 2008. The increase in general and administrative expenses as a percentage of net sales was primarily due to incremental operating costs in support of our direct-to-consumer initiatives, the movement of certain sales territories in-house and increased bad debt expense. Depreciation and amortization included in SG&A expense totaled \$8.4 million for the second quarter of 2009, compared to \$7.1 million for the same period in 2008.

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

Net licensing income increased \$0.9 million to \$2.1 million for the second quarter of 2009 from \$1.2 million for the same period in 2008 and was primarily attributed to increased apparel and footwear licensing in the LAAP region. Products distributed by our licensees for the second quarter of 2009 included apparel, footwear, socks, bicycles, insulated products including soft-sided coolers, leather accessories, camping gear, eyewear, watches, leather outerwear, and other accessories.

**Interest Income, Net:** Net interest income decreased \$1.7 million to \$0.6 million for the second quarter of 2009 from \$2.3 million for the same period in 2008. The decrease in interest income was due to lower interest rates compared to the same period in 2008. Interest expense was nominal for the second quarter of 2009 and for the comparable period in 2008.

**Income Tax Benefit:** The net income tax benefit increased to \$5.4 million for the second quarter of 2009 from \$0.2 million for the comparable period in 2008 due to a higher loss before income taxes and a higher effective income tax rate in the second quarter of 2009 compared to the second quarter of 2008. Our effective income tax rate was 35.5% for the second quarter of 2009 compared to 11.6% for the same period in 2008. Our effective income tax rate increased primarily because our second quarter 2008 tax rate was abnormally low due to the impact that certain discrete quarterly tax expense items had on our small pre-tax loss position. Many factors could cause our annual effective tax rate to differ materially from our quarterly effective tax rates, including changes in the geographic mix of taxable income and discrete events in future periods. We anticipate that our full year income tax rate for 2009 will be lower than our second quarter 2009 tax rate.

**Six Months Ended June 30, 2009 Compared to Six Months Ended June 30, 2008**

**Net Sales:** Consolidated net sales decreased 12% to \$451.2 million for the six months ended June 30, 2009 from \$510.5 million for the comparable period in 2008. Changes in foreign currency exchange rates compared with the six months ended June 30, 2008 negatively affected the consolidated net sales comparison by approximately four percentage points.

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

**Sales by Geographic Region**

Net sales in the United States increased \$2.6 million, or 1%, to \$254.0 million from \$251.4 million for the comparable period in 2008. The increase in net sales in the United States was led by outerwear, partially offset by decreases in net sales of sportswear, footwear and accessories and equipment. The net sales increase was due to increased net sales of Columbia-branded products through our expanded base of Company-owned retail stores with 16 more retail stores operating at June 30, 2009 than were operating at June 30, 2008. Our retail business net sales increase was partially offset by decreased net sales in our wholesale business. The decrease in wholesale net sales was primarily attributable to the Columbia brand and primarily concentrated in our sportswear category. The wholesale net sales decrease reflected lower initial order volumes, increased cancellation rates of advance orders, customer credit limitations and the bankruptcy of several wholesale

customers.

---

**Table of Contents**

Net sales in the EMEA region decreased \$45.6 million, or 35%, to \$83.5 million from \$129.1 million for the comparable period in 2008. Changes in foreign currency exchange rates compared with the six months ended June 30, 2008 negatively affected the EMEA net sales comparison by approximately six percentage points. The decrease in net sales in the EMEA region was driven by sportswear, followed by footwear, outerwear and accessories and equipment. The decrease in net sales in the EMEA region was driven by our EMEA direct business followed by our EMEA distributor business. The decrease in EMEA direct net sales was a result of lower initial order volumes reflecting difficult macro-economic conditions and continued product assortment and marketing challenges in that region. The decreased net sales to EMEA distributors reflected very difficult macro-economic conditions in the largest distributors' regions, coupled with a shift in the timing of shipments, as a higher proportion of spring 2009 shipments occurred in the fourth quarter of 2008 while a higher proportion of spring 2008 shipments occurred in the first quarter of 2008 and as fall 2009 shipments shift into the third quarter of 2009 from the second quarter of 2009 as compared to the same periods in 2008.

