

COLUMBIA SPORTSWEAR CO

Form 10-Q

November 04, 2011

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

Washington, DC 20549

**FORM 10-Q**

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

For the quarterly period ended September 30, 2011

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)

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

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

**14375 Northwest Science Park Drive**

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

**97229**  
(Zip Code)

**(503) 985-4000**

(Registrant's telephone number, including area code)

Indicate by check mark whether registrant (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days. Yes ☒ 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 21, 2011 was 33,620,997.

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**COLUMBIA SPORTSWEAR COMPANY**

**SEPTEMBER 30, 2011**

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

	<b>September 30, 2011</b>	<b>December 31, 2010</b>	<b>September 30, 2010</b>
<b>ASSETS</b>			
Current Assets:			
Cash and cash equivalents	\$ 87,942	\$ 234,257	\$ 173,937
Short-term investments	2,423	68,812	62,357
Accounts receivable, net of allowance of \$7,414, \$7,098 and \$9,774, respectively	417,976	300,181	364,015
Inventories, net (Note 3)	432,104	314,298	358,210
Deferred income taxes	42,736	45,091	42,258
Prepaid expenses and other current assets	46,789	28,241	35,227
Total current assets	1,029,970	990,880	1,036,004
Property, plant and equipment, at cost, net of accumulated depreciation of \$266,892, \$250,999 and \$246,228, respectively	231,511	221,813	227,769
Intangible assets, net (Note 4)	39,370	40,423	40,560
Goodwill	14,438	14,470	14,760
Other non-current assets	29,087	27,168	13,472
Total assets	\$ 1,344,376	\$ 1,294,754	\$ 1,332,565
<b>LIABILITIES AND SHAREHOLDERS' EQUITY</b>			
Current Liabilities:			
Accounts payable	\$ 141,546	\$ 130,626	\$ 141,929
Accrued liabilities (Note 5)	108,020	102,810	101,451
Income taxes payable	9,001	16,037	13,397
Deferred income taxes	2,079	2,153	7,142
Total current liabilities	260,646	251,626	263,919
Income taxes payable	15,397	19,698	18,569
Other long-term liabilities	24,629	21,456	20,663
Total liabilities	300,672	292,780	303,151
Commitments and contingencies (Note 11)			
Shareholders' Equity:			
Preferred stock; 10,000 shares authorized; none issued and outstanding			
Common stock (no par value); 125,000 shares authorized; 33,635, 33,683 and 33,635 issued and outstanding, respectively (Note 8)	1,035	5,052	1,426
Retained earnings	995,281	950,207	981,230
Accumulated other comprehensive income (Note 7)	47,388	46,715	46,758
Total shareholders' equity	1,043,704	1,001,974	1,029,414

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Total liabilities and shareholders' equity	\$ 1,344,376	\$ 1,294,754	\$ 1,332,565
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See accompanying notes to condensed consolidated financial statements.

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	<b>Three Months Ended September 30,</b>		<b>Nine Months Ended September 30,</b>	
	<b>2011</b>	<b>2010</b>	<b>2011</b>	<b>2010</b>
Net sales	\$ 566,791	\$ 504,028	\$ 1,167,907	\$ 1,026,265
Cost of sales	317,206	289,747	656,373	587,758
Gross profit	249,585	214,281	511,534	438,507
Selling, general and administrative expenses	167,375	148,072	436,034	377,069
Net licensing income	4,406	2,334	10,396	4,878
Income from operations	86,616	68,543	85,896	66,316
Interest income, net	462	147	1,246	1,073
Income before income tax	87,078	68,690	87,142	67,389
Income tax expense	(19,539)	(16,485)	(20,391)	(16,560)
Net income	\$ 67,539	\$ 52,205	\$ 66,751	\$ 50,829
Earnings per share (Note 8):				
Basic	\$ 2.00	\$ 1.55	\$ 1.97	\$ 1.51
Diluted	1.98	1.53	1.95	1.49
Cash dividends per share	\$ 0.22	\$ 0.18	\$ 0.64	\$ 0.54
Weighted average shares outstanding (Note 8):				
Basic	33,849	33,709	33,868	33,747
Diluted	34,177	34,046	34,303	34,075

See accompanying notes to condensed consolidated financial statements.

