COLUMBIA SPORTSWEAR CO Form 10-Q May 07, 2010 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 March 31, 2010

OR

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

Commission file number 0-23939

# **COLUMBIA SPORTSWEAR COMPANY**

(Exact name of registrant as specified in its charter)

Oregon 93-0498284 (State or other jurisdiction of (IRS Employer

incorporation or organization) Identification Number)

14375 Northwest Science Park Drive

Portland, Oregon (Address of principal executive offices)

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 x No "

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

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

Large accelerated filer " Accelerated filer x

Non-accelerated filer " (Do not check if a smaller reporting company)

Smaller reporting company

Indicate by check mark whether the registrant is a shell company (as defined in Rule 12b-2 of the Exchange Act). Yes " No x

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

## COLUMBIA SPORTSWEAR COMPANY

## MARCH 31, 2010

## INDEX TO FORM 10-Q

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

1

## PART I. FINANCIAL INFORMATION

#### Item 1 FINANCIAL STATEMENTS

## COLUMBIA SPORTSWEAR COMPANY

## CONDENSED CONSOLIDATED BALANCE SHEETS

(In thousands)

(Unaudited)

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

Total shareholders equity	1,001,510	997,228
Test lighting and should also region	¢ 1 100 002   ¢	1 212 992
Total liabilities and shareholders equity	\$ 1,189,982 \$	1,212,883

See accompanying notes to condensed consolidated financial statements.

## COLUMBIA SPORTSWEAR COMPANY

## CONDENSED CONSOLIDATED STATEMENTS OF OPERATIONS

(In thousands, except per share amounts)

(Unaudited)

	Thr	Three Months Ended March 31,		
	201	10	2	2009
Net sales	\$ 300	,406		71,966
Cost of sales	173	,102	1	61,471
Gross profit	127	,304	1	10,495
Selling, general and administrative expenses	115	,539	1	02,009
Net licensing income		725		1,908
				,
Income from operations	12	,490		10,394
Interest income, net		534		914
Income before income tax	13	,024		11,308
Income tax expense		,796)		(4,410)
Net income		,228	\$	6,898
Earnings per share:				
Basic	\$	0.27	\$	0.20
Diluted		0.27		0.20
Cash dividends per share	\$	0.18	\$	0.16
Weighted average shares outstanding (Note 6):				
Basic		,733		33,873
Diluted	33	,990		33,968

See accompanying notes to condensed consolidated financial statements.

## COLUMBIA SPORTSWEAR COMPANY

## CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS

## (In thousands)

## (Unaudited)

	Three Months Ended March 31,	
Coch flows from anaroting activities	2010	2009
Cash flows from operating activities:  Net income	\$ 9,228	\$ 6,898
Adjustments to reconcile net income to net cash provided by operating activities:	\$ 9,220	\$ 0,090
	9,116	8,150
Depreciation and amortization  Loss on disposal or impairment of property, plant, and equipment	134	6,130
Deferred income taxes	590	(174)
Stock-based compensation	1,545	1,398
Excess tax benefit from employee stock plans	(293)	(15)
• • •	(293)	(13)
Changes in operating assets and liabilities: Accounts receivable	29,715	80,851
Inventories		27,539
	(1,060)	
Prepaid expenses and other current assets	(3,299)	728
Intangibles and other assets	(316)	(273)
Accounts payable	(25,548)	(58,836)
Accrued liabilities	(1,360)	(6,788)
Income taxes payable	200	(1,678)
Other liabilities	1,282	941
Net cash provided by operating activities	19,934	58,782
Cash flows from investing activities:		
Purchases of short-term investments	(27,161)	(5,163)
Capital expenditures	(6,056)	(5,161)
Proceeds from sale of property, plant, and equipment		1
Net cash used in investing activities	(33,217)	(10,323)
Cash flows from financing activities:		
Proceeds from notes payable	3,501	18,390
Repayments on notes payable	(3,501)	(18,390)
Repayment on long-term debt and other long-term liabilities		(5)
Proceeds from issuance of common stock under employee stock plans, net	435	165
Excess tax benefit from employee stock plans	293	15
Repurchase of common stock	(3,838)	(307)
Cash dividends paid	(6,065)	(5,419)
Net cash used in financing activities	(9,175)	(5,551)
Net effect of exchange rate changes on cash	1,742	(1,413)
Net increase (decrease) in cash and cash equivalents	(20,716)	41,495

Cash and cash equivalents, beginning of period	3	86,664	2	30,617
Cash and cash equivalents, end of period	\$3	65,948	\$ 2	72,112
Supplemental disclosures of cash flow information:				
Cash paid during the period for interest, net of capitalized interest	\$	12	\$	8
Cash paid during the period for income taxes		4,863		6,398
Supplemental disclosures of non-cash investing and financing activities:				
Capital expenditures incurred but not yet paid	\$	3,004	\$	5,180
Common stock issuance for which proceeds have not yet been received		1,202		
See accompanying notes to condensed consolidated financial statements.				

#### COLUMBIA SPORTSWEAR COMPANY

#### NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

(Unaudited)

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

#### Basis of presentation:

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

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

#### Estimates and assumptions:

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

#### Concentration of credit risk:

#### Trade Receivables

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

#### Cash and Cash Equivalents

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

#### Short-term Investments

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

Derivatives

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

#### COLUMBIA SPORTSWEAR COMPANY

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

#### (Unaudited)

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

#### Cash and cash equivalents:

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

#### Investments:

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

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

#### Property, plant and equipment:

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

#### Product warranty:

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

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

## Recent accounting pronouncements:

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

6

#### COLUMBIA SPORTSWEAR COMPANY

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

(Unaudited)

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

#### **NOTE 2 - INVENTORIES, NET**

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