Net sales in the LAAP region decreased \$3.1 million, or 3%, to \$86.0 million from \$89.1 million for the comparable period in 2008. Changes in foreign currency exchange rates compared with the six months ended June 30, 2008 negatively affected the LAAP net sales comparison by approximately five percentage points. The decrease in net sales in the LAAP region was driven by our LAAP distributor business, followed by our Korea business, partially offset by an increase in net sales in our Japan business. The decreased net sales to LAAP distributors reflect difficult macro-economic conditions in the distributors' regions, the rescheduling of some shipments for southern hemisphere distributors from the second quarter of 2009 to the fourth quarter of 2009 and the timing of shipments as a higher proportion of spring 2009 shipments occurred in the fourth quarter of 2008 while a higher proportion of spring 2008 shipments occurred in the first quarter of 2008. The decrease in Korea net sales was due to unfavorable changes in foreign currency exchange rates compared to the six months ended June 30, 2008 that offset a net sales increase in local currency. Japan net sales increased across all product categories and was primarily attributable to the expansion of our Japan wholesale business.

Net sales in Canada decreased \$13.2 million, or 32%, to \$27.7 million from \$40.9 million for the comparable period in 2008. Changes in foreign currency exchange rates compared with the six months ended June 30, 2008 negatively affected the Canada net sales comparison by approximately fifteen percentage points. The decrease in net sales in Canada was driven by sportswear, followed by footwear. Net sales of outerwear and accessories and equipment remained essentially flat compared to 2008. The net sales decrease was primarily attributable to lower initial order volumes from customers, which include planned reductions by us in some channels of distribution, as well as increased order cancellations and a shift in the timing of shipments from the second quarter of 2009 to the third quarter of 2009.

*Sales by Product Category*

Net sales of sportswear decreased \$40.0 million, or 14%, to \$236.6 million from \$276.6 million for the comparable period in 2008. The decrease in sportswear net sales was predominantly the result of decreased net sales in the EMEA region, followed by Canada, the United States and the LAAP region. The decrease in sportswear net sales in the EMEA region was driven by our EMEA direct business followed by our EMEA distributor business. We primarily attribute the decreases in EMEA direct, Canada and the United States wholesale sportswear net sales to lower initial order volumes for the spring 2009 season resulting from difficult macro-economic conditions in those regions. Net sales of sportswear to EMEA distributors decreased reflecting difficult macro-economic conditions in the distributors' regions. The decrease in sportswear net sales in our United States wholesale business was partially offset by increased sportswear net sales in our expanded base of Company-owned retail stores.

Net sales of outerwear increased \$0.5 million, or less than 1%, to \$111.9 million from \$111.4 million for the comparable period in 2008. The increase in outerwear net sales was led by the United States, partially offset by net sales decreases in the EMEA region, the LAAP region and Canada. The net sales increase in outerwear in the United States was led by our wholesale business followed by our expanded base of Company-owned retail stores. The outerwear net sales decrease in the EMEA region was driven by our EMEA distributor business followed by our EMEA direct business. The decrease in outerwear net sales in the LAAP region was driven by the LAAP distributor business followed by our Korea business, partially offset by an increase in outerwear net sales in our Japan business.

Net sales of footwear decreased \$20.4 million, or 22%, to \$73.4 million from \$93.8 million for the comparable period in 2008. The decrease in footwear net sales was driven by the EMEA region, followed by the United States and Canada, partially offset by an increase in net sales in the LAAP region. The footwear net sales decrease in the EMEA region was driven by our EMEA direct business followed by our EMEA distributor business. The decrease in footwear net sales in our United States wholesale business was partially offset by an increase in footwear net sales in our expanded base of Company-owned retail stores.

Net sales of accessories and equipment increased \$0.6 million, or 2%, to \$29.3 million from \$28.7 million for the comparable period in 2008. Accessories and equipment net sales growth was led by LAAP, followed by Canada, partially offset by net sales decreases in the EMEA region and the United States. Accessories and equipment net sales growth in the LAAP region was primarily attributable to net sales growth in Japan.





## **Table of Contents**

**Gross Profit:** Gross profit decreased 140 basis points to 41.0% for the six months ended June 30, 2009 from 42.4% for the comparable period in 2008. Gross margin contraction for the six months ended June 30, 2009 was primarily due to an increased volume of Fall 2008 close-out product sales at lower comparative margins resulting from higher than normal order cancellations and a more promotional retail environment, partially offset by increased contribution from our expanded base of United States Company-owned retail stores.