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

	<b>Nine Months Ended September 30,</b>	
	<b>2011</b>	<b>2010</b>
<b>Cash flows from operating activities:</b>		
Net income	\$ 66,751	\$ 50,829
Adjustments to reconcile net income to net cash used in operating activities:		
Depreciation and amortization	32,115	27,899
Loss on disposal or impairment of property, plant, and equipment	229	665
Deferred income taxes	3,183	(2,714)
Stock-based compensation	5,855	5,004
Excess tax benefit from employee stock plans	(1,814)	(427)
Changes in operating assets and liabilities:		
Accounts receivable	(121,949)	(135,337)
Inventories	(122,998)	(132,663)
Prepaid expenses and other current assets	(19,286)	(3,146)
Other assets	(1,521)	(997)
Accounts payable	11,363	37,720
Accrued liabilities	15,819	34,546
Income taxes payable	(11,343)	4,993
Other liabilities	1,571	5,540
Net cash used in operating activities	(142,025)	(108,088)
<b>Cash flows from investing activities:</b>		
Purchases of short-term investments	(45,799)	(52,602)
Sales of short-term investments	112,070	13,024
Capital expenditures	(40,171)	(20,997)
Proceeds from sale of property, plant, and equipment	168	30
Acquisitions, net of cash acquired		(16,315)
Net cash provided by (used in) investing activities	26,268	(76,860)
<b>Cash flows from financing activities:</b>		
Proceeds from credit facilities	62,148	26,107
Repayments on credit facilities	(62,148)	(26,107)
Proceeds from issuance of common stock under employee stock plans	10,342	5,508
Tax payments related to restricted stock unit issuances	(2,942)	(786)
Excess tax benefit from employee stock plans	1,814	427
Repurchase of common stock	(16,429)	(13,838)
Cash dividends paid	(21,677)	(18,208)
Net cash used in financing activities	(28,892)	(26,897)
<b>Net effect of exchange rate changes on cash</b>	<b>(1,666)</b>	<b>(882)</b>

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<b>Net decrease in cash and cash equivalents</b>	(146,315)	(212,727)
<b>Cash and cash equivalents, beginning of period</b>	234,257	386,664
<b>Cash and cash equivalents, end of period</b>	\$ 87,942	\$ 173,937
<b>Supplemental disclosures of cash flow information:</b>		
Cash paid during the period for interest	\$ 100	\$ 53
Cash paid during the period for income taxes	27,480	10,154
<b>Supplemental disclosures of non-cash investing and financing activities:</b>		
Capital expenditures incurred but not yet paid	\$ 1,195	\$ 1,525
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 material adjustments, consisting only of normal recurring adjustments, necessary to present fairly the Company's financial position as of September 30, 2011 and 2010, the results of operations for the three and nine months ended September 30, 2011 and 2010 and cash flows for the nine months ended September 30, 2011 and 2010. The December 31, 2010 financial information was derived from the Company's audited financial statements included in our Annual Report on Form 10-K for the year ended December 31, 2010. 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, 2011 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, 2010.

***Estimates and assumptions:***

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

**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, 2010.

***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 IFRSs*. 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 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 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 will have the option to present the components of net income and comprehensive income in either one or two consecutive financial statements. This ASU is effective for fiscal years, and interim periods within those 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.



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## COLUMBIA SPORTSWEAR COMPANY

## NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (Continued)

(Unaudited)

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. Early adoption is permitted. 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.

**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, 2011	December 31, 2010	September 30, 2010
Raw materials	\$ 1,738	\$ 1,096	\$ 2,063
Work in process	1,295	659	572
Finished goods	429,071	312,543	355,575
	\$ 432,104	\$ 314,298	\$ 358,210

**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. 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, 2011	December 31, 2010	September 30, 2010
Intangible assets subject to amortization			
Gross carrying amount	\$ 14,198	\$ 14,198	\$ 14,198
Accumulated amortization	(2,249)	(1,196)	(840)
Net carrying amount	11,949	13,002	13,358
Intangible assets not subject to amortization	27,421	27,421	27,202
Intangible assets, net	\$ 39,370	\$ 40,423	\$ 40,560

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Annual amortization expense for intangible assets subject to amortization is estimated to be \$1,402,000 per year in both 2011 and 2012, and \$1,330,000 per year in 2013 through 2015.

### NOTE 5 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 summary of accrued warranties is as follows (in thousands):

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2011	2010	2011	2010
Balance at beginning of period	\$ 9,777	\$ 11,058	\$ 10,256	\$ 12,112
Charged to costs and expenses	1,131	794	3,202	2,365
Claims settled	(585)	(555)	(3,341)	(2,639)
Other	(294)	412	(88)	(129)
Balance at end of period	\$ 10,029	\$ 11,709	\$ 10,029	\$ 11,709

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## COLUMBIA SPORTSWEAR COMPANY

## NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (Continued)

(Unaudited)

**NOTE 6 STOCK-BASED COMPENSATION****1997 Stock Incentive Plan**

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

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

	<b>Three Months Ended September 30,</b>		<b>Nine Months Ended September 30,</b>	
	<b>2011</b>	<b>2010</b>	<b>2011</b>	<b>2010</b>
Stock options	\$ 906	\$ 826	\$ 2,633	\$ 2,477
Restricted stock units	1,145	906	3,222	2,527
<b>Total</b>	<b>\$ 2,051</b>	<b>\$ 1,732</b>	<b>\$ 5,855</b>	<b>\$ 5,004</b>

***Stock Options***

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

The following table shows the weighted average assumptions:

	<b>Three Months Ended September 30,</b>		<b>Nine Months Ended September 30,</b>	
	<b>2011</b>	<b>2010<sup>(1)</sup></b>	<b>2011<sup>(2)</sup></b>	<b>2010</b>
Expected term	4.49 years		5.12 years	4.53 years
Expected stock price volatility	31.21%		30.76%	28.79%
Risk-free interest rate	0.95%		1.84%	1.91%
Expected dividend yield	1.53%		1.31%	1.64%
Weighted average grant date fair value	\$ 13.39		\$ 16.09	\$ 10.08

<sup>(1)</sup> During the three months ended September 30, 2010, the Company did not grant any stock options.

<sup>(2)</sup> During the nine months ended September 30, 2011, the Company granted two stock option awards totaling 53,720 shares that vest 100% on the fifth anniversary of the grant date. Given that the Company did not have sufficient historical exercise data to provide a reasonable basis upon which to estimate the expected term for these grants, the Company utilized the simplified method in developing an estimate of the expected term of these options.

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During the nine months ended September 30, 2011 and 2010, the Company granted a total of 340,973 and 385,924 stock options, respectively. At September 30, 2011, unrecognized costs related to outstanding stock options totaled approximately \$6,856,000, 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, 2011 are expected to be recognized over a weighted average period of 2.51 years.

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## COLUMBIA SPORTSWEAR COMPANY

## NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (Continued)

(Unaudited)

*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:

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2011	2010	2011	2010
Vesting period	4.00 years	4.00 years	3.96 years	3.75 years
Expected dividend yield	1.84%	1.37%	1.33%	1.57%
Estimated average grant date fair value per restricted stock unit	\$ 44.82	\$ 55.33	\$ 58.37	\$ 43.89

During the nine months ended September 30, 2011 and 2010, the Company granted 145,768 and 127,960 restricted stock units, respectively. At September 30, 2011, unrecognized costs related to outstanding restricted stock units totaled approximately \$9,880,000, before any related tax benefit. The unrecognized costs related to restricted stock units are amortized over the related vesting period using the straight-line attribution method. Unrecognized costs at September 30, 2011 are expected to be recognized over a weighted average period of 2.44 years.

**NOTE 7 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 holding gains and losses on certain derivative transactions and foreign currency translation adjustments. A summary of comprehensive income, net of related tax effects, is as follows (in thousands):

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2011	2010	2011	2010
Net income	\$ 67,539	\$ 52,205	\$ 66,751	\$ 50,829
Other comprehensive income:				
Unrealized holding gains (losses) on available-for-sale securities	(156)	14	(38)	9
Unrealized derivative holding gains (losses) arising during period	7,973	(4,082)	2,379	1,072
Reclassification to net income of previously deferred (gains) losses on derivative transactions	3,855	(1,941)	4,383	(512)
Foreign currency translation adjustments	(27,259)	16,104	(6,051)	2,745
Other comprehensive income (loss)	(15,587)	10,095	673	3,314
Comprehensive income	\$ 51,952	\$ 62,300	\$ 67,424	\$ 54,143

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

	September 30, 2011	December 31, 2010	September 30, 2010
Unrealized holding gains (losses) on available-for-sale securities	\$ (2)	\$ 36	\$ 73
Unrealized holding gains (losses) on derivative transactions	5,091	(1,671)	(598)
Foreign currency translation adjustments	42,299	48,350	47,283
Accumulated other comprehensive income	\$ 47,388	\$ 46,715	\$ 46,758

**NOTE 8 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 September 30,		Nine Months Ended September 30,	
	2011	2010	2011	2010
Weighted average shares of common stock outstanding, used in computing basic earnings per share	33,849	33,709	33,868	33,747
Effect of dilutive stock options and restricted stock units	328	337	435	328
Weighted-average shares of common stock outstanding, used in computing diluted earnings per share	34,177	34,046	34,303	34,075

## Earnings per share of common stock:

Basic	\$ 2.00	\$ 1.55	\$ 1.97	\$ 1.51
Diluted	1.98	1.53	1.95	1.49

Stock options and service-based restricted stock units representing 515,712 and 512,039 shares of common stock outstanding for the three months ended September 30, 2011 and 2010, respectively, and 364,811 and 501,319 shares of common stock for the nine months ended September 30, 2011 and 2010, 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 38,606 and 46,091 shares for the three months ended September 30, 2011 and 2010, respectively, and 33,047 and 42,390 shares of common stock for the nine months ended September 30, 2011 and 2010, respectively, 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, 2011, the Company's Board of Directors has authorized the repurchase of \$500,000,000 of the Company's common stock. As of September 30, 2011, the Company had repurchased 9,574,233 shares under this program at an aggregate purchase price of approximately \$440,562,000. During the nine months ended September 30, 2011, the Company repurchased an aggregate of \$19,325,000 of the Company's common stock, including \$2,896,000 not yet settled. During the nine months ended September 30, 2010, the Company repurchased an aggregate of \$13,838,000 of the Company's common stock, of which \$4,339,000 was recorded as a reduction to total retained earnings; otherwise the aggregate purchase price would have resulted in a negative common stock carrying amount. 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 9 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, including outerwear and sportswear, footwear and 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 September 30,		Nine Months Ended September 30,	
	2011	2010	2011	2010
Net sales to unrelated entities:				
United States	\$ 333,634	\$ 325,602	\$ 655,171	\$ 622,494
LAAP	72,763	58,925	216,664	166,876
EMEA	100,312	66,407	198,279	151,928
Canada	60,082	53,094	97,793	84,967
	\$ 566,791	\$ 504,028	\$ 1,167,907	\$ 1,026,265
Income before income tax:				
United States	\$ 52,571	\$ 47,754	\$ 44,921	\$ 36,346
LAAP	7,531	2,463	22,572	15,738
EMEA	14,287	9,642	5,715	6,945
Canada	12,227	8,684	12,688	7,287
Interest income, net	462	147	1,246	1,073
	\$ 87,078	\$ 68,690	\$ 87,142	\$ 67,389

**NOTE 10 FINANCIAL INSTRUMENTS AND RISK MANAGEMENT**

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

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

The effective change in fair value of financial instruments formally designated in cash flow hedging relationships is initially offset to accumulated other comprehensive income and any ineffective portion is offset to current income. Amounts accumulated in other comprehensive income are subsequently reclassified to cost of sales when the underlying transaction is included in income. Hedge effectiveness is determined by evaluating the ability of a hedging instrument's cumulative change in fair value to offset the cumulative change in the present value of expected cash flows on the underlying exposures. For forward contracts, the change in fair value attributable to changes in forward points are excluded from the determination of hedge effectiveness and included in current cost of sales. For option contracts, the hedging relationship is assumed to have no ineffectiveness if the critical terms of the option contract match the hedged transaction's terms, the strike price, or prices,

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match the specified levels beyond or within that of the exposure being hedged, the option's cash flows completely offset the hedged item's cash flow at maturity and the option can only be exercised on a specified date. Hedge ineffectiveness was not material during the three and nine months ended September 30, 2011 and 2010.

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

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

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## COLUMBIA SPORTSWEAR COMPANY

## NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (Continued)

(Unaudited)

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

	September 30, 2011	December 31, 2010	September 30, 2010
Derivative instruments designated as cash flow hedges:			
Currency forward contracts	\$ 156,025	\$ 86,260	\$ 86,725
Currency option contracts		4,500	9,000
Derivative instruments not designated as cash flow hedges:			
Currency forward contracts	63,210	179,382	48,563

At September 30, 2011, approximately \$2,284,000 of deferred net gains on both outstanding and matured derivatives accumulated in other comprehensive income are expected to be reclassified to net income during the next twelve months as a result of underlying hedged transactions also being recorded in net income. Actual amounts ultimately reclassified to net income are dependent on U.S. dollar exchange rates in effect against the European euro, Canadian dollar, Japanese yen and Korean won when outstanding derivative contracts mature.

At September 30, 2011, the Company's derivative contracts had a remaining maturity of approximately two years or less. All the counterparties to these transactions had both long-term and short-term investment grade credit ratings and, as a result, neither the Company nor its counterparties are required to post 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, 2011. The Company does not hold derivatives featuring credit-related contingent terms, is not a party to any derivative master agreement featuring credit-related contingent terms and 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, 2011	December 31, 2010	September 30, 2010
Derivative instruments designated as cash flow hedges:				
Derivative instruments in asset positions:				
Currency forward contracts	Prepaid expenses and other current assets	\$ 7,449	\$ 362	\$ 787
Currency option contracts	Prepaid expenses and other current assets		15	45
Derivative instruments in liability positions:				
Currency forward contracts	Accrued liabilities	1,124	2,732	2,618
Currency option contracts	Accrued liabilities		102	269

	Balance Sheet Classification	September 30, 2011	December 31, 2010	September 30, 2010
Derivative instruments not designated as cash flow hedges:				
Derivative instruments in asset positions:				
Currency forward contracts	Prepaid expenses and other current assets	\$ 908	\$ 789	\$

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Derivative instruments in liability  
positions:

Currency forward contracts	Accrued liabilities	1,461	4,169	416
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## COLUMBIA SPORTSWEAR COMPANY

## NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (Continued)

(Unaudited)

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

		Three Months Ended September 30,		Nine Months Ended September 30,	
	Statement Of Operations Classification	2011	2010	2011	2010
Currency Forward Contracts:					
Derivative instruments designated as cash flow hedges:					
Gain (Loss) recognized in other comprehensive income, net of tax		\$ 7,973	\$ (4,082)	\$ 2,379	\$ 1,072
Gain (Loss) reclassified from accumulated other comprehensive income to income for the effective portion	Cost of sales	(4,568)	2,054	(5,436)	614
Gain (Loss) recognized in income for amount excluded from effectiveness testing and for the ineffective portion	Cost of sales	(940)	95	(1,586)	(1)
Derivative instruments not designated as cash flow hedges:					
Loss recognized in income	Cost of Sales		(1,078)		(7)
Gain (Loss) recognized in income	SG&A	(1,541)	(2,274)	3,218	2,040

**NOTE 11 COMMITMENTS AND CONTINGENCIES***Inventory Purchase Obligations*

Product purchase obligations for open production purchase orders for sourced apparel, footwear, accessories and equipment, and raw materials used in manufacturing were \$328,901,000 at September 30, 2011.

**NOTE 12 FAIR VALUE MEASURES**

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

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

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

	Level 1	Level 2	Level 3	Total
Assets:				

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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 10)		8,357		8,357
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 10)	\$	\$ 2,585	\$	\$ 2,585
Total liabilities measured at fair value	\$	\$ 2,585	\$	\$ 2,585

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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, 2010 are as follows (in thousands):

	Level 1	Level 2	Level 3	Total
<b>Assets:</b>				
Cash equivalents				
Money market funds	\$ 177,104	\$	\$	\$ 177,104
Time deposits	7,510			7,510
U.S. Government-backed municipal bonds		5,560		5,560
Available-for-sale short-term investments <sup>(1)</sup>				
Short-term municipal bond fund	15,624			15,624
U.S. Government-backed municipal bonds		53,188		53,188
Other current assets				
Derivative financial instruments (Note 10)		1,166		1,166
Non-current assets				
Mutual fund shares	1,670			1,670
<b>Total assets measured at fair value</b>	<b>\$ 201,908</b>	<b>\$ 59,914</b>	<b>\$</b>	<b>\$ 261,822</b>
<b>Liabilities:</b>				
Accrued liabilities				
Derivative financial instruments (Note 10)	\$	\$ 7,003	\$	\$ 7,003
<b>Total liabilities measured at fair value</b>	<b>\$</b>	<b>\$ 7,003</b>	<b>\$</b>	<b>\$ 7,003</b>

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

	Level 1	Level 2	Level 3	Total
<b>Assets:</b>				
Cash equivalents				
Money market funds	\$ 119,484	\$	\$	\$ 119,484
Time deposits	7,505			7,505
U.S. Government-backed municipal bonds		6,238		6,238
Available-for-sale short-term investments <sup>(1)</sup>				
Short-term municipal bond fund	25,572			25,572
U.S. Government-backed municipal bonds		36,785		36,785
Other current assets				
Derivative financial instruments (Note 10)		832		832
Non-current assets				
Mutual fund shares	1,452			1,452
<b>Total assets measured at fair value</b>	<b>\$ 154,013</b>	<b>\$ 43,855</b>	<b>\$</b>	<b>\$ 197,868</b>

Liabilities:



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<b>Accrued liabilities</b>				
Derivative financial instruments (Note 10)	\$	\$ 3,303	\$	\$ 3,303
<b>Total liabilities measured at fair value</b>	<b>\$</b>	<b>\$ 3,303</b>	<b>\$</b>	<b>\$ 3,303</b>

<sup>(1)</sup> Investments have original 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 assets and liabilities measured at fair value on a nonrecurring basis as of September 30, 2011, December 31, 2010, or September 30, 2010.

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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, 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, our own direct-to-consumer channels and licensees.

The popularity of outdoor activities, changing design trends and consumer adoption of innovative performance technologies affect consumer desire for our products. Therefore, we seek to drive, anticipate and respond to trends and shifts in consumer preferences by adjusting the mix of available product offerings, developing new products with innovative performance features and designs, and 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 discretionary consumer spending patterns. Our products are marketed on a seasonal basis and our product mix is weighted substantially toward the fall season, while our operating costs are more equally distributed throughout the year. The expansion of our direct-to-consumer operations since 2008 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 2010, 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.

Our quarterly net sales comparisons often vary significantly due to shifts in the timing of fall season shipments to international distributors that occur late in the second quarter or early in the third quarter and shifts in the timing of spring season shipments to international distributors that occur late in the fourth quarter or early in the first quarter. In addition, as our direct-to-consumer, Sorel and Columbia winter footwear businesses grow, we expect a greater proportion of net sales and operating income to occur in the fourth quarter.

Results of operations in any period should not be considered indicative of the results to be expected for any future period, particularly in light of persistent volatility in economic conditions. Sales of our products are subject to substantial cyclical fluctuation, the effects of unseasonable weather conditions, and the continued popularity of outdoor activities as part of an active lifestyle in key markets. The current economic environment in key markets, coupled with inflationary cost pressures, has reduced the predictability of our business.

#### **Business Outlook**

The business climate continues to present us with a great deal of uncertainty, with a number of variables that we rely on for planning purposes moving in opposing directions, making it more difficult to predict future results. Factors that could significantly affect our full year 2011 outlook include:

Unseasonable weather conditions or other unforeseen factors affecting consumer demand and the resulting effect on order cancellations and reorders;

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

Volatile input costs across our supply chain;

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Increased fixed costs to support growth and our multi-year business process, supply chain and information technology infrastructure investments and projects;

Costs of expedited transportation;

Lower relative volume of department store sales in the United States;

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

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

Fluctuating currency exchange rates.

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

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

Sharpened our focus on product innovation;

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

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

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

As a result of these continuing efforts, we expect our selling, general and administrative ( SG&A ) expenses in 2011 to increase compared to 2010. In addition, we have begun to make improvements to our operational processes, involving significant investments in initiatives to improve our information technology infrastructure and our enterprise data and information management, which are designed to improve operational flexibility and performance. These investments are the foundation for a multi-year implementation of a new global enterprise resource planning, or ERP, system that began in late 2010.

As our business model and strategies have evolved, management expects certain trends to continue to affect our business and operating results, including:

A higher amount of fixed operating expenses to support, among other things, direct-to-consumer and direct sales activities and our multi-year ERP implementation;

A lower relative volume of U.S. department store sales;

An increasing percentage of growth from markets outside the U.S.; and

Increasing product input costs.

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.

#### **Wholesale Backlog**

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 to plan manufacturing volumes to meet demand for each of our selling seasons. Twice each year we report our backlog of advance orders, representing the results of these seasonal order-taking processes.

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

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Our spring wholesale backlog at September 30, 2011 increased \$26.5 million, or 7%, to \$420.7 million from \$394.2 million at September 30, 2010. Changes in foreign currency exchange rates compared with 2010 affected the spring wholesale backlog comparison by less than 1%. Our spring wholesale backlog reflects growth across each major brand, product category and three of our four regions. By product category, the spring wholesale backlog increase was led by sportswear, followed by outerwear, accessories and equipment and footwear. By brand, the spring wholesale backlog increase was led by the Columbia brand, followed by the Mountain Hardwear brand and Sorel brand. Wholesale backlog does not include anticipated sales to consumers through our own direct-to-consumer channels. Although we cannot predict with certainty any future results, our reported spring wholesale backlog is one indicator of our anticipated net sales for the spring 2012 selling season. Many factors, however, could cause actual wholesale sales to differ materially from the reported spring wholesale backlog, including the potential cancellation of orders by customers, capacity constraints in our supply chain resulting in delivery delays, changes in foreign currency exchange rates and changes in macro-economic conditions. Moreover, our spring wholesale backlog should not be used in forecasting sales beyond the spring 2012 selling season.

**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 2011**

Net sales for the third quarter of 2011 increased \$62.8 million, or 12%, to \$566.8 million from \$504.0 million for the third quarter of 2010, including approximately a three percentage point benefit from changes in foreign currency exchange rates.

Net income for the third quarter of 2011 increased 29% to \$67.5 million, or \$1.98 per diluted share, compared to \$52.2 million, or \$1.53 per diluted share, for the third quarter of 2010.

Spring wholesale backlog at September 30, 2011 increased \$26.5 million, or 7%, to \$420.7 million compared to September 30, 2010. Changes in foreign currency exchange rates compared with 2010 affected the spring wholesale backlog comparison by less than 1%.

We paid quarterly cash dividends of \$0.22 per share, or \$7.4 million, in the third quarter of 2011.

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

	Three Months		Nine Months Ended	
	Ended September 30, 2011	2010	September 30 , 2011	2010
Net sales	100.0%	100.0%	100.0%	100.0%
Cost of sales	56.0	57.5	56.2	57.3
Gross profit	44.0	42.5	43.8	42.7
Selling, general and administrative expense	29.5	29.4	37.3	36.7
Net licensing income	0.8	0.5	0.9	0.5
Income from operations	15.3	13.6	7.4	6.5
Interest income, net	0.1	0.0	0.1	0.1

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Income before income tax	15.4	13.6	7.5	6.6
Income tax expense	(3.5)	(3.3)	(1.8)	(1.6)
Net income	11.9%	10.3%	5.7%	5.0%

### *Quarter Ended September 30, 2011 Compared to Quarter Ended September 30, 2010*

**Net Sales:** Consolidated net sales increased \$62.8 million, or 12%, to \$566.8 million for the third quarter of 2011 from \$504.0 million for the comparable period in 2010. Net sales increased across each of our major brands, all geographic regions and three of our four product categories. Changes in foreign currency exchange rates compared with the third quarter of 2010 contributed approximately a three percentage point benefit to the consolidated net sales comparison.

### *Sales by Brand*

Net sales by brand are summarized in the following table:

	Three Months Ended September 30,		
	2011	2010	% Change
	(In millions, except for percentage changes)		
Columbia	\$ 447.8	\$ 430.3	4%
Mountain Hardwear	44.7	38.2	17%
Sorel	72.0	33.4	116%
Other	2.3	2.1	10%
	\$ 566.8	\$ 504.0	12%

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The net sales increase was led by the Sorel brand, followed by the Columbia brand and Mountain Hardwear brand. The Sorel brand net sales increase was led by the EMEA region, followed by the United States, Canada and the LAAP region.

*Sales by Geographic Region*

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

	Three Months Ended September 30,		
	2011	2010	%
	(In millions, except for percentage changes)		
United States	\$ 333.6	\$ 325.6	2%
LAAP	72.8	59.0	23%
EMEA	100.3	66.3	51%
Canada	60.1	53.1	13%
	\$ 566.8	\$ 504.0	12%

Net sales in the United States increased \$8.0 million, or 2%, to \$333.6 million for the third quarter of 2011 from \$325.6 million for the comparable period in 2010. The increase in net sales in the United States was concentrated in footwear and the Sorel brand. The net sales increase by channel consisted of a net sales increase in our direct-to-consumer business, partially offset by a slight net sales decrease in our wholesale business. The net sales increase in our direct-to-consumer business was driven by strong comparable store sales growth, increased e-commerce sales and the addition of 3 new outlet stores. The net sales decrease in our wholesale business was the result of a planned shift in the timing of shipments of fall 2011 advance orders between the third and fourth quarters, compared with fall 2010.

Net sales in the LAAP region increased \$13.8 million, or 23%, to \$72.8 million for the third quarter of 2011 from \$59.0 million for the comparable period in 2010. Changes in foreign currency exchange rates compared with the third quarter of 2010 contributed approximately a nine percentage point benefit to the LAAP net sales comparison. The net sales increase in the LAAP region was spread across all product categories and was primarily concentrated in the Columbia brand. The LAAP net sales increase was led by Japan, followed by Korea, partially offset by a net sales decrease in our LAAP distributor business. The net sales increase in Japan was due to increased sales of Columbia brand product and the favorable effect of foreign currency exchange rates. The increase in Korea net sales was primarily due to increased retail sales of the Columbia and Mountain Hardwear brands. The net sales decrease in our LAAP distributor business reflected a shift in the timing of shipments as a higher percentage of fall 2011 advance orders were shipped and recorded as sales in the second quarter of 2011, while a higher percentage of fall 2010 advance orders were shipped and recorded as sales in the third quarter of 2010.

Net sales in the EMEA region increased \$34.0 million, or 51%, to \$100.3 million for the third quarter of 2011 from \$66.3 million for the comparable period in 2010. Changes in foreign currency exchange rates compared with the third quarter of 2010 contributed approximately a thirteen percentage point benefit to the EMEA net sales comparison. The net sales increase in the EMEA region was concentrated in footwear and was driven by the Sorel brand, followed by the Columbia brand. The EMEA net sales increase was concentrated in our direct business, followed by our distributor business.

Net sales in Canada increased \$7.0 million, or 13%, to \$60.1 million for the third quarter of 2011 from \$53.1 million for the comparable period in 2010. Changes in foreign currency exchange rates compared with 2010 contributed approximately a nine percentage point benefit to the Canada net sales comparison. The increase in net sales was concentrated in the Sorel brand. By product category, the increase in net sales was concentrated in footwear.

*Sales by Product Category*

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



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	Three Months Ended September 30,		
	2011	2010	% Change
	(In millions, except for percentage changes)		
Outerwear	\$ 222.5	\$ 223.9	(1)%
Sportswear	179.8	168.2	7%
Footwear	128.6	82.8	55%
Accessories and Equipment	35.9	29.1	23%
	\$ 566.8	\$ 504.0	12%

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Net sales of outerwear decreased \$1.4 million, or 1%, to \$222.5 million for the third quarter of 2011 from \$223.9 million for the comparable period in 2010. Decreases in outerwear net sales in the United States and, to a lesser degree, Canada were partially offset by net sales increases in the LAAP and EMEA regions.

Net sales of sportswear increased \$11.6 million, or 7%, to \$179.8 million for the third quarter of 2011 from \$168.2 million for the comparable period in 2010. The increase in sportswear net sales was concentrated in our regions outside the United States and was led by the Mountain Hardwear brand, followed by the Columbia brand.

Net sales of footwear increased \$45.8 million, or 55%, to \$128.6 million for the third quarter of 2011 from \$82.8 million for the comparable period in 2010. The increase in footwear net sales was primarily concentