

COLUMBIA SPORTSWEAR CO

Form 10-Q

November 07, 2012

UNITED STATES  
SECURITIES AND EXCHANGE COMMISSION  
Washington, DC 20549

FORM 10-Q

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

For the quarterly period ended September 30, 2012

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

(State or other jurisdiction of  
incorporation or organization)

14375 Northwest Science Park Drive

Portland, Oregon

(Address of principal executive offices)

(503) 985-4000

(Registrant's telephone number, including area code)

93-0498284

(IRS Employer  
Identification Number)

97229

(Zip Code)

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

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

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

Large accelerated filer  Accelerated filer

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

Indicate by check mark whether the registrant is a shell company (as defined in Rule 12b-2 of the Exchange Act).

Yes  No

The number of shares of Common Stock outstanding on October 26, 2012 was 33,942,418.

COLUMBIA SPORTSWEAR COMPANY  
SEPTEMBER 30, 2012  
INDEX TO FORM 10-Q

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## PART I. FINANCIAL INFORMATION

## Item 1 – FINANCIAL STATEMENTS

## COLUMBIA SPORTSWEAR COMPANY

## CONDENSED CONSOLIDATED BALANCE SHEETS

(In thousands)

(Unaudited)

|   | September 30,<br>2012 | December 31,<br>2011 | September 30,<br>2011 |
|---|-----------------------|----------------------|-----------------------|
| <b>ASSETS</b>   |                       |                      |                       |
| Current Assets:   |                       |                      |                       |
| Cash and cash equivalents   | \$94,164              | \$241,034            | \$87,942              |
| Short-term investments  | 2,128                 | 2,878                | 2,423                 |
| Accounts receivable, net of allowance of \$7,543, \$7,545 and \$7,414, respectively   | 422,756               | 351,538              | 417,976               |
| Inventories, net (Note 3)   | 475,733               | 365,199              | 432,104               |
| Deferred income taxes   | 53,905                | 52,485               | 42,736                |
| Prepaid expenses and other current assets   | 38,334                | 36,392               | 46,789                |
| Total current assets  | 1,087,020             | 1,049,526            | 1,029,970             |
| Property, plant and equipment, at cost, net of accumulated depreciation of \$297,036, \$275,886 and \$266,892, respectively     | 260,423               | 250,910              | 231,511               |
| Intangible assets, net (Note 4)   | 37,968                | 39,020               | 39,370                |
| Goodwill  | 14,438                | 14,438               | 14,438                |
| Other non-current assets  | 27,997                | 28,648               | 29,087                |
| Total assets  | \$1,427,846           | \$1,382,542          | \$1,344,376           |
| <b>LIABILITIES AND SHAREHOLDERS' EQUITY</b>   |                       |                      |                       |
| Current Liabilities:  |                       |                      |                       |
| Notes payable (Note 5)  | \$10,206              | \$—                  | \$—                   |
| Accounts payable  | 109,879               | 148,973              | 141,546               |
| Accrued liabilities (Note 6)  | 122,501               | 104,496              | 108,020               |
| Income taxes payable  | 13,802                | 12,579               | 9,001                 |
| Deferred income taxes   | 954                   | 954                  | 2,079                 |
| Total current liabilities   | 257,342               | 267,002              | 260,646               |
| Income taxes payable  | 14,841                | 15,389               | 15,397                |
| Deferred income taxes   | 1,745                 | 1,753                | 1,584                 |
| Other long-term liabilities   | 26,215                | 23,853               | 23,045                |
| Total liabilities   | 300,143               | 307,997              | 300,672               |
| Commitments and contingencies (Note 12)   |                       |                      |                       |
| Shareholders' Equity:   |                       |                      |                       |
| Preferred stock; 10,000 shares authorized; none issued and outstanding  | —                     | —                    | —                     |
| Common stock (no par value); 125,000 shares authorized; 33,941, 33,638 and 33,635 issued and outstanding, respectively (Note 9) | 17,482                | 3,037                | 1,035                 |
| Retained earnings   | 1,062,674             | 1,024,611            | 995,281               |
| Accumulated other comprehensive income (Note 8)   | 47,547                | 46,897               | 47,388                |
| Total shareholders' equity  | 1,127,703             | 1,074,545            | 1,043,704             |
| Total liabilities and shareholders' equity  | \$1,427,846           | \$1,382,542          | \$1,344,376           |
| See accompanying notes to condensed consolidated financial statements.  |                       |                      |                       |



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CONDENSED CONSOLIDATED STATEMENTS OF OPERATIONS

(In thousands, except per share amounts)

(Unaudited)

|   | Three Months Ended September |           | Nine Months Ended September |             |
|---|------------------------------|-----------|-----------------------------|-------------|
|   | 30,                          |           | 30,                         |             |
|   | 2012                         | 2011      | 2012                        | 2011        |
| Net sales                                     | \$545,005                    | \$566,791 | \$1,168,503                 | \$1,167,907 |
| Cost of sales                                 | 301,320                      | 317,206   | 659,014                     | 656,373     |
| Gross profit                                  | 243,685                      | 249,585   | 509,489                     | 511,534     |
| Selling, general and administrative expenses  | 160,154                      | 167,375   | 437,881                     | 436,034     |
| Net licensing income                          | 4,287                        | 4,406     | 10,817                      | 10,396      |
| Income from operations                        | 87,818                       | 86,616    | 82,425                      | 85,896      |
| Interest income (expense), net                | (17                          | ) 462     | 421                         | 1,246       |
| Income before income tax                      | 87,801                       | 87,078    | 82,846                      | 87,142      |
| Income tax expense                            | (23,426                      | ) (19,539 | ) (22,474                   | ) (20,391   |
| Net income                                    | \$64,375                     | \$67,539  | \$60,372                    | \$66,751    |
| Earnings per share (Note 9):                  |                              |           |                             |             |
| Basic   | \$1.90                       | \$2.00    | \$1.79                      | \$1.97      |
| Diluted                                       | 1.88                         | 1.98      | 1.77                        | 1.95        |
| Cash dividends per share                      | \$0.22                       | \$0.22    | \$0.66                      | \$0.64      |
| Weighted average shares outstanding (Note 9): |                              |           |                             |             |
| Basic   | 33,872                       | 33,849    | 33,761                      | 33,868      |
| Diluted                                       | 34,155                       | 34,177    | 34,035                      | 34,303      |

See accompanying notes to condensed consolidated financial statements.

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CONDENSED CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME

(In thousands)

(Unaudited)

|  | Three Months Ended<br>September 30, |          | Nine Months Ended<br>September 30, |          |   |
|--|-------------------------------------|----------|------------------------------------|----------|---|
|  | 2012                                | 2011     | 2012                               | 2011     |   |
| Net income   | \$64,375                            | \$67,539 | \$60,372                           | \$66,751 |   |
| Other comprehensive income (loss):   |                                     |          |                                    |          |   |
| Unrealized holding gains (losses) on available-for-sale securities (net of tax (expense) benefit of (\$4), \$92, \$0 and \$23, respectively)                                       | 32                                  | (156     | ) —                                | (38      | ) |
| Unrealized derivative holding gains (losses) arising during period (net of tax (expense) benefit of \$286, (\$1,561), \$11 and (\$512), respectively)                              | (736                                | ) 7,973  | (143                               | ) 2,379  |   |
| Reclassification to net income of previously deferred (gains) losses on derivative instruments (net of tax expense (benefit) of \$539, (\$812), \$566 and (\$1,142), respectively) | (2,633                              | ) 3,855  | (3,809                             | ) 4,383  |   |
| Foreign currency translation adjustments (net of tax (expense) benefit of (\$149), \$885, \$111 and (\$671), respectively)   | 8,306                               | (27,259  | ) 4,602                            | (6,051   | ) |
| Other comprehensive income (loss)  | 4,969                               | (15,587  | ) 650                              | 673      |   |
| Comprehensive income   | \$69,344                            | \$51,952 | \$61,022                           | \$67,424 |   |
| See accompanying notes to condensed consolidated financial statements.   |                                     |          |                                    |          |   |

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CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS

(In thousands)

(Unaudited)

|   | Nine Months Ended September 30, |           |
|---|---------------------------------|-----------|
|   | 2012                            | 2011      |
| Cash flows from operating activities:   |                                 |           |
| Net income  | \$60,372                        | \$66,751  |
| Adjustments to reconcile net income to net cash used in operating activities: |                                 |           |
| Depreciation and amortization   | 30,763                          | 32,115    |
| Loss on disposal or impairment of property, plant, and equipment              | 505                             | 229       |
| Deferred income taxes   | 974                             | 3,183     |
| Stock-based compensation  | 5,707                           | 5,855     |
| Excess tax benefit from employee stock plans                                  | (604)                           | (1,814)   |
| Changes in operating assets and liabilities:                                  |                                 |           |
| Accounts receivable   | (68,605)                        | (121,949) |
| Inventories   | (108,027)                       | (122,998) |
| Prepaid expenses and other current assets                                     | (1,784)                         | (19,286)  |
| Other assets  | (266)                           | (1,521)   |
| Accounts payable  | (45,660)                        | 11,363    |
| Accrued liabilities   | 12,926                          | 15,819    |
| Income taxes payable  | 825                             | (11,343)  |
| Other liabilities   | 2,298                           | 1,571     |
| Net cash used in operating activities   | (110,576)                       | (142,025) |
| Cash flows from investing activities:   |                                 |           |
| Purchases of short-term investments   | (39,274)                        | (45,799)  |
| Sales of short-term investments   | 40,153                          | 112,070   |
| Capital expenditures  | (32,431)                        | (40,171)  |
| Proceeds from sale of property, plant, and equipment                          | 6                               | 168       |
| Net cash provided by (used in) investing activities                           | (31,546)                        | 26,268    |
| Cash flows from financing activities:   |                                 |           |
| Proceeds from credit facilities   | 74,846                          | 62,148    |
| Repayments on credit facilities   | (64,640)                        | (62,148)  |
| Proceeds from issuance of common stock under employee stock plans             | 9,607                           | 10,342    |
| Tax payments related to restricted stock unit issuances                       | (1,261)                         | (2,942)   |
| Excess tax benefit from employee stock plans                                  | 604                             | 1,814     |
| Repurchase of common stock  | (206)                           | (16,429)  |
| Cash dividends paid   | (22,309)                        | (21,677)  |
| Net cash used in financing activities   | (3,359)                         | (28,892)  |
| Net effect of exchange rate changes on cash                                   | (1,389)                         | (1,666)   |
| Net decrease in cash and cash equivalents                                     | (146,870)                       | (146,315) |
| Cash and cash equivalents, beginning of period                                | 241,034                         | 234,257   |
| Cash and cash equivalents, end of period                                      | \$94,164                        | \$87,942  |
| Supplemental disclosures of cash flow information:                            |                                 |           |
| Cash paid during the period for income taxes                                  | \$15,891                        | \$27,480  |
| Supplemental disclosures of non-cash investing and financing activities:      |                                 |           |
| Capital expenditures incurred but not yet paid                                | \$5,967                         | \$1,195   |
| Repurchase of common stock not yet paid                                       | —                               | 2,896     |
| See accompanying notes to condensed consolidated financial statements.        |                                 |           |





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COLUMBIA SPORTSWEAR COMPANY

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

(Unaudited)

NOTE 1 – BASIS OF PRESENTATION AND ORGANIZATION

The accompanying unaudited condensed consolidated financial statements have been prepared by the management of Columbia Sportswear Company (the “Company”) and in the opinion of management include all normal recurring material adjustments necessary to present fairly the Company’s financial position as of September 30, 2012 and 2011, the results of operations for the three and nine months ended September 30, 2012 and 2011 and cash flows for the nine months ended September 30, 2012 and 2011. The December 31, 2011 financial information was derived from the Company’s audited financial statements included in the Company’s Annual Report on Form 10-K for the year ended December 31, 2011. A significant part of the Company’s business is of a seasonal nature; therefore, results of operations for the three and nine months ended September 30, 2012 are not necessarily indicative of 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 consolidated financial statements and notes thereto included in the Company’s Annual Report on Form 10-K for the year ended December 31, 2011.

Estimates and assumptions:

The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America 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, including sales returns and claims from customers, allowance for doubtful accounts, excess, slow-moving and close-out inventories, product warranty, long-lived and intangible assets, income taxes and stock-based compensation.

NOTE 2 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

There have been no significant changes to the Company’s significant accounting policies as described in the Company’s Annual Report on Form 10-K for the year ended December 31, 2011.

Restructuring charges:

In connection with cost containment measures implemented during the first quarter of 2012, the Company accrued and expensed restructuring charges of \$4,007,000, primarily consisting of employee termination costs related to headcount reductions. All such costs are included in selling, general and administrative expenses.

Recent Accounting Pronouncements:

In May 2011, the Financial Accounting Standards Board (“FASB”) issued Accounting Standards Update (“ASU”) No. 2011-04, Fair Value Measurement (Topic 820): Amendments to Achieve Common Fair Value Measurement and Disclosure Requirements in U.S. GAAP and IFRS. This ASU was issued concurrently with International Financial Reporting Standards (“IFRS”) 13, Fair Value Measurements, to provide largely identical guidance about fair value measurement and disclosure requirements. The new standards do not extend the use of fair value but, rather, provide guidance about how fair value should be applied where it already is required or permitted under IFRS or U.S. GAAP. This standard is effective prospectively for interim and annual periods beginning after December 15, 2011. The adoption of this standard did not have a material effect on the Company’s consolidated financial position, results of operations or cash flows.

In June 2011, the FASB issued ASU No. 2011-05, Comprehensive Income (Topic 220): Presentation of Comprehensive Income. This ASU increases the prominence of other comprehensive income in financial statements while eliminating the option in U.S. GAAP to present other comprehensive income in the statement of changes in

equity. Under this ASU, an entity has the option to present the components of net income and comprehensive income in either one or two consecutive financial statements.

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## COLUMBIA SPORTSWEAR COMPANY

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

(Unaudited)

This ASU is effective for fiscal years, and interim periods within those years, beginning after December 15, 2011. The Company adopted this standard January 1, 2012, and applied it retrospectively by adding a separate financial statement entitled, “Condensed Consolidated Statements of Comprehensive Income.”

In September 2011, the FASB issued ASU No. 2011-08, Intangibles—Goodwill and Other (Topic 350): Testing Goodwill for Impairment. This ASU permits an entity to make a qualitative assessment of whether it is more likely than not that a reporting unit’s fair value is less than its carrying amount before applying the two-step goodwill impairment test. Under these requirements, an entity would not be required to calculate the fair value of a reporting unit unless the entity determines, based on the qualitative assessment, that it is more likely than not that its fair value is less than its carrying amount. The ASU is effective for annual and interim goodwill impairment tests performed for fiscal years beginning after December 15, 2011. The Company does not expect the adoption of this standard to have a material effect on the Company’s consolidated financial position, results of operations or cash flows.

In July 2012, the FASB issued ASU No. 2012-02, Intangibles—Goodwill and Other (Topic 350): Testing Indefinite-Lived Intangible Assets for Impairment. This ASU permits an entity to make a qualitative assessment of whether it is not more likely than not that indefinite-lived intangible assets are impaired before calculating the fair value of the assets. This ASU is effective for annual and interim impairment tests performed for fiscal years beginning after September 15, 2012, although early adoption is permitted. The Company does not expect the adoption of this standard to have a material effect on the Company’s financial position, results of operations or cash flows.

## NOTE 3 – INVENTORIES, NET

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

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

|                 | September 30,<br>2012 | December 31,<br>2011 | September 30,<br>2011 |
|-----------------|-----------------------|----------------------|-----------------------|
| Raw materials   | \$726                 | \$2,044              | \$1,738               |
| Work in process | 2,055                 | 1,240                | 1,295                 |
| Finished goods  | 472,952               | 361,915              | 429,071               |
|                 | \$475,733             | \$365,199            | \$432,104             |

## NOTE 4 – INTANGIBLE ASSETS, NET

Intangible assets that are determined to have finite lives include patents and purchased technology and are amortized over their estimated useful lives, which are approximately 10 years. Intangible assets with indefinite useful lives include trademarks and tradenames and are not amortized but are periodically evaluated for impairment.

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

|   | September 30,<br>2012 | December 31,<br>2011 | September 30,<br>2011 |
|---|-----------------------|----------------------|-----------------------|
| Intangible assets subject to amortization     |                       |                      |                       |
| Gross carrying amount                         | \$14,198              | \$14,198             | \$14,198              |
| Accumulated amortization                      | (3,651)               | (2,599)              | (2,249)               |
| Net carrying amount                           | 10,547                | 11,599               | 11,949                |
| Intangible assets not subject to amortization | 27,421                | 27,421               | 27,421                |
| Intangible assets, net                        | \$37,968              | \$39,020             | \$39,370              |

Annual amortization expense for intangible assets subject to amortization is estimated to be \$1,402,000 in 2012, and \$1,330,000 in 2013 through 2016.



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## COLUMBIA SPORTSWEAR COMPANY

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

(Unaudited)

**NOTE 5 – SHORT-TERM BORROWINGS AND CREDIT LINES**

On September 27, 2012, the Company's Korean subsidiary increased the maximum borrowing on its unsecured and uncommitted line of credit agreement to US\$30,000,000. At September 30, 2012, \$10,206,000 was outstanding under this line.

**NOTE 6 – 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. The warranty reserve is included in accrued liabilities in the Condensed Consolidated Balance Sheets.

A reconciliation of product warranties is as follows (in thousands):

|                                | Three Months Ended |          | Nine Months Ended |          |
|--------------------------------|--------------------|----------|-------------------|----------|
|                                | September 30,      |          | September 30,     |          |
|                                | 2012               | 2011     | 2012              | 2011     |
| Balance at beginning of period | \$9,453            | \$9,777  | \$10,452          | \$10,256 |
| Charged to costs and expenses  | 1,218              | 1,131    | 3,183             | 3,202    |
| Claims settled                 | (960               | ) (585   | ) (3,917          | ) (3,341 |
| Other                          | 83                 | (294     | ) 76              | (88      |
| Balance at end of period       | \$9,794            | \$10,029 | \$9,794           | \$10,029 |

**NOTE 7 – STOCK-BASED COMPENSATION**

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

Stock-based compensation expense consisted of the following (in thousands):

|                        | Three Months Ended |         | Nine Months Ended |         |
|------------------------|--------------------|---------|-------------------|---------|
|                        | September 30,      |         | September 30,     |         |
|                        | 2012               | 2011    | 2012              | 2011    |
| Stock options          | \$607              | \$906   | \$2,384           | \$2,633 |
| Restricted stock units | 797                | 1,145   | 3,323             | 3,222   |
| Total                  | \$1,404            | \$2,051 | \$5,707           | \$5,855 |

**Stock Options**

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

The following table presents the weighted average assumptions for stock options granted in the period:

|  | Three Months Ended |            | Nine Months Ended |                     |
|--|--------------------|------------|-------------------|---------------------|
|  | September 30,      |            | September 30,     |                     |
|  | 2012               | 2011       | 2012              | 2011 <sup>(1)</sup> |
| Expected term                          | 4.51 years         | 4.49 years | 4.78 years        | 5.12 years          |
| Expected stock price volatility        | 31.95%             | 31.21%     | 32.20%            | 30.76%              |
| Risk-free interest rate                | 0.47%              | 0.95%      | 0.88%             | 1.84%               |
| Expected dividend yield                | 1.63%              | 1.53%      | 1.80%             | 1.31%               |
| Weighted average grant date fair value | \$12.37            | \$13.39    | \$11.57           | \$16.09             |

For the nine months ended September 30, 2011, the Company granted two stock option grants totaling 53,720<sup>(1)</sup> shares that vest 100% on the fifth anniversary of the grant date. Because the Company did not have sufficient historical exercise

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## COLUMBIA SPORTSWEAR COMPANY

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

(Unaudited)

data to provide a reasonable basis for estimating the expected term for these grants, the Company utilized the simplified method in developing an estimate of the expected term of these options.

During the nine months ended September 30, 2012 and 2011, the Company granted a total of 358,169 and 340,973 stock options, respectively. At September 30, 2012, unrecognized costs related to outstanding stock options totaled approximately \$6,234,000, before any related tax benefit. The unrecognized costs related to stock options are amortized over the related vesting period using the straight-line attribution method. Unrecognized costs related to stock options at September 30, 2012 are expected to be recognized over a weighted average period of 2.41 years.

**Restricted Stock Units**

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

The following table presents the weighted average assumptions for restricted stock units granted in the period:

|   | Three Months Ended<br>September 30, |            | Nine Months Ended<br>September 30, |            |
|---|-------------------------------------|------------|------------------------------------|------------|
|   | 2012                                | 2011       | 2012                               | 2011       |
| Vesting period  | 4.00 years                          | 4.00 years | 3.86 years                         | 3.96 years |
| Expected dividend yield   | 1.63%                               | 1.84%      | 1.77%                              | 1.33%      |
| Estimated average grant date fair value per restricted stock unit | \$50.46                             | \$44.82    | \$46.57                            | \$58.37    |

During the nine months ended September 30, 2012 and 2011, the Company granted 183,816 and 145,768 restricted stock units, respectively. At September 30, 2012, unrecognized costs related to outstanding restricted stock units totaled approximately \$11,033,000, before any related tax benefit. The unrecognized costs related to restricted stock units are being amortized over the related vesting period using the straight-line attribution method. These unrecognized costs at September 30, 2012 are expected to be recognized over a weighted average period of 2.51 years.

**NOTE 8 – ACCUMULATED OTHER COMPREHENSIVE INCOME**

Accumulated other comprehensive income, net of applicable taxes, reported on the Company's Condensed Consolidated Balance Sheets consists of unrealized holding gains and losses on available-for-sale securities, unrealized gains and losses on certain derivative transactions and foreign currency translation adjustments.

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

|  | September 30,<br>2012 | December 31,<br>2011 | September 30,<br>2011 |
|--|-----------------------|----------------------|-----------------------|
| Unrealized holding losses on available-for-sale securities | \$(2 )                | \$(2 )               | \$(2 )                |
| Unrealized holding gains on derivative transactions        | 3,298                 | 7,250                | 5,091                 |
| Foreign currency translation adjustments                   | 44,251                | 39,649               | 42,299                |
| Accumulated other comprehensive income                     | \$47,547              | \$46,897             | \$47,388              |

**NOTE 9 – EARNINGS PER SHARE**

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





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## COLUMBIA SPORTSWEAR COMPANY

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

(Unaudited)

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

|  | Three Months Ended<br>September 30, |         | Nine Months Ended<br>September 30, |         |
|--|-------------------------------------|---------|------------------------------------|---------|
|  | 2012                                | 2011    | 2012                               | 2011    |
| Weighted average shares of common stock outstanding,<br>used in computing basic earnings per share   | 33,872                              | 33,849  | 33,761                             | 33,868  |
| Effect of dilutive stock options and restricted stock units  | 283                                 | 328     | 274                                | 435     |
| Weighted-average shares of common stock outstanding,<br>used in computing diluted earnings per share | 34,155                              | 34,177  | 34,035                             | 34,303  |
| Earnings per share of common stock:  |                                     |         |                                    |         |
| Basic  | \$ 1.90                             | \$ 2.00 | \$ 1.79                            | \$ 1.97 |
| Diluted  | 1.88                                | 1.98    | 1.77                               | 1.95    |

Stock options and service-based restricted stock units representing 923,275 and 515,712 shares of common stock outstanding for the three months ended September 30, 2012 and 2011, respectively, and 932,362 and 364,811 shares of common stock for the nine months ended September 30, 2012 and 2011, respectively, were outstanding but were excluded from the computation of diluted EPS because their effect would be anti-dilutive as a result of applying the treasury stock method. In addition, performance-based restricted stock units representing 40,304 and 38,606 shares of common stock for the three months ended September 30, 2012 and 2011, respectively, and 38,259 and 33,047 shares of common stock for the nine months ended September 30, 2012 and 2011, respectively, were outstanding but were excluded from the computation of diluted EPS because these shares were subject to performance conditions that had not been met.

Since the inception of the Company's stock repurchase plan in 2004 through September 30, 2012, the Company's Board of Directors has authorized the repurchase of \$500,000,000 of the Company's common stock. As of September 30, 2012, the Company had repurchased 9,593,278 shares under this program at an aggregate purchase price of approximately \$441,443,000. During the nine months ended September 30, 2012, the Company repurchased an aggregate of \$206,000 of the Company's common stock. During the nine months ended September 30, 2011, the Company repurchased an aggregate of \$19,325,000 of the Company's common stock. 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 10 – SEGMENT INFORMATION

The Company operates in four geographic segments: (1) United States, (2) Latin America and Asia Pacific ("LAAP"), (3) Europe, Middle East and Africa ("EMEA") 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, development, marketing and distribution of active outdoor apparel, footwear, accessories and equipment.

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## COLUMBIA SPORTSWEAR COMPANY

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

(Unaudited)

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

|                                  | Three Months Ended    |           | Nine Months Ended     |             |
|----------------------------------|-----------------------|-----------|-----------------------|-------------|
|                                  | September 30,<br>2012 | 2011      | September 30,<br>2012 | 2011        |
| Net sales to unrelated entities: |                       |           |                       |             |
| United States                    | \$347,757             | \$333,634 | \$672,879             | \$655,171   |
| LAAP                             | 84,614                | 72,763    | 245,560               | 216,664     |
| EMEA                             | 60,583                | 100,312   | 168,655               | 198,279     |
| Canada                           | 52,051                | 60,082    | 81,409                | 97,793      |
|                                  | \$545,005             | \$566,791 | \$1,168,503           | \$1,167,907 |
| Income before income tax:        |                       |           |                       |             |
| United States                    | \$62,475              | \$52,571  | \$50,039              | \$44,921    |
| LAAP                             | 7,128                 | 7,531     | 24,797                | 22,572      |
| EMEA                             | 7,862                 | 14,287    | 2,295                 | 5,715       |
| Canada                           | 10,353                | 12,227    | 5,294                 | 12,688      |
| Interest income (expense), net   | (17                   | ) 462     | 421                   | 1,246       |
|                                  | \$87,801              | \$87,078  | \$82,846              | \$87,142    |

## NOTE 11 – FINANCIAL INSTRUMENTS AND RISK MANAGEMENT

In the normal course of business, the Company's financial position and results of operations are routinely subject to a variety of risks. These risks include risks associated with financial markets, primarily currency exchange rate risk and, to a lesser extent, interest rate risk and equity market risk. The Company regularly assesses these risks and has established policies and business practices designed to mitigate them. The Company does not engage in speculative trading in any financial market.

The Company actively manages the risk of changes in functional currency equivalent cash flows resulting from anticipated U.S. dollar denominated inventory purchases by subsidiaries that use European euros, Canadian dollars, Japanese yen or Korean won as their functional currency. The Company manages this risk by using currency forward contracts formally designated and effective as cash flow hedges. Hedge effectiveness is determined by evaluating the ability of a hedging instrument's cumulative change in fair value to offset the cumulative change in the present value of expected cash flows on the underlying exposures. For forward contracts, the change in fair value attributable to changes in forward points are excluded from the determination of hedge effectiveness and included in current cost of sales. Hedge ineffectiveness was not material during the three and nine months ended September 30, 2012 and 2011.

The Company also uses currency forward contracts not formally designated as hedges to manage the currency exchange rate risk associated with the remeasurement of non-functional monetary assets and liabilities. Non-functional monetary assets and liabilities consist primarily of cash and cash equivalents, short-term investments, payables and intercompany loans.

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

|  | September 30,<br>2012 | December 31,<br>2011 | September 30,<br>2011 |
|--|-----------------------|----------------------|-----------------------|
| Derivative instruments designated as cash flow hedges:     |                       |                      |                       |
| Currency forward contracts                                 | \$97,925              | \$144,000            | \$156,025             |
| Derivative instruments not designated as cash flow hedges: |                       |                      |                       |

|                            |        |         |        |
|----------------------------|--------|---------|--------|
| Currency forward contracts | 89,462 | 138,807 | 63,210 |
|----------------------------|--------|---------|--------|

At September 30, 2012, approximately \$3,575,000 of deferred net gains on both outstanding and matured derivatives accumulated in other comprehensive income are expected to be reclassified to net income during the next twelve months as a result of underlying hedged transactions also being recorded in net income. Actual amounts ultimately reclassified to net income are dependent on U.S. dollar exchange rates in effect against the European euro, Canadian dollar, Japanese yen and Korean won when outstanding derivative contracts mature.

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## COLUMBIA SPORTSWEAR COMPANY

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

(Unaudited)

At September 30, 2012, the Company's derivative contracts had a remaining maturity of approximately one year or less. All the counterparties to these transactions had both long-term and short-term investment grade credit ratings and as a result, the Company does not require collateral to facilitate transactions. The maximum net exposure to any single counterparty, which is generally limited to the aggregate unrealized gain of all contracts with that counterparty, was less than \$2,000,000 at September 30, 2012. The Company does not hold derivatives featuring credit-related contingent terms. In addition, the Company is not a party to any derivative master agreement featuring credit-related contingent terms. Finally, the Company has not pledged assets or posted collateral as a requirement for entering into or maintaining derivative positions.

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

|   | Balance Sheet Classification                 | September 30,<br>2012 | December 31,<br>2011 | September 30,<br>2011 |
|---|--|-----------------------|----------------------|-----------------------|
| Derivative instruments<br>designated as cash flow hedges:     |  |                       |                      |                       |
| Derivative instruments in asset<br>positions:                 |  |                       |                      |                       |
| Currency forward contracts                                    | Prepaid expenses and other current<br>assets | \$ 2,170              | \$ 6,591             | \$ 7,449              |
| Currency forward contracts                                    | Other non-current assets                     | —                     | 1,117                | —                     |
| Derivative instruments in<br>liability positions:             |  |                       |                      |                       |
| Currency forward contracts                                    | Accrued liabilities                          | 580                   | 824                  | 1,124                 |
| Currency forward contracts                                    | Other long-term liabilities                  | —                     | 91                   | —                     |
| Derivative instruments not<br>designated as cash flow hedges: |  |                       |                      |                       |
| Derivative instruments in asset<br>positions:                 |  |                       |                      |                       |
| Currency forward contracts                                    | Prepaid expenses and other current<br>assets | \$ 582                | \$ 645               | \$ 908                |
| Derivative instruments in<br>liability positions:             |  |                       |                      |                       |
| Currency forward contracts                                    | Accrued liabilities                          | 1,640                 | 2,962                | 1,461                 |

The following table presents the effect and classification of derivative instruments (in thousands):

|  | Statement of<br>Operations<br>Classification | Three Months<br>Ended September<br>30,<br>2012 |          | Nine Months Ended<br>September 30,<br>2011 |          |
|--|--|--|----------|--|----------|
| Currency Forward Contracts:  |  |  |          |  |          |
| Derivative instruments designated as cash flow hedges:   |  |  |          |  |          |
| Gain (loss) recognized in other comprehensive<br>income or loss  | —  | \$(736 )                                       | \$7,973  | \$(143 )                                   | \$2,379  |
| Gain (loss) reclassified from accumulated other<br>comprehensive income or loss to income for the<br>effective portion | Cost of sales                                | 3,219  | (4,568 ) | 4,011                                      | (5,436 ) |

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|   |   |        |          |          |          |
|---|---|--------|----------|----------|----------|
| Gain reclassified from accumulated other comprehensive income or loss to income as a result of cash flow hedge discontinuance | Cost of sales                               | —      | —        | 441      | —        |
| Loss recognized in income for amount excluded from effectiveness testing and for the ineffective portion                      | Cost of sales                               | (12 )  | (940 )   | (16 )    | (1,586 ) |
| Derivative instruments not designated as cash flow hedges:  |   |        |          |          |          |
| Gain (loss) recognized in income  | Selling, general and administrative expense | (881 ) | (1,541 ) | (7,134 ) | 3,218    |

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## COLUMBIA SPORTSWEAR COMPANY

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

(Unaudited)

## NOTE 12 – COMMITMENTS AND CONTINGENCIES

## Inventory Purchase Obligations

Inventory purchase obligations consist of open production purchase orders and other commitments for raw materials and sourced apparel, footwear, accessories and equipment. At September 30, 2012, inventory purchase obligations were \$287,478,000.

## NOTE 13 – FAIR VALUE MEASURES

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

Level 1 – observable inputs such as quoted prices in active liquid markets;

inputs, other than the quoted market prices in active markets, that are observable, either directly or

Level 2 – indirectly; or observable market prices in markets with insufficient volume and/or infrequent transactions; and

Level 3 – unobservable inputs for which there is little or no market data available, that require the reporting entity to develop its own assumptions.

Assets and liabilities measured at fair value on a recurring basis at September 30, 2012 are as follows (in thousands):

|  | Level 1  | Level 2 | Level 3 | Total    |
|--|----------|---------|---------|----------|
| Assets:  |          |         |         |          |
| Cash equivalents   |          |         |         |          |
| Money market funds                                       | \$13,700 | \$—     | \$—     | \$13,700 |
| Time deposits  | 10,016   | —       | —       | 10,016   |
| Available-for-sale short-term investments <sup>(1)</sup> |          |         |         |          |
| Time deposits  | —        | 2,128   | —       | 2,128    |
| Other current assets                                     |          |         |         |          |
| Derivative financial instruments (Note 11)               | —        | 2,752   | —       | 2,752    |
| Other non-current assets                                 |          |         |         |          |
| Mutual fund shares                                       | 3,879    | —       | —       | 3,879    |
| Total assets measured at fair value                      | \$27,595 | \$4,880 | \$—     | \$32,475 |
| Liabilities:   |          |         |         |          |
| Accrued liabilities                                      |          |         |         |          |
| Derivative financial instruments (Note 11)               | \$—      | \$2,220 | \$—     | \$2,220  |
| Total liabilities measured at fair value                 | \$—      | \$2,220 | \$—     | \$2,220  |

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## COLUMBIA SPORTSWEAR COMPANY

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

(Unaudited)

Assets and liabilities measured at fair value on a recurring basis at December 31, 2011 are as follows (in thousands):

|  | Level 1  | Level 2 | Level 3 | Total    |
|--|----------|---------|---------|----------|
| Assets:  |          |         |         |          |
| Cash equivalents   |          |         |         |          |
| Money market funds                                       | \$55,542 | \$—     | \$—     | \$55,542 |
| Time deposits  | 10,000   | —       | —       | 10,000   |
| Available-for-sale short-term investments <sup>(1)</sup> |          |         |         |          |
| Time deposits  | 2,878    | —       | —       | 2,878    |
| Other current assets                                     |          |         |         |          |
| Derivative financial instruments (Note 11)               | —        | 7,236   | —       | 7,236    |
| Other non-current assets                                 |          |         |         |          |
| Derivative financial instruments (Note 11)               | —        | 1,117   | —       | 1,117    |
| Mutual fund shares                                       | 2,521    | —       | —       | 2,521    |
| Total assets measured at fair value                      | \$70,941 | \$8,353 | \$—     | \$79,294 |
| Liabilities:   |          |         |         |          |
| Accrued liabilities                                      |          |         |         |          |
| Derivative financial instruments (Note 11)               | \$—      | \$3,786 | \$—     | \$3,786  |
| Other long-term liabilities                              |          |         |         |          |
| Derivative financial instruments (Note 11)               | —        | 91      | —       | 91       |
| Total liabilities measured at fair value                 | \$—      | \$3,877 | \$—     | \$3,877  |

Assets and liabilities measured at fair value on a recurring basis at September 30, 2011 are as follows (in thousands):

|  | Level 1  | Level 2 | Level 3 | Total    |
|--|----------|---------|---------|----------|
| Assets:  |          |         |         |          |
| Cash equivalents   |          |         |         |          |
| Money market funds                                       | \$57,939 | \$—     | \$—     | \$57,939 |
| Available-for-sale short-term investments <sup>(1)</sup> |          |         |         |          |
| Time deposits  | 2,423    | —       | —       | 2,423    |
| Other current assets                                     |          |         |         |          |
| Derivative financial instruments (Note 11)               | —        | 8,357   | —       | 8,357    |
| Other non-current assets                                 |          |         |         |          |
| Mutual fund shares                                       | 2,261    | —       | —       | 2,261    |
| Total assets measured at fair value                      | \$62,623 | \$8,357 | \$—     | \$70,980 |
| Liabilities:   |          |         |         |          |
| Accrued liabilities                                      |          |         |         |          |
| Derivative financial instruments (Note 11)               | \$—      | \$2,585 | \$—     | \$2,585  |
| Total liabilities measured at fair value                 | \$—      | \$2,585 | \$—     | \$2,585  |

(1) Investments have remaining maturities greater than three months but less than two years and are available for use in current operations.

Level 1 instrument valuations are obtained from real-time quotes for transactions in active exchange markets involving identical assets. Level 2 instrument valuations are obtained from inputs, other than quoted market prices in active markets, that are directly or indirectly observable in the marketplace and quoted prices in markets with limited

volume or infrequent transactions.

There were no material assets and liabilities measured at fair value on a nonrecurring basis as of September 30, 2012, December 31, 2011, or September 30, 2011.

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Item 2 – MANAGEMENT’S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS

This quarterly report contains forward-looking statements. Forward-looking statements include any statements related to our expectations regarding future performance or market position, including any statements regarding anticipated sales across markets, distribution channels and product categories, expenses, input costs and cost containment measures, effects of unseasonable weather on our results of operations, investments in our business, including commencement of our China joint venture, investments in our information technology systems and our direct-to-consumer channels, access to raw materials and factory capacity, financing and working capital requirements and resources and our exposure to market risk associated with interest rates and foreign currency exchange rates. These forward-looking statements, and others we make from time to time, are subject to a number of risks and uncertainties. Many factors may cause actual results to differ materially from those projected in forward-looking statements, including the risks described below in Part II, Item 1A, Risk Factors. We do not undertake any duty to update forward-looking statements after the date they are made or to conform them to actual results or to changes in circumstances or expectations.

**Our Business**

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

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

**Seasonality and Variability of Business**

Our business is affected by the general seasonal trends common to the outdoor industry and is heavily dependent upon weather and discretionary consumer spending patterns. Our products are marketed on a seasonal basis and our sales are weighted substantially toward the fall season, while our operating costs are more equally distributed throughout the year. Since 2008, the expansion of our direct-to-consumer operations has increased the proportion of sales and profits that we generate in the fourth calendar quarter. As a result, our sales and profits tend to be highest in the third and fourth calendar quarters. In 2011, approximately 65 percent of our net sales and all of our profitability were realized in the second half of the year, illustrating our dependence upon sales results in the second half of the year, as well as the less seasonal nature of our operating costs.

We generally solicit orders from wholesale customers and independent distributors for the fall and spring seasons based on seasonal ordering deadlines that we establish to aid our efforts in planning manufacturing volumes to meet demand for each of our selling seasons. We typically ship the majority of our advance fall season orders to wholesale customers and independent distributors beginning in June and continuing through November. Similarly, the majority of our advance spring season orders ship to wholesale customers and independent distributors beginning in December and continuing through May. Generally, orders are subject to cancellation prior to the date of shipment.

Results of operations in any period should not be considered indicative of the results to be expected for any future period, particularly in light of persistent volatility in economic conditions. Sales of our products are subject to substantial cyclical fluctuation, the effects of unseasonable weather conditions, the relative popularity of competitors' brands, and the continued popularity of outdoor activities as part of an active lifestyle in key markets. Volatile economic environments in key markets coupled with inflationary or volatile input costs reduce the predictability of our business.

**Business Outlook**

The global business climate continues to present us with a great deal of uncertainty, making it difficult to predict future results. Factors that could significantly affect our full year 2012 outlook include:

- Unseasonable weather conditions or other unforeseen factors affecting consumer demand and the resulting effect on order cancellations, sales returns, reorders, direct-to-consumer sales and suppressed demand in subsequent seasons;
- Changes in mix and volume of full price sales in relation to close-out product sales and promotional sales activity;

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• Increased costs to support supply chain and information technology infrastructure investments and projects, including our multi-year global enterprise resource planning (“ERP”) system implementation;

• Our ability to implement and maintain effective cost containment measures in order to limit the growth of selling, general and administrative (“SG&A”) expenses to a rate comparable to or lower than sales growth;

• Continued economic uncertainty, which is creating headwinds in key global markets, particularly in Europe as it relates to our EMEA direct business where we have ongoing efforts to revitalize the Columbia brand;

• The rate of sales growth through our expanding direct-to-consumer operations;

• Changes in consumer spending activity, including consumer acceptance of increased prices of our products; and

• Fluctuating currency exchange rates.

Like other branded consumer product companies, our business is heavily dependent upon discretionary consumer spending patterns. Continuing high levels of unemployment and concerns about potential increases in consumer prices in our key markets continue to pose significant challenges and risks for us.

We believe the potential for growth in our full year 2012 net sales compared to 2011 is limited primarily as a result of the unseasonably warm 2011/2012 winter and a challenging economic environment, particularly in Europe, both of which subdued retailers' confidence as they placed their advance orders for the fall 2012 season. We expect full year 2012 SG&A expenses to decrease slightly compared to 2011, driven by cost containment measures executed in the first quarter of 2012 and a continued focus on SG&A expense control throughout the year. Cost containment efforts included a reduction in global headcount, curtailment of various compensation and benefit increases and reduction in travel, event and other discretionary spending.

These factors and others may have a material effect on our financial condition, results of operations, or cash flows, particularly with respect to quarterly comparisons.

We remain firmly committed to:

• Creating innovative solutions that keep people warm, cool, dry and protected so they can enjoy the outdoors longer;

• Focusing on product design, utilizing our innovations to differentiate our brands from competitors;

• Ensuring that our products are sold through brand enhancing distribution partners around the world;

• Increasing the impact and amount of consumer communications to drive demand for our brands and sell-through of our products;

• Making sure our products are merchandised and displayed in the best way possible in every retail environment; and

• Continuing to build a world class direct-to-consumer business.

Our business has evolved significantly in recent years, including a broader geographic scope, larger international distributor and direct-to-consumer operations, increased automatic replenishment programs and changes in the multiple data points we use to plan our business. We have concluded that providing two seasonal wholesale backlog reports at March 31 and September 30, as we previously did through 2011, is not material to an understanding of our company and our future expectations.

### Results of Operations

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

#### Highlights of the Third Quarter of 2012

Net sales for the third quarter of 2012 decreased \$21.8 million, or 4%, to \$545.0 million from \$566.8 million for the third quarter of 2011. Changes in foreign currency exchange rates compared with the third quarter of 2011 negatively affected the consolidated net sales comparison by approximately two percentage points.

Net income for the third quarter of 2012 decreased 5% to \$64.4 million, or \$1.88 per diluted share, compared to net income of \$67.5 million, or \$1.98 per diluted share, for the third quarter of 2011.

• We paid a quarterly cash dividend of \$0.22 per share, or \$7.5 million, in the third quarter of 2012.

On August 6, 2012, we entered into an agreement with Swire Resources Limited to form a joint venture with the purpose of supporting the development of our business in the People's Republic of China, excluding the administrative territories of Hong Kong and Macau. The joint venture is expected to begin operations January 1, 2014, subject to

regulatory approval in the People's Republic of China and other conditions customary in transactions of this size and type. We will hold a 60 percent ownership interest in the joint venture. The joint venture will replace distributor agreements with Swire Resources Limited.

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:

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|   | Three Months Ended September 30, |         | Nine Months Ended September 30, |         |   |
|---|----------------------------------|---------|---------------------------------|---------|---|
|   | 2012                             | 2011    | 2012                            | 2011    |   |
| Net sales                                   | 100.0                            | % 100.0 | % 100.0                         | % 100.0 | % |
| Cost of sales                               | 55.3                             | 56.0    | 56.4                            | 56.2    |   |
| Gross profit                                | 44.7                             | 44.0    | 43.6                            | 43.8    |   |
| Selling, general and administrative expense | 29.4                             | 29.5    | 37.4                            | 37.3    |   |
| Net licensing income                        | 0.8                              | 0.8     | 0.9                             | 0.9     |   |
| Income from operations                      | 16.1                             | 15.3    | 7.1                             | 7.4     |   |
| Interest income (expense), net              | —                                | 0.1     | —                               | 0.1     |   |
| Income before income tax                    | 16.1                             | 15.4    | 7.1                             | 7.5     |   |
| Income tax expense                          | (4.3                             | ) (3.5  | ) (1.9                          | ) (1.8  | ) |
| Net income                                  | 11.8                             | % 11.9  | % 5.2                           | % 5.7   | % |

## Quarter Ended September 30, 2012 Compared to Quarter Ended September 30, 2011

Net Sales: Consolidated net sales decreased \$21.8 million, or 4%, to \$545.0 million for the third quarter of 2012 from \$566.8 million for the comparable period in 2011. Changes in foreign currency exchange rates compared with the third quarter of 2011 negatively affected the consolidated net sales comparison by approximately two percentage points.

## Sales by Geographic Region

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

|               | Three Months Ended September 30,             |         |          |
|---------------|--|---------|----------|
|               | 2012   | 2011    | % Change |
|               | (In millions, except for percentage changes) |         |          |
| United States | \$347.8                                      | \$333.6 | 4%       |
| LAAP          | 84.7   | 72.8    | 16%      |
| EMEA          | 60.5   | 100.3   | (40)%    |
| Canada        | 52.0   | 60.1    | (13)%    |
|               | \$545.0                                      | \$566.8 | (4)%     |

Net sales in the United States increased \$14.2 million, or 4%, to \$347.8 million for the third quarter of 2012 from \$333.6 million for the comparable period in 2011. The increase in net sales in the United States was led by apparel, accessories and equipment, followed by footwear, and consisted of approximately equal increases in our direct-to-consumer and wholesale businesses. The net sales increase in our direct-to-consumer business was primarily concentrated in the Columbia brand and was led by increased net sales within our retail stores, followed by increased e-commerce net sales. At September 30, 2012, we operated 58 retail stores, compared with 51 at September 30, 2011. The increase in wholesale net sales was primarily due to increased fall 2012 product shipments, aided by earlier receipts of fall inventory in 2012 compared to 2011.

Net sales in the LAAP region increased \$11.9 million, or 16%, to \$84.7 million for the third quarter of 2012 from \$72.8 million for the comparable period in 2011. Changes in foreign currency exchange rates compared with the third quarter of 2011 negatively affected the LAAP net sales comparison by approximately three percentage points. The net sales increase in the LAAP region was led by apparel, accessories and equipment, followed by footwear. The LAAP net sales increase was primarily concentrated in the Columbia brand and was led by our LAAP distributor business, followed by Japan, partially offset by a net sales decrease in Korea. The LAAP distributor net sales increase was primarily due to increased advance orders for fall 2012 products and a shift in timing of shipments as a higher percentage of fall 2012 advance orders shipped in the third quarter of 2012, while a higher percentage of fall 2011 advance orders shipped in the second quarter of 2011. The increase in Japan net sales was led by increased wholesale net sales, followed by increased retail net sales. The decrease in Korea net sales was due to the negative effect of foreign currency exchange rates that offset a net sales increase in local currency.

Net sales in the EMEA region decreased \$39.8 million, or 40%, to \$60.5 million for the third quarter of 2012 from \$100.3 million for the comparable period in 2011. Changes in foreign currency exchange rates compared with the

third quarter of 2011 negatively affected the EMEA net sales comparison by approximately eight percentage points. The net sales decrease in the EMEA region was led by apparel, accessories and equipment, followed by footwear. The decrease in net sales in the EMEA region was led by the Columbia brand, followed by the Sorel brand. The net sales decrease in the EMEA region was led by our EMEA direct business, against an increase of more than 70% in the comparable period in 2011, followed by our EMEA distributor business.

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The decrease in net sales in the EMEA direct business was primarily due to a decline in advance orders reflecting the effects of the unseasonably warm 2011/2012 winter and a challenging macroeconomic environment creating headwinds against our ongoing efforts to revitalize the Columbia brand in key European markets. The EMEA distributor net sales decrease was primarily due to a shift in the timing of shipments as a higher percentage of fall 2012 advance orders shipped in the second quarter of 2012, while a higher percentage of fall 2011 advance orders shipped in the third quarter of 2011. This timing shift accounted for approximately 45% of the total decrease in net sales in the EMEA region.

Net sales in Canada decreased \$8.1 million, or 13%, to \$52.0 million for the third quarter of 2012 from \$60.1 million for the comparable period in 2011. Changes in foreign currency exchange rates compared with the third quarter of 2011 negatively affected the Canada net sales comparison by approximately three percentage points. The decrease in net sales in Canada was led by the Columbia brand, followed by the Sorel brand, and was led by apparel, accessories and equipment, followed by footwear. The Canada net sales decrease was primarily due to a decline in fall 2012 advance orders for Columbia brand products due to the unseasonably warm 2011/2012 winter and retailer consolidation in the region.

**Sales by Product Category**

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

|                                    | Three Months Ended September 30,             |         |          |
|------------------------------------|--|---------|----------|
|                                    | 2012   | 2011    | % Change |
|                                    | (In millions, except for percentage changes) |         |          |
| Apparel, Accessories and Equipment | \$429.5                                      | \$438.2 | (2)%     |
| Footwear                           | 115.5  | 128.6   | (10)%    |
|                                    | \$545.0                                      | \$566.8 | (4)%     |

Net sales of apparel, accessories and equipment decreased \$8.7 million, or 2%, to \$429.5 million for the third quarter of 2012 from \$438.2 million for the comparable period in 2011. The decrease in apparel, accessories and equipment net sales was primarily concentrated in the Columbia brand, and was led by the EMEA region, followed by Canada, partially offset by net sales increases in the United States and LAAP region. The apparel, accessories and equipment net sales decrease in the EMEA region was led by our EMEA distributor business, reflecting a shift in timing of shipments of fall 2012 advance orders, followed by our EMEA direct business.

Net sales of footwear decreased \$13.1 million, or 10%, to \$115.5 million for the third quarter of 2012 compared to \$128.6 million for the comparable period in 2011. The decrease in footwear net sales was led by the Sorel brand, followed by the Columbia brand. The decrease in footwear net sales was led by the EMEA region, followed by Canada, partially offset by net sales increases in the LAAP region and the United States. The decrease in footwear net sales in the EMEA region was concentrated in our EMEA direct business.

**Sales by Brand**

Net sales by brand are summarized in the following table:

|                   | Three Months Ended September 30,             |         |          |
|-------------------|--|---------|----------|
|                   | 2012   | 2011    | % Change |
|                   | (In millions, except for percentage changes) |         |          |
| Columbia          | \$436.8                                      | \$447.8 | (2)%     |
| Mountain Hardware | 44.4   | 44.7    | (1)%     |
| Sorel             | 61.2   | 72.0    | (15)%    |
| Other             | 2.6  | 2.3     | 13%      |
|                   | \$545.0                                      | \$566.8 | (4)%     |

The net sales decrease for the third quarter of 2012 compared to the third quarter of 2011 was led by the Columbia brand, followed by the Sorel brand. The Columbia and Sorel brand net sales decreases were led by the EMEA region, followed by Canada, partially offset by net sales increases in the United States and the LAAP region.

Gross Profit: Gross profit, as a percentage of net sales, increased to 44.7% for the third quarter of 2012 from 44.0% for the comparable period in 2011. Gross profit expansion was primarily due to:

Planned fall 2012 wholesale price increases;

Lower air freight costs; and  
Favorable foreign currency hedge rates;

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partially offset by:

• Lower gross margins on sales of excess inventory.

Our gross profits may not be comparable to those of other companies in our industry because some include costs related to both their distribution network and retail store occupancy in cost of sales while we, like many others, include these expenses as a component of SG&A expense.

Selling, General and Administrative Expense: SG&A expense includes all costs associated with design, merchandising, marketing, distribution and corporate functions, including related depreciation and amortization. SG&A expense decreased \$7.2 million, or 4%, to \$160.2 million, or 29.4% of net sales, for the third quarter of 2012 from \$167.4 million, or 29.5% of net sales, for the comparable period in 2011. The SG&A decrease was primarily due to:

• Cost containment measures; and

• Favorable foreign currency exchange rates;

partially offset by:

• Expansion of direct-to-consumer operations globally.

Depreciation and amortization included in SG&A expense totaled \$9.5 million for the third quarter of 2012, compared to \$10.9 million for the same period in 2011.

Net Licensing Income: Net licensing income was essentially flat at \$4.3 million for the third quarter of 2012 compared to \$4.4 million for the same period in 2011. Decreased licensing income in the United States was offset by increased apparel and footwear licensing income in the LAAP region, where a third party distributor is licensed to locally manufacture Columbia brand apparel and footwear for sale in local markets.

Interest Income (Expense), Net: Net interest expense was nominal for the third quarter of 2012 compared to net interest income of \$0.5 million for the same period in 2011. Interest income decreased due to lower average yields on cash and cash equivalents and short-term investments, lower average balances and lower interest income on income tax refunds compared to the same period in 2011. Interest expense was nominal for the third quarter of 2012 and for the comparable period in 2011.

Income Tax Expense: Income tax expense increased to \$23.4 million for the third quarter of 2012 from \$19.5 million for the comparable period in 2011. Our effective income tax rate was 26.7% for the third quarter of 2012 compared to 22.4% for the same period in 2011. Our effective income tax rate increased primarily due to a change in the geographic mix of earnings and the effect of certain foreign tax credits recognized in 2011 that are not expected to recur in 2012. 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.

Net Income: Net income decreased \$3.1 million, or 5%, to \$64.4 million for the third quarter of 2012 from \$67.5 million for the comparable period in 2011. Diluted earnings per share was \$1.88 for the third quarter of 2012, compared to diluted earnings per share of \$1.98 for the third quarter of 2011.

Nine Months Ended September 30, 2012 Compared to Nine Months Ended September 30, 2011

Net Sales: Consolidated net sales increased \$0.6 million to \$1,168.5 million for the nine months ended September 30, 2012 from \$1,167.9 million for the comparable period in 2011. Changes in foreign currency exchange rates compared with the nine months ended September 30, 2011 negatively affected the consolidated net sales comparison by approximately one percentage point.

Sales by Geographic Region

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

|               | Nine Months Ended September 30,              |           |          |
|---------------|--|-----------|----------|
|               | 2012   | 2011      | % Change |
|               | (In millions, except for percentage changes) |           |          |
| United States | \$672.9                                      | \$655.1   | 3%       |
| LAAP          | 245.6  | 216.7     | 13%      |
| EMEA          | 168.6  | 198.3     | (15)%    |
| Canada        | 81.4   | 97.8      | (17)%    |
|               | \$1,168.5                                    | \$1,167.9 | *        |

\* less than 1%

Net sales in the United States increased \$17.8 million, or 3%, to \$672.9 million for the nine months ended September 30, 2012 from \$655.1 million for the comparable period in 2011. The increase in net sales in the United States was concentrated in apparel, accessories and equipment. The net sales increase consisted of a net sales increase in our direct-to-consumer business, partially offset by a net sales decrease in our wholesale business. The net sales increase in our direct-to-consumer business was primarily concentrated in the Columbia brand and was driven by increased net sales within our retail stores, partially offset by decreased e-commerce net sales. At September 30, 2012, we operated 58 retail stores, compared with 51 at September 30, 2011.

Net sales in the LAAP region increased \$28.9 million, or 13%, to \$245.6 million for the nine months ended September 30, 2012 from \$216.7 million for the comparable period in 2011. Changes in foreign currency exchange rates compared with the nine months ended September 30, 2011, negatively affected the LAAP net sales comparison by approximately one percentage point. The net sales increase in the LAAP region was led by apparel, accessories and equipment, followed by footwear. The LAAP net sales increase was led by the Columbia brand, followed by the Mountain Hardwear brand, and was led by our LAAP distributor business, followed by Japan and Korea. The LAAP distributor net sales increase was primarily due to an increase in advance orders for fall 2012 products. The increase in Japan net sales was primarily the result of increased net sales from our wholesale business, increased direct-to-consumer net sales and the favorable effect of foreign currency exchange rates. The increase in Korea net sales was due to a greater number of retail stores operating during the nine months ended September 30, 2012 than during the nine months ended September 30, 2011, partially offset by decreased sales from existing stores.

Net sales in the EMEA region decreased \$29.7 million, or 15%, to \$168.6 million for the nine months ended September 30, 2012 from \$198.3 million for the comparable period in 2011. Changes in foreign currency exchange rates compared with the nine months ended September 30, 2011, negatively affected the EMEA net sales comparison by approximately six percentage points. The net sales decrease in the EMEA region was led by footwear, followed by apparel, accessories and equipment. The decrease in net sales in the EMEA region was led by the Columbia brand, followed by the Sorel brand, and was due to a net sales decrease in our EMEA direct business, against an increase of more than 30% in the comparable period in 2011, partially offset by increased net sales to our EMEA distributors. The decrease in net sales in the EMEA direct business was primarily due to a decline in advance orders reflecting the effects of the unseasonably warm 2011/2012 winter and a challenging economic environment creating headwinds against our ongoing efforts to revitalize the Columbia brand in key European markets.

Net sales in Canada decreased \$16.4 million, or 17%, to \$81.4 million for the nine months ended September 30, 2012 from \$97.8 million for the comparable period in 2011. Changes in foreign currency exchange rates compared with the nine months ended September 30, 2011, negatively affected the Canada net sales comparison by approximately three percentage points. The decrease in net sales in Canada was led by the Columbia brand, followed by the Sorel brand, and was led by apparel, accessories and equipment, followed by footwear. The Canada net sales decrease was primarily due to a decline in fall 2012 advance orders for Columbia products due to the unseasonably warm 2011/2012 winter and retailer consolidation in the region.

#### Sales by Product Category

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

|  | Nine Months Ended September 30, |      |          |
|--|---------------------------------|------|----------|
|  | 2012                            | 2011 | % Change |

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(In millions, except for percentage changes)

Apparel, Accessories and Equipment

\$954.7

\$934.9

2%

Footwear

213.8

233.0

(8)%

\$1,168.5

\$1,167.9

\*

\* less than 1%

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Net sales of apparel, accessories and equipment increased \$19.8 million, or 2%, to \$954.7 million for the nine months ended September 30, 2012 from \$934.9 million for the comparable period in 2011. The increase in apparel, accessories and equipment net sales was concentrated in the Columbia brand, and was led by the LAAP region, followed by the United States, partially offset by net sales decreases in Canada and the EMEA region. The apparel, accessories and equipment net sales increase in the LAAP region was led by Japan, followed by our LAAP distributor business and Korea. The net sales increase in apparel, accessories and equipment in the United States consisted of increased net sales in our direct-to-consumer business, partially offset by a net sales decrease in our wholesale business.

Net sales of footwear decreased \$19.2 million, or 8%, to \$213.8 million for the nine months ended September 30, 2012 from \$233.0 million for the comparable period in 2011. The decrease in footwear net sales was led by the Sorel brand, followed by the Columbia brand. The net sales decrease was concentrated in the EMEA region, followed by Canada, partially offset by net sales increases in the LAAP region and the United States. The net sales decrease in footwear in the EMEA region was led by our EMEA direct business, followed by our EMEA distributor business.

**Sales by Brand**

Net sales by brand are summarized in the following table:

|                   | Nine Months Ended September 30,              |           |          |
|-------------------|--|-----------|----------|
|                   | 2012   | 2011      | % Change |
|                   | (In millions, except for percentage changes) |           |          |
| Columbia          | \$990.6                                      | \$975.0   | 2%       |
| Mountain Hardware | 98.8   | 99.1      | *        |
| Sorel             | 70.5   | 86.0      | (18)%    |
| Other             | 8.6  | 7.8       | 10%      |
|                   | \$1,168.5                                    | \$1,167.9 | *        |

\* less than 1%

The net sales increase for the nine months ended September 30, 2012 compared to the nine months ended September 30, 2011 was primarily concentrated in the Columbia brand, largely offset by a net sales decrease in the Sorel brand. The Columbia brand net sales increase was led by the LAAP region, followed by the United States, partially offset by net sales decreases in the EMEA region and Canada. The decrease in Sorel brand net sales was led by the EMEA region, followed by Canada and the United States, partially offset by a net sales increase in the LAAP region.

**Gross Profit:** Gross profit, as a percentage of net sales, decreased to 43.6% for the nine months ended September 30, 2012 from 43.8% for the comparable period in 2011. Gross profit contraction was primarily due to:

- ▲ higher volume of promotional activity to liquidate excess inventory; and
- ▲ higher proportion of shipments to distributors, which carry lower gross margins;

partially offset by:

- ▬ Favorable foreign currency hedge rates and;
- ▬ Lower airfreight costs.

**Selling, General and Administrative Expense:** SG&A expense increased \$1.9 million to \$437.9 million, or 37.4% of net sales, for the nine months ended September 30, 2012, from \$436.0 million, or 37.3% of net sales, for the comparable period in 2011. The SG&A expense increase was primarily due to:

- ▬ Increased personnel costs and professional fees related to our ongoing ERP implementation;
- ▬ Restructuring charges; and

- ▬ Expansion of our direct-to-consumer operations globally;

partially offset by:

- ▬ Cost containment measures; and

- ▬ Favorable foreign currency exchange rates.

Depreciation and amortization included in SG&A expense totaled \$30.0 million for the nine months ended September 30, 2012, compared to \$31.6 million for the same period in 2011.

Net Licensing Income: Net licensing income increased \$0.4 million to \$10.8 million for the nine months ended September 30, 2012 from \$10.4 million for the same period in 2011, primarily due to increased apparel and footwear licensing income in the

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LAAP region, where a third party distributor is licensed to locally manufacture Columbia brand apparel and footwear for sale in local markets.

Interest Income, Net: Net interest income was \$0.4 million for the nine months ended September 30, 2012, compared to \$1.2 million for the same period in 2011. Interest income decreased due to lower average yields on cash equivalents and short-term investments and lower average balances compared to the same period in 2011. Interest expense was nominal for the nine months ended September 30, 2012 and for the comparable period in 2011.

Income Tax Expense: Income tax expense increased to \$22.5 million for the nine months ended September 30, 2012 from \$20.4 million for the comparable period in 2011. Our effective income tax rate was 27.1% for the nine months ended September 30, 2012 compared to 23.4% for the same period in 2011. Our effective income tax rate increased primarily due to a change in the geographic mix of earnings and the effect of certain foreign tax credits recognized in 2011 that are not expected to recur in 2012.

Net Income: Net income decreased to \$60.4 million for the nine months ended September 30, 2012, including restructuring charges of approximately \$2.8 million, net of tax, from \$66.8 million for the comparable period in 2011. Diluted earnings per share was \$1.77 for the nine months ended September 30, 2012, including restructuring charges of \$0.08 net of tax, compared to diluted earnings per share of \$1.95 for the nine months ended September 30, 2011.

**Liquidity and Capital Resources**

Our primary ongoing funding requirements are for working capital, investing activities associated with our ongoing ERP implementation and the expansion of our global operations and general corporate needs. At September 30, 2012, we had total cash and cash equivalents of \$94.2 million, compared to \$241.0 million at December 31, 2011 and \$87.9 million at September 30, 2011. In addition, we had short-term investments of \$2.1 million at September 30, 2012, compared to \$2.9 million at December 31, 2011 and \$2.4 million at September 30, 2011. At September 30, 2012, approximately 43% of our cash and short-term investments were held by some of our foreign subsidiaries where a repatriation of those funds to the United States would likely result in a significant tax expense for us. However, based on the capital and liquidity needs of our foreign operations, as well as the status of current tax law, it is our intent to indefinitely reinvest these funds outside the United States. In addition, our United States operations do not require the repatriation of these funds to meet our currently projected liquidity needs.

Net cash used in operating activities was \$110.6 million for the nine months ended September 30, 2012, compared to \$142.0 million for the same period in 2011. The decrease in cash used in operating activities was primarily due to the combined effect of an increase in accounts receivable collections and decreases in payments for inventory, prepaid expenses and other current assets and income taxes, partially offset by an increase in payments for accounts payable. Net cash used in investing activities was \$31.5 million for the nine months ended September 30, 2012, compared to net cash provided by investing activities of \$26.3 million for the comparable period in 2011. For the 2012 period, net cash used in investing activities primarily consisted \$32.4 million for capital expenditures, offset by \$0.9 million from net sales of short-term investments. For the 2011 period, net cash provided by investing activities primarily consisted of \$66.3 million from net sales of short-term investments, partially offset by \$40.2 million for capital expenditures. Net cash used in financing activities was \$3.4 million for the nine months ended September 30, 2012, compared to \$28.9 million for the comparable period in 2011. For the 2012 period, net cash used in financing activities primarily consisted of dividend payments of \$22.3 million, partially offset by net proceeds from credit facilities of \$10.2 million and net proceeds from stock plan activity of \$8.3 million. For the 2011 period, net cash used in financing activities primarily consisted of dividend payments of \$21.7 million and the repurchase of common stock at the aggregate price of \$16.4 million, partially offset by net proceeds from stock plan activity of \$7.4 million.

We have an unsecured, committed \$125.0 million revolving line of credit available to fund our domestic working capital requirements. At September 30, 2012, no balance was outstanding under this line of credit and we were in compliance with all associated covenants. Internationally, our subsidiaries have local currency operating lines in place guaranteed by the parent company with a combined limit of approximately \$105.1 million at September 30, 2012, of which \$3.2 million is designated as a European customs guarantee. At September 30, 2012, \$10.2 million was outstanding under these subsidiary lines of credit.

We expect to fund our future capital expenditures with existing cash, operating cash flows and credit facilities. If the need arises, we may need to seek additional funding. Our ability to obtain additional financing will depend on many

factors, including prevailing market conditions, our financial condition, and our ability to negotiate favorable terms and conditions. Financing may not be available on terms that are acceptable or favorable to us, if at all.

Our operations are affected by seasonal trends typical in the outdoor apparel industry and have historically resulted in higher sales and profits in the third and fourth calendar quarters. This pattern has resulted primarily from the timing of shipments of fall season products to wholesale customers and proportionally higher sales from our direct-to-consumer operations in the fourth

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quarter, combined with an expense base that is more consistent throughout the year. We believe that our liquidity requirements for at least the next 12 months will be adequately covered by existing cash, cash provided by operations and existing short-term borrowing arrangements.

**Off-Balance Sheet Arrangements**

We have arrangements in place to facilitate the import and purchase of inventory through import letters of credit. We maintain unsecured and uncommitted import lines of credit with a combined limit of \$5.0 million at September 30, 2012, available for issuing documentary letters of credit. At September 30, 2012, no balance was outstanding under these letters of credit.

**Critical Accounting Policies and Estimates**

Management's discussion and analysis of our financial condition and results of operations are based on our consolidated financial statements, which have been prepared in accordance with accounting principles generally accepted in the United States. The preparation of these financial statements requires us to make various estimates and judgments that affect reported amounts of assets, liabilities, sales, cost of sales and expenses and related disclosure of contingent assets and liabilities. We believe that the estimates, assumptions and judgments involved in the accounting policies referred to in our Annual Report on Form 10-K for the year ended December 31, 2011 have the greatest potential impact on our financial statements, so we consider these to be our critical accounting policies and estimates. Because of the uncertainty inherent in these matters, actual results could differ from the estimates we use in applying the critical accounting policies. We base our ongoing estimates on historical experience and other various assumptions that we believe to be reasonable in the circumstances. Many of these critical accounting policies affect working capital account balances, including the policy for revenue recognition, the allowance for doubtful accounts, the provision for potential excess, close-out and slow moving inventory, product warranty, income taxes and stock-based compensation.

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

There have been no significant changes to our critical accounting policies as described in our Annual Report on Form 10-K for the year ended December 31, 2011.

**Recent Accounting Pronouncements**

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



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**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, 2011.

**Item 4 – CONTROLS AND PROCEDURES**

**Disclosure Controls and Procedures**

We have evaluated, under the supervision and with the participation of management, including 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 were 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.

**Changes in Internal Control over Financial Reporting**

We are implementing an enterprise resource planning (“ERP”) system on a worldwide basis, which is expected to impact our business and financial transaction processes. The implementation is expected to occur in phases globally over the next several years, and began with a roll-out to our Canadian subsidiary in April 2012. The implementation of a worldwide ERP system will affect the processes that constitute our internal control over financial reporting and will require testing for effectiveness as the implementation progresses.

There were no other changes in internal controls over financial reporting that occurred during the quarter ended September 30, 2012 that have materially affected, or are reasonably likely to materially affect, our internal controls over financial reporting.

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PART II. OTHER INFORMATION

Item 1. LEGAL PROCEEDINGS

We are involved in litigation and various legal matters arising in the normal course of business, including matters related to employment, retail, intellectual property and various regulatory compliance activities. We have considered facts related to legal and regulatory matters and opinions of counsel handling these matters, and do not believe the ultimate resolution of these proceedings will have a material adverse effect on our financial position, results of operations or cash flows.

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, results of operations or cash flows may be materially adversely affected by any of these risks. Please note that additional risks not presently known to us or that we currently deem immaterial may also impair our business and operations. The following risk factors include changes to and supersede the description of the risk factors associated with our business previously disclosed in Part I, Item 1A of our Annual Report on Form 10-K for the fiscal year ended December 31, 2011.

**Our Success Depends on Our Business Strategies**

Our business strategies are to achieve sustainable, profitable growth by creating innovative products, focusing on product design, utilizing innovations to differentiate our brand from competitors, ensuring that our products are sold through brand enhancing distribution partners around the world, increasing the impact and amount of consumer communications to drive demand for our brands and sell-through of our products, making sure our products are merchandised and displayed in the best way possible in every retail environment and continuing to build a world class direct-to-consumer business. We intend to pursue these strategies across our portfolio of brands, product categories and geographic markets. We face many challenges in implementing our business strategies. For example, our focus on innovation depends on our ongoing ability to identify, develop or secure rights to product improvements or developments through internal research, joint developments, acquisitions or licenses. Once obtained, these innovations and developments may not be profitable or have the desired effect of increasing demand for our products. The failure to implement our business strategies successfully could have a material adverse effect on our financial condition, results of operations or cash flows.

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

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

**Initiatives to Upgrade Our Information Technology Infrastructure Involve Many Risks Which Could Result In, Among Other Things, Business Interruptions and Higher Costs**

We regularly implement business process improvement initiatives to optimize our performance. Our current business process initiatives include plans to improve business results through standardization of business processes and technology that support our supply chain and go-to-market strategies through implementation of an integrated ERP

software solution over the next few years. We may experience difficulties as we transition to these new or upgraded systems and processes, including loss of data, decreases in productivity as our personnel become familiar with new systems and lost revenues. In addition, transitioning to these new or upgraded systems requires significant capital investments and personnel resources. Difficulties in implementing new or upgraded information systems or significant system failures could disrupt our operations and have a material adverse effect on our capital resources, financial condition, results of operations or cash flows.

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We expect implementation of this new information technology infrastructure to have a pervasive impact on our business processes and information systems across a significant portion of our operations, including our finance operations. As a result, we will experience significant changes in our operational processes and internal controls as our implementation progresses. If we are unable to successfully implement this system, including harmonizing our systems, data and processes, our ability to conduct routine business functions could be negatively impacted and significant disruptions to our business could occur. In addition, we could incur material unanticipated expenses, including additional costs of implementation or costs of conducting business. These risks could result in significant business disruptions and have a material adverse effect on our capital resources, financial condition, results of operations, or cash flows.

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

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

Our legacy ERP system, on which we currently manage a substantial majority of our business, is highly customized. As a result, the availability of internal and external resources with the expertise to maintain this ERP system is limited. Our legacy ERP system may inhibit our ability to operate efficiently, which could have an adverse effect on our financial condition, results of operations or cash flows. For example, our legacy ERP system may not be compatible with other systems that support desired functionality for our operations. As we transition from our legacy ERP system to upgrade to a new ERP system, certain functionality and information from our legacy ERP system may not be fully compatible with the new ERP system. As a result, temporary processes may be required, including manual operations, which could significantly increase the risk of human errors in information used by the business and/or result in business disruptions, which could have a material adverse effect on our capital resources, financial condition, results of operations or cash flows.

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

Our products are manufactured by independent factories worldwide. We do not own or operate any manufacturing facilities. Although we enter into purchase order commitments with these independent factories each season, we generally do not maintain long-term manufacturing commitments with them. Without long-term or reserve commitments, in a capacity-constrained environment, there is no assurance that we will be able to secure adequate or timely production capacity or favorable pricing if growth or product demand differs from our forecasts. Independent factories may fail to perform as expected or our competitors may obtain production capacities that effectively limit or eliminate the availability of these resources to us. If an independent manufacturer fails to ship orders in a timely manner or to meet our standards or if we are unable to obtain necessary capacities, we may miss delivery deadlines or incur additional costs, which may result in cancellation of orders, refusal to accept deliveries, a reduction in purchase prices or increased costs, any of which could have a material adverse effect on our financial condition, results of operations or cash flows.

Reliance on independent factories also creates quality control risks. Independent factories may need to use sub-contracted manufacturers to fulfill demand and these manufacturers may have less experience producing our products or possess lower overall capabilities, which could result in compromised quality of our products. A failure in our quality control program may result in diminished product quality, which in turn could result in increased order cancellations and returns, decreased consumer demand for our products, or product recalls (or other regulatory actions), any of which could have a material adverse effect on our financial condition, results of operations or cash flows.

We also have license agreements that permit unaffiliated parties to manufacture or contract to manufacture products using our trademarks. We impose Standards of Manufacturing Practices on our independent factories and licensees for the benefit of workers and require compliance with our restricted substances list and product safety and other applicable environmental, health and safety laws. We also require our independent factories and licensees to impose these practices, standards and laws on their contractors. However, if an independent manufacturer or licensee violates labor or other laws, or engages in practices that are not generally accepted as ethical in our key markets, we may be subject to production disruptions or significant negative publicity that could result in long-term damage to our brands, and in some circumstances parties may attempt to assert that we are liable for the independent manufacturer's or licensee's practices, which could have a material adverse effect on our financial condition, results of operations or cash flows.

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### We May be Adversely Affected by Volatility in Global Production and Transportation Costs and Capacity

Our product costs are subject to substantial fluctuation based on:

• Availability and quality of raw materials;

• The prices of oil, cotton and other raw materials whose prices are determined by global commodity markets and can be very volatile;

• Changes in labor markets and wage rates paid by our independent factory partners, which are often mandated by governments in the countries where our products are manufactured, particularly in China and Vietnam;

• Interest rates and currency exchange rates;

• Availability of skilled labor and production capacity at independent factories; and

• General economic conditions.

Prolonged periods of inflationary pressure on some or all input costs will result in increased costs to produce our products that may result in reduced gross profit or necessitate price increases for our products that could adversely affect consumer demand for our products.

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. Shortages in ocean freight capacity, airfreight capacity and volatile fuel costs can result in rapidly changing transportation costs. For example, during 2010, shortages of sourcing and transportation capacity, combined with later-than-optimal production of advance orders, caused us to rely more heavily on airfreight to achieve timely delivery to our customers, resulting in significantly higher freight costs. Because we price our products in advance and the external cost changes may be difficult to predict, we may not be able to pass all or any portion of these higher costs on to our customers or adjust our pricing structure in a timely manner in order to remain competitive, either of which could have a material adverse effect on our financial condition, results of operations or cash flows.

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

We are a consumer products company and are highly dependent on consumer discretionary spending patterns and the purchasing patterns of our wholesale customers as they attempt to match their seasonal purchase volumes to volatile consumer demand. In addition, as we have expanded our direct-to-consumer operations, we have increased our exposure to the risks associated with volatile and unpredictable consumer discretionary spending patterns. Consumer discretionary spending behavior is inherently unpredictable and consumer demand for our products may not reach our sales targets, or may decline, especially during periods of heightened economic uncertainty in our key markets, particularly markets in North America and the EMEA region. Our sensitivity to economic cycles and any related fluctuation in consumer demand may have a material adverse effect on our financial condition, results of operations or cash flows.

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

Many factors may significantly affect demand for our products, including, among other things, economic conditions, fashion trends, financial condition of our distributors and wholesale customers, consumer and customer preferences and weather, making it difficult to accurately forecast demand for our products and our future results of operations. To minimize our purchasing costs, the time necessary to fill customer orders and the risk of non-delivery, we place a significant amount of orders for our products with independent factories prior to receiving orders from our customers, and we maintain an inventory of various products that we anticipate will be in greatest demand. In addition, customers are generally allowed to cancel orders prior to shipment with sufficient notice.

Factors that could affect our ability to accurately forecast demand for our products include:

• Consumer acceptance of our products or changes in consumer demand for products of our competitors;

• Unseasonable weather conditions;

• Our reliance, for certain demand and supply planning functions, on manual processes and judgment that are subject to human error;

• Unanticipated changes in general market conditions or other factors, which may result in cancellations of orders or a reduction or increase in the rate of reorders placed by retailers; and

•

Weak economic conditions or consumer confidence, which could reduce demand for discretionary items such as our products.

In some cases, we may produce quantities of product that exceed actual demand, which could result in higher inventory levels that need to be liquidated at discount prices. During periods of weak economic conditions we may experience a significant increase in the volume of order cancellations by our customers, including cancellations resulting from the bankruptcy, liquidation or contraction of certain customers' operations. We may not be able to sell all of the products we have ordered from independent

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factories or that we have in our inventory. Inventory levels in excess of customer demand may result in inventory write-downs and the sale of excess inventory at discounted prices through our owned outlet stores or third-party liquidation channels, which could have a material adverse effect on our brand image, financial condition, results of operations or cash flows.

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

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

Our business is adversely affected by unseasonable weather conditions. A significant portion of the sales of our products is dependent in part on the weather and likely to decline in years in which weather conditions do not stimulate demand for these products. Periods of unseasonably warm weather in the fall or winter or unseasonably cold or wet weather in the spring and summer may have a material adverse effect on our financial condition, results of operations or cash flows. Unintended inventory accumulation by our wholesale customers resulting from unseasonable weather in one season generally negatively affects orders in future seasons, which may have a material adverse effect on our financial condition, results of operations or cash flows.

**We May Not Succeed in Realizing the Anticipated Benefits of Our New Joint Venture in China**

In August 2012 we entered into an agreement with Swire Resources Limited to establish a joint venture for purposes of supporting the development of our business in China. The joint venture, in which we will hold a 60% interest, will be established upon satisfaction of specified conditions, including receipt of certain governmental approvals from China. These approvals are anticipated to be received prior to January 1, 2014; however, we do not assure you that these government approvals will be obtained as anticipated or at all, and if they are not, we may be forced to abandon the joint venture. Even if we are able to establish it, achieving the anticipated benefits of the joint venture is subject to a number of risks and uncertainties, including the following:

Our ability to operate the joint venture will be dependent upon, among other things, our ability to attract and retain personnel with the skills, knowledge and experience necessary to carry out the operations of the joint venture. We anticipate that approximately 650 to 700 employees currently working with or for Swire Shanghai will become employees of, or provide services to, the joint venture. Our ability to effectively operate the joint venture will depend upon our ability to manage the employees of the joint venture, and to attract new employees as necessary to supplement the skills, knowledge and expertise of the existing management team and other key personnel. We face intense competition for these individuals worldwide, including in China. We may not be able to attract qualified new employees or retain existing employees to operate the joint venture. Additionally, turnover in key management positions in China could impair our ability to execute our growth strategy, which may negatively affect the value of our investment in the joint venture and the growth of our sales in China.

We will be relying on the operational skill of our joint venture partner. Additionally, because our joint venture partner has voting rights with respect to major business decisions of the joint venture, we may experience difficulty reaching agreement as to implementation of certain changes to the joint venture's business. For these reasons, or as a result of other factors, we may not realize the anticipated benefits of the joint venture, and our participation in the joint venture could adversely affect the results of our operations on a consolidated basis.

Continued sales growth in China is an important part of our expectations for our joint venture business. Although China has experienced significant economic growth in recent years, that growth is slowing. Slowing economic growth in China could result in reduced consumer discretionary spending, which in turn could result in less demand for our products, and thus negatively affect the value of our investment in the joint venture and the growth of our sales in China.

Although we believe we have achieved a leading market position in China, many of our competitors who are significantly larger than we are and have substantially greater financial, distribution, marketing and other resources, more stable manufacturing resources and greater brand strength than we have are also concentrating on growing their



businesses in China. Increased investment by our competitors in this market could decrease our market share and competitive position in China.

**Our International Operations Involve Many Risks**

We are subject to risks generally associated with doing business internationally. These risks include the effects of foreign laws and regulations, changes in consumer preferences, foreign currency fluctuations, managing a diverse and widespread workforce, political unrest, terrorist acts, military operations, disruptions or delays in shipments, disease outbreaks, natural disasters and changes in economic conditions in countries in which we manufacture or sell products. For example, unseasonably warm

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2011/2012 winter weather and a challenging macroeconomic environment in our EMEA region created headwinds against our ongoing efforts to revitalize the Columbia brand in key European markets, where we have significant infrastructure investments. 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, making it more expensive and challenging to establish and protect our intellectual property rights and to defend against claims of infringement by others. In addition, many of our imported products are subject to duties, tariffs or other import limitations that affect the cost and quantity of various types of goods imported into the United States and other markets. Any country in which our products are produced or sold may eliminate, adjust or impose new import limitations, duties, anti-dumping penalties or other charges or restrictions, any of which could have a material adverse effect on our financial condition, results of operations or cash flows.

### We May Have Additional Tax Liabilities

As a global company, we determine our income tax liability in various competing tax jurisdictions based on an 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. Unfavorable audit findings and tax rulings may result in payment of taxes, fines and penalties for prior periods and higher tax rates in future periods, which may have a material adverse effect on our financial condition, results of operations or cash flows. Changes in tax law or our interpretation of tax laws and the resolution of current and future tax audits could significantly affect the amounts provided for income taxes in our consolidated financial statements.

We earn a significant amount of our operating income from outside the U.S., and any repatriation of funds currently held in foreign jurisdictions may result in higher effective tax rates for the company. If we encounter a significant need for liquidity domestically or at a particular location that we cannot fulfill through borrowings, equity offerings or other internal or external sources, we may experience unfavorable tax and earnings consequences as a result of cash transfers. These adverse consequences would occur, for example, if the transfer of cash into the United States is taxed and no offsetting foreign tax credit is available to offset the U.S. tax liability, resulting in lower earnings. Furthermore, foreign exchange ceilings imposed by local governments and the sometimes lengthy approval processes that foreign governments require for international cash transfers may delay or otherwise limit our internal cash transfers from time to time.

### We Operate in Very Competitive Markets

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

Retailers who are our customers often pose our most significant competitive threat by marketing apparel, footwear and equipment under their own private labels. For example, in the United States, several of our largest customers have developed significant private label brands during the past decade that compete directly with our products. These retailers have assumed an increasing degree of inventory risk in their private label products and, as a result, may first cancel advance orders with us in order to manage their own inventory levels downward during weak economic cycles. We also compete with other companies for the production capacity of independent factories that manufacture our products and for import capacity. Many of our competitors are significantly larger than we are and have substantially greater financial, distribution, marketing and other resources, more stable manufacturing resources and greater brand strength than we have. In addition, when our competitors combine operations through mergers, acquisitions or other transactions, their competitive strength may increase.

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 the Financial Health of our Customers**

Sluggish economies and consumer uncertainty regarding future economic prospects in our key markets have had an adverse effect on the financial health of our customers, some of whom have filed or may file for protection under bankruptcy laws, which may in turn have a material adverse effect on our results of operations and financial condition. We extend credit to our customers based on an assessment of the customer's financial condition, generally without requiring collateral. To assist in the scheduling

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of production and the shipping of seasonal products, we offer customers discounts for placing advance orders and extended payment terms for taking delivery before the peak shipping season. These extended payment terms increase our exposure to the risk of uncollectible receivables. In addition, we face increased risk of order reduction or cancellation or reduced availability of credit insurance coverage when dealing with financially ailing retailers or retailers struggling with economic uncertainty. Some of our significant wholesale customers and distributors have liquidated or reorganized, while others have had financial difficulties in the past and have recently experienced tightened credit markets and sales declines and reduced profitability, which in turn has an adverse effect on our business. We may reduce our level of business with customers and distributors 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 condition, results of operations or cash flows.

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

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

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

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

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

### **We Rely on Technical Innovation and Functional Design to Compete in the Market for our Products**

Technical innovation and functional design is essential to distinguish our products in the marketplace and achieve commercial success. Research and development plays a key role in technical innovation. We rely upon specialists in the fields of chemistry, biochemistry, engineering, industrial design, electronics and related fields, guided by consumer feedback, to develop and test innovative performance products. Although we are committed to designing innovative and functional products that deliver relevant performance benefits to consumers who participate in a wide range of competitive and recreational outdoor activities, if we fail to introduce technical innovation in our products that address consumers' performance expectations, demand for our products could decline.

As we strive to achieve technical innovations, we face a greater risk of inadvertent infringements of third party rights or compliance issues with regulations applicable to products with technical innovations such as electrical components. In addition, technical innovations often involve more complex manufacturing processes. More complex manufacturing processes may lead to higher instances of quality issues, and if we experience problems with the quality of our products, we may incur substantial expense to remedy the problems. Failure to successfully bring to market technical innovations in our product lines could have a material adverse effect on our financial condition, results of operations or cash flows.

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

Changes in consumer preferences or consumer interest in outdoor activities may have a material adverse effect on our business. In addition, changes in fashion trends may have a greater impact than in the past as we expand our offerings to include more product categories in more geographic areas, particularly with the Sorel brand, a product generally

more sensitive to fashion trends. We also face risks because our business requires us and our customers to anticipate consumer preferences. Our decisions about product designs often are made far in advance of consumer acceptance. Although we try to manage our inventory risk by soliciting advance order commitments by retailers, we must generally place a significant portion of our seasonal production orders with our independent factories before we have received all of a season's advance orders from customers, and orders may be cancelled by customers before shipment. If we or our customers fail to anticipate and respond to consumer preferences, we may

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have lower sales, excess inventories and lower profit margins, any of which could have a material adverse effect on our financial condition, results of operations or cash flows.

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

Our registered and common law trademarks and our patented or patent-pending designs and technologies have significant value and are important to our ability to differentiate our products from those of our competitors' and to create and sustain demand for our products. We also place significant value on our trade dress, the overall appearance and image of our products. From time to time, we discover products that are counterfeit reproductions of our products or that otherwise infringe on our proprietary rights. Counterfeiting activities typically increase as brand recognition increases, especially in markets outside the United States. Increased instances of counterfeit manufacture and sales may adversely affect our sales and our brand and result in a shift of consumer preference away from our products. The actions we take to establish and protect trademarks and other proprietary rights may not be adequate to prevent imitation of our products by others or to prevent others from seeking to block sales of our products as violations of proprietary rights. In markets outside of the United States, it may be more difficult for us to establish our proprietary rights and to successfully challenge use of those rights by other parties. We also license our proprietary rights to third parties. Failure to choose appropriate licensees and licensed product categories may dilute or harm our brand image. In addition to our own intellectual property rights, many of the intellectual property rights in the technology, fabrics and processes used to manufacture our products are generally owned or controlled by our suppliers and are generally not unique to us. In those cases, we may not be able to adequately protect our products or differentiate their performance characteristics and fabrications from those of our competitors. Actions or decisions in the management of our intellectual property portfolio may affect the strength of our brands, which may in turn have a material adverse effect on our financial condition, results of operations or cash flows.

Although we have not been materially inhibited from selling products in connection with patent, trademark and trade dress disputes, as we focus on innovation in our product lines, extend our brands into new product categories and expand the geographic scope of our marketing, we may become subject to litigation based on allegations of infringement of intellectual property rights of third parties, including third party trademark, copyright and patent rights. An increasing number of our products include technologies and/or designs for which we have obtained or applied for patent protection. Failure to successfully obtain and maintain patents on these innovations could negatively affect our ability to market and sell our products. Future litigation also may be necessary to defend against claims of infringement or to enforce and protect our intellectual property rights. As we utilize e-commerce and social media to a greater degree in our sales and marketing efforts, we face an increasing risk of patent infringement claims from non-practicing entities and others covering broad functional aspects of internet operations. 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. Any of these outcomes 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 have primarily relied on our distribution facilities in Strathroy, Ontario, which are being transitioned to a facility in London, Ontario in 2013; in Europe, we rely primarily on our distribution center in Cambrai, France; in Japan, we rely primarily on a third-party logistics distribution provider in Tokyo; and in Korea, we rely primarily on leased distribution facilities near Seoul that we manage and operate.

Our distribution facilities in the United States and France are highly automated, which means that their operations are complicated and may be subject to a number of risks related to computer viruses, the proper operation of software and

hardware, electronic or power interruptions, and other system failures. Risks associated with upgrading or expanding these facilities may significantly disrupt or increase the cost of our operations. For example, in addition to supporting our traditional wholesale business, our existing distribution facilities have been modified to enable them to also support our new e-commerce sales in the United States. Failure to successfully maintain and update these modifications could disrupt our wholesale and e-commerce shipments and may have a material adverse effect on our financial condition, results of operations or cash flows.

The fixed costs associated with owning, operating and maintaining these large, highly-automated distribution centers in the United States and France during a period of economic weakness or declining sales could result in lower operating efficiencies and financial deleverage. This fixed cost structure may make it difficult for us to maintain profitability if sales volumes decline for an extended period of time and could have a material adverse effect on our financial condition, results of operations or cash flows.

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Our distribution facilities may also be interrupted by disasters, such as earthquakes, tornadoes or fires. We maintain business interruption insurance, but it may not adequately protect us from the adverse effect that may be caused by significant disruptions in our distribution facilities.

### We 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 functional currency of many of our subsidiaries is not the U.S. dollar, we are exposed to potentially material gains or losses from the remeasurement of U.S. dollar monetary transactions into the respective functional currencies. Currency exchange rate fluctuations may also disrupt the business of the independent factories that produce our products by making their purchases of raw materials more expensive and more difficult to finance. As a result, currency fluctuations may have a material adverse effect on our financial condition, results of operations or cash flows.

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

Our investment portfolio is subject to a number of risks and uncertainties. Changes in market conditions, such as those that accompany an economic downturn or economic uncertainty, may negatively affect the value and liquidity of our investment portfolio, perhaps significantly. Our ability to find diversified investments that are both safe and liquid and that provide a reasonable return may be impaired, potentially resulting in lower interest income, less diversification, longer investment maturities and/or 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. While a majority of our own operations are not subject to organized labor agreements, our relationship with our Cambrai distribution center employees is governed by French law, including a formal representation of employees by a Works' Council and the application of a collective bargaining agreement. Labor disputes at independent factories where our goods are produced, shipping ports, transportation carriers, retail stores or distribution centers create significant risks for our business, particularly if these disputes result in work slowdowns, lockouts, strikes or other disruptions during our peak manufacturing, shipping and selling seasons, and may have a material adverse effect on our business, potentially resulting in cancelled orders by customers, unanticipated inventory accumulation, and reduced revenues and earnings.

### We Depend on 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 a single vendor supplies substantially all of the zippers used in our products. From time to time, we have difficulty satisfying our raw material and finished goods requirements. Although we believe that we can identify and qualify additional independent factories to produce these materials as necessary, there are no guarantees that additional independent factories will be available. In addition, depending on the timing, any changes in sources or materials may result in increased costs or production delays, which may have a material adverse effect on our financial condition, results of operations or cash flows.

### We Depend on Key Personnel

Our future success will depend in part on the continued service of key personnel and our ability to attract, retain and develop key managers, designers, sales and information technology professionals 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 our headquarters in 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 industry. Our products are marketed on a seasonal basis and our annual net sales are weighted heavily toward the fall/winter season, while our operating



expenses are more equally distributed throughout the year. As a result, the majority, and sometimes all, of our operating profits are generated in the second half of the year. The expansion of our direct-to-consumer operations and sales growth in our winter footwear business (both Sorel and Columbia brands) has increased the proportion of sales and profits that we generate in the fourth calendar quarter. This seasonality, along with other factors that are beyond our control and that are discussed elsewhere in this section, may adversely

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affect our business and cause our results of operations to fluctuate. As a result, our profitability may be materially affected if management is not able to timely adjust expenses in reaction to adverse events such as unfavorable weather, weak consumer spending patterns or unanticipated levels of order cancellations. Results of operations in any period should not be considered indicative of the results to be expected for any future period.

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

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

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

**Our Common Stock Price May Be Volatile**

The price of our common stock has fluctuated substantially since our initial public offering. Our common stock is traded on the NASDAQ Global Select Market. Factors such as general market conditions, fluctuations in financial results, variances from financial market expectations, changes in earnings estimates or recommendations by analysts, or announcements by us or our competitors may cause the market price of our common stock to fluctuate, perhaps substantially.

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

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

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Item 2 – UNREGISTERED SALES OF EQUITY SECURITIES AND USE OF PROCEEDS

The Board of Directors has authorized the repurchase of \$500,000,000 of the Company’s common stock. As of September 30, 2012, the Company had repurchased 9,593,278 shares under this program at an aggregate purchase price of approximately \$441,443,000. 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 September 30, 2012.

Item 6 – EXHIBITS

(a) Exhibits

- 10.1 Subscription and Shareholders' Agreement, dated August 6, 2012, by and among CSMM Hong Kong Limited, SCCH Limited, Columbia Sportswear Company and Swire Resources Limited\*
- 31.1 Rule 13a-14(a) Certification of Timothy P. Boyle, President and Chief Executive Officer
- 31.2 Rule 13a-14(a) Certification of Thomas B. Cusick, Senior Vice President and Chief Financial Officer
- 32.1 Section 1350 Certification of Timothy P. Boyle, President and Chief Executive Officer
- 32.2 Section 1350 Certification of Thomas B. Cusick, Senior Vice President and Chief Financial Officer
- 101 INS XBRL Instance Document \*\*
- 101 SCH XBRL Taxonomy Extension Schema Document \*\*
- 101 CAL XBRL Taxonomy Extension Calculation Linkbase Document \*\*
- 101 DEF XBRL Taxonomy Extension Definition Linkbase Document\*\*
- 101 LAB XBRL Taxonomy Extension Label Linkbase Document \*\*
- 101 PRE XBRL Taxonomy Extension Presentation Linkbase Document \*\*

Confidential treatment has been requested for certain portions omitted from this exhibit pursuant to Rule 24b-2 under the Securities Exchange Act of 1934, as amended. Confidential portions of this exhibit have been separately filed with the Securities and Exchange Commission.

Pursuant to Rule 406T of Regulation S-T, these interactive data files are deemed not filed or part of a registration statement or prospectus for purposes of Sections 11 or 12 of the Securities Act of 1933, as amended, or Section 18 of the Securities and Exchange Act of 1934, as amended and otherwise are not subject to liability under those sections.

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SIGNATURES

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

Date: November 7, 2012

COLUMBIA SPORTSWEAR COMPANY  
/s/ THOMAS B. CUSICK  
Thomas B. Cusick  
Senior Vice President and Chief Financial Officer  
(Duly Authorized Officer and Principal Financial and  
Accounting Officer)