**Selling, General and Administrative Expense:** SG&A expense decreased \$0.9 million, or 1%, to \$194.3 million for the six months ended June 30, 2009 from \$195.2 million for the comparable period in 2008. The decrease was driven by lower selling expenses coupled with cost reduction initiatives that began after the first quarter of 2008 and favorably affected the six months ended June 30, 2009. The cost reduction initiatives included reductions in headcount, incentive compensation, benefits, and other discretionary costs as well as reductions to planned marketing investments for 2009. These cost reduction initiatives were partially offset by increased costs associated with our direct-to-consumer initiatives. As a percentage of net sales, SG&A expense increased to 43.0% for the six months ended June 30, 2009 from 38.2% for the comparable period in 2008. The increase in SG&A expense as a percentage of sales was largely the result of reduced net sales in the EMEA region, United States wholesale and Canada, coupled with an increased fixed cost base related to our expanding retail business.

Selling expenses, including commissions and advertising, decreased \$8.8 million, or 19%, to 8.5% of net sales for the six months ended June 30, 2009 from 9.3% of net sales for the comparable period in 2008. We attribute the decrease in selling expenses as a percentage of net sales to lower commission expense as certain sales territories in the United States and the EMEA region have moved in-house and to a planned reduction in marketing investments. Operating expenses for the in-house sales territories are included in general and administrative expenses.

General and administrative expenses increased \$7.9 million, or 5%, to 34.5% of net sales for the six months ended June 30, 2009 from 34.5% of net sales for the comparable period in 2008. The increase in general and administrative expenses as a percentage of net sales was primarily due to incremental operating costs in support of our direct-to-consumer initiatives in the United States, the movement of certain sales territories in-house and increased bad debt expense. Depreciation and amortization included in SG&A expense totaled \$16.3 million for the six months ended June 30, 2009 compared to \$14.6 million for the same period in 2008.

**Net Licensing Income:** Net licensing income increased \$2.0 million to \$4.0 million for the six months ended June 30, 2009 from \$2.0 million for the comparable period in 2008 and was primarily attributed to increased apparel and footwear licensing in the LAAP region. Products distributed by our licensees for the six months ended June 30, 2009 included apparel, footwear, socks, bicycles, insulated products including soft-sided coolers, leather accessories, camping gear, eyewear, watches, leather outerwear, and other accessories.

**Interest Income, Net:** Net interest income decreased \$3.1 million to \$1.5 million for the six months ended June 30, 2009 from \$4.6 million for the same period in 2008. The decrease in interest income was primarily driven by lower interest rates compared to the same period in 2008. Interest expense was nominal for the six months ended June 30, 2009 and for the comparable period in 2008.

**Income Tax Benefit (Expense):** The provision for income taxes decreased to a net tax benefit of \$1.0 million for the six months ended June 30, 2009 from \$9.6 million of income tax expense for the comparable period in 2008. Our effective income tax rate was 25.7% for the six months ended June 30, 2009 compared to 34.5% for the same period in 2008. Our effective income tax rate decreased primarily because of the impact that discrete expense items that occurred during the three months ended June 30, 2009 had on our net loss position for the six months ended June 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 June 30, 2009, we had total cash and cash equivalents of \$315.3 million compared to \$230.6 million at December 31, 2008. In addition, we had short-term investments of \$2.4 million at June 30, 2009 compared to \$22.4 million at December 31, 2008.

Net cash provided by operating activities was \$88.3 million for the six months ended June 30, 2009 compared to \$131.5 million for the same period in 2008. The change was primarily due to lower net income, a larger increase in inventory and a larger decrease in accounts payable, partially offset by a larger decrease in accounts receivable, during the six months ended June 30, 2009 compared to the same period in 2008. The larger increase in inventory in 2009 compared to 2008 was primarily attributable to earlier receipt of Fall 2009 season product due to improved on-time delivery performance from our suppliers and, to a lesser degree, incremental inventory related to the Company's expanded base of United States Company-owned retail stores.

Net cash provided by investing activities was \$5.5 million for the six months ended June 30, 2009, compared to \$55.4 million for the comparable period in 2008. For the 2009 period, net cash provided by investing activities primarily consisted of \$20.0 million for net

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

liquidations of short-term investments, partially offset by \$19.1 million for capital expenditures, of which \$4.6 million was incurred but not yet paid. For the 2008 period, net cash provided by investing activities primarily consisted of \$79.2 million for net liquidations of short-term investments, partially offset by \$28.4 million for capital expenditures, of which \$4.5 million was incurred but not yet paid.

## **Table of Contents**

Cash used in financing activities was \$10.9 million for the six months ended June 30, 2009, compared to \$53.1 million for the comparable period in 2008. For the 2009 period, net cash used in financing activities primarily consisted of a dividend payment of \$10.8 million. For the 2008 period, net cash used in financing activities primarily consisted of the repurchase of common stock at an aggregate price of \$44.6 million and payment of dividends of \$11.2 million.

To fund our domestic working capital requirements, we have available unsecured revolving lines of credit with aggregate seasonal limits ranging from \$50.0 million to \$125.0 million, of which \$25.0 million to \$100.0 million is committed. At June 30, 2009, no balance was outstanding under these lines of credit and we were in compliance with covenants associated with these lines of credit. Internationally, our subsidiaries have local currency operating lines in place guaranteed by us with a combined limit of approximately \$101.0 million at June 30, 2009, of which \$3.5 million is designated as a European customs guarantee. At June 30, 2009, no balance was outstanding under these lines of credit.

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

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

### *Off-Balance Sheet Arrangements*

We maintain unsecured and uncommitted import lines of credit with a combined limit of \$125.0 million at June 30, 2009, available for issuing documentary letters of credit. At June 30, 2009, we had letters of credit outstanding in the amount of \$6.9 million issued for purchase orders for inventory.

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

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

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

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

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



## **Table of Contents**

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

### ***Revenue Recognition***

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

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

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

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

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

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

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

### ***Income Taxes***

We use the asset and liability method of accounting for income taxes. Under this method, we recognize income tax expense for the amount of taxes payable or refundable for the current year and for the amount of deferred tax liabilities and assets for the future tax consequences of events that have been recognized in our financial statements or tax returns. We make assumptions, judgments and estimates to determine our current provision for income taxes, our deferred tax assets and liabilities, and our uncertain tax positions. Our judgments, assumptions and estimates relative to the current provision for income tax take into account current tax laws, our interpretation of current tax laws and possible outcomes of current and future audits conducted by foreign and domestic tax authorities. Changes in tax law or our interpretation of tax laws and the

resolution of current and future tax audits could significantly

## **Table of Contents**

affect the amounts provided for income taxes in our consolidated financial statements. Our assumptions, judgments and estimates relative to the value of a deferred tax asset take into account predictions of the amount and category of future taxable income. Actual operating results and the underlying amount and category of income in future years could cause our current assumptions, judgments and estimates of recoverable net deferred taxes to be inaccurate. Changes in any of the assumptions, judgments and estimates mentioned above could cause our actual income tax obligations to differ from our estimates, which could materially affect our financial position and results of operations.

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

### ***Stock-Based Compensation***

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

### **Recent Accounting Pronouncements**

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

**Table of Contents**

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

There has not been any material change in the market risk disclosure contained in our Annual Report on Form 10-K for the year ended December 31, 2008.

**Item 4 *CONTROLS AND PROCEDURES***

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

There has been no change in our internal control over financial reporting that occurred during our fiscal quarter ended June 30, 2009 that has materially affected, or is reasonably likely to materially affect, our internal control over financial reporting.



---

**Table of Contents**

**PART II. OTHER INFORMATION**

**Item 1. LEGAL PROCEEDINGS**

In February 2009, the Canadian Border Services Agency ( CBSA ) commenced an anti-dumping investigation into certain waterproof shell footwear imported from China and Vietnam, including Columbia and Sorel footwear, to determine if that footwear was being sold at less than normal values. The investigation covers a majority of the footwear the Company sells in Canada. On April 28, 2009, the Canadian International Trade Tribunal ( CITT ), which is conducting a separate material injury inquiry to determine whether these imported products should be subject to a dumping duty for causing injury to domestic footwear manufacturers, issued a preliminary determination that there is a reasonable indication of injury caused by the dumping of waterproof shell footwear originating in or exported from China or Vietnam. The CBSA established provisional anti-dumping duties in May 2009. The Company intends to vigorously challenge both the imposition and level of any duties, as well as the contention that the imports harm domestic producers, in a CITT proceeding scheduled for the week of August 24, 2009. An adverse decision could result in the imposition of significant anti-dumping duties on a majority of the footwear the Company sells in Canada.

**Item 1A. RISK FACTORS**

In addition to the other information contained in this Form 10-Q, the following risk factors should be considered carefully in evaluating our business. Our business, financial condition, or results of operations may be materially adversely affected by any of these risks. Please note that additional risks not presently known to us or that we currently deem immaterial may also impair our business and operations. These risk factors include any material changes to and supersede the description of the risk factors associated with our business previously disclosed in Part I, Item 1A of our Annual Report on Form 10-K for the fiscal year ended December 31, 2008.

**We May be Adversely Affected by a Prolonged Economic Downturn or Economic Uncertainty**

We are a consumer products company and are highly dependent on consumer discretionary spending patterns. As global economic conditions continue to deteriorate or economic uncertainty increases, trends in consumer discretionary spending also become unpredictable and subject to reductions due to uncertainties about the future. 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 Europe. 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 labor markets, interest rates, global oil markets, production capacity at independent manufacturers, and general economic conditions. For example, volatility in global oil markets has resulted in fluctuating fuel and product prices and caused costs to produce our products through independent contractors to change. Because we price our products in advance and the external cost changes may be difficult to predict, we may not be able to timely adjust our pricing structure to remain competitive, which could have a material adverse effect on our financial condition, results of operations or cash flows. In addition, since the majority of our products are manufactured outside of our principal sales markets, our products must be transported by third parties over large geographical distances and volatile fuel costs can result in quickly changing transportation costs.

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

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



## **Table of Contents**

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

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

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

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

To minimize our purchasing costs, the time necessary to fill customer orders and the risk of non-delivery, we place some orders for our products with manufacturers prior to receiving all of our customers' orders and we maintain an inventory of various products that we anticipate will be in greater demand. In addition, customers are generally allowed to cancel orders prior to shipment with sufficient notice. During periods of weak economic conditions we may experience a significant increase in the volume of order cancellations by our customers, including cancellations resulting from the bankruptcy and liquidation or contraction of certain customers' operations. Particularly in light of current economic conditions, we may not be able to sell all of the products we have ordered from manufacturers or that we have in our inventory. Inventory levels in excess of customer demand may result in inventory write-downs and the sale of excess inventory at discounted prices through discount retail channels, which may have a material adverse effect on our brand image, 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 and accessories and equipment is dependent in part on the weather and may decline in years in which weather conditions do not favor the use of these products. Periods of unseasonably warm weather in the fall or winter or unseasonably cold or wet weather in the spring may have a material adverse effect on our results of operations and financial condition. For example, in spring 2008, unseasonably cool weather in the United States caused customers to delay, and in some cases reduce or cancel, orders for our sportswear and footwear, which had an adverse effect on our net sales and profitability. Inventory accumulation by our wholesale customers resulting from unseasonable weather in one season may negatively affect orders in future seasons, which may have a material adverse effect on our financial condition, results of operations or cash flows in future periods.

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

We are subject to the risks generally associated with doing business abroad. These risks include foreign laws and regulations, foreign consumer preferences, 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 proprietary rights and to defend against claims of infringement by others.

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



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

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

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

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

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

When our wholesale customers combine their operations through mergers, acquisitions, or other transactions, their consolidated order volume may decrease while their bargaining power and the competitive threat they pose by marketing products under their own private labels may increase. Some of our significant customers have consolidated their operations in the past, which in turn has had a negative effect on our business. As many retailers face increased financial pressure from significant decreases in consumer spending and continued economic uncertainty, we expect retailer consolidation to continue, which may have a material adverse effect on our financial condition, results of operations or cash flows.

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

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

### **Our Success Depends on Our Use of Proprietary Rights**

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

material adverse effect on our financial condition, results of operations or cash flows.

## **Table of Contents**

Although we have not been materially inhibited from selling products in connection with trademark and trade dress disputes, as we extend our brand into new product categories and new product lines and expand the geographic scope of our marketing, we 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. Future litigation also may be necessary to defend us against such claims or to enforce and protect our intellectual property rights. Any intellectual property litigation 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, our existing distribution facilities will support our new e-commerce efforts. Failure to successfully implement this operation could disrupt shipments and may have a material adverse effect on our financial condition, results of operations or cash flows.

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

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

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

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

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

Our business strategies are to achieve sustainable, profitable growth by creating innovative products, elevating consumer perception of our brands, increasing consumer and retailer awareness and demand for our products, creating compelling retail environments, and building stronger emotional brand connections with consumers over time. We intend to pursue these strategies across extended product categories and in a growing number of geographic markets. We face many challenges in implementing our business strategies. For example, expansion of our direct-to-consumer business will require significant investments, yet, in the current macro-economic environment of increased economic uncertainty and declining consumer demand, may not have the desired effect of increasing demand for our products. Our ability to expand our global footwear business and European business may also be





---

## **Table of Contents**

significantly limited as a result of global economic conditions and a general decline in global consumer demand. The success of our retail and e-commerce initiatives depend 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, 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 may 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 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 our decision to delay, reduce, modify or terminate our strategic business initiatives, which could have a material adverse effect on our financial condition, results of operations or cash flows.

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

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

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

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

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

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

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

Our business depends on our ability to source and distribute products in a timely manner. Labor disputes at factories, 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.



## **Table of Contents**

### **We Depend on Independent Manufacturers**

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

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

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

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

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

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

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

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

Our business is affected by the general seasonal trends common to the outdoor apparel industry. Our products are marketed on a seasonal basis and our product mix is weighted substantially toward the fall season, resulting in sales and profits being highest in the third calendar quarter. This seasonality, along with other factors that are beyond our control and that are discussed elsewhere in this section, may adversely affect our business and cause our results of operations to fluctuate. Our operating margins are also sensitive to a number of factors that are beyond our control, including shifts in product sales mix, geographic sales trends, and currency exchange rate fluctuations, all of which we expect to continue as we expand our product offerings and geographic sales. Results of operations in any period should not be considered indicative of the results to be expected for any future period.

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

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



**Table of Contents**

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

**Our Common Stock Price May Be Volatile**

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

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

Three 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.

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

The Board of Directors has authorized the repurchase of up to \$500,000,000 of the Company's common stock. As of June 30, 2009, the Company had repurchased 8,694,657 shares under this program for an aggregate purchase price of approximately \$400,000,000. 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.

The Company did not repurchase any equity securities during the three months ended June 30, 2009.

**Item 4 SUBMISSIONS OF MATTERS TO A VOTE OF SECURITY HOLDERS**

The Company's Annual Meeting of Shareholders was held on May 21, 2009. The following matters were submitted to a vote of shareholders, with the results as follows:

1. Election of nine directors to serve until the next annual meeting and until their respective successors are elected and qualified:

	For	Withheld
Gertrude Boyle	32,440,081	142,337
Timothy P. Boyle	32,402,998	179,419
Sarah A. Bany	32,440,478	141,939
Murrey R. Albers	31,846,141	736,276
Stephen E. Babson	31,772,374	810,043
Andy D. Bryant	32,458,578	123,839
Edward S. George	32,447,799	134,618
Walter T. Klenz	31,854,560	727,857
John W. Stanton	32,448,560	133,857

Edgar Filing: COLUMBIA SPORTSWEAR CO - Form 10-Q

2. Approval of the 1997 Stock Incentive Plan, as amended:

<b>For</b>	<b>Against</b>	<b>Abstentions</b>	<b>Broker Non-Votes</b>
27,172,340	4,052,633	8,332	1,349,112

32

**Table of Contents**

3. Re-approval of the Executive Incentive Compensation Plan:

<b>For</b>	<b>Against</b>	<b>Abstentions</b>	<b>Broker Non-Votes</b>
30,905,933	313,602	13,769	1,349,113

4. Ratification of the selection of Deloitte & Touche LLP as the Company's independent registered public accountants for the fiscal year ending December 31, 2009:

<b>For</b>	<b>Against</b>	<b>Abstentions</b>	<b>Broker Non-Votes</b>
32,280,517	58,212	243,688	

**Item 6 EXHIBITS**

(a) Exhibits

- 3.1 Amendment to Third Restated Articles of Incorporation (incorporated by reference to exhibit 3.1 to the Company's Quarterly Report on Form 10-Q for the quarterly period ended June 30, 2002) (File No. 0-23939)
- 10.1 Columbia Sportswear Company 1997 Stock Incentive Plan, as amended
- 31.1 Rule 13a-14(a) Certification of Timothy P. Boyle, President and Chief Executive Officer
- 31.2 Rule 13a-14(a) Certification of Thomas B. Cusick, Vice President, Chief Financial Officer and Treasurer
- 32.1 Section 1350 Certification of Timothy P. Boyle, President and Chief Executive Officer
- 32.2 Section 1350 Certification of Thomas B. Cusick, Vice President, Chief Financial Officer and Treasurer

**Table of Contents**

**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: August 7, 2009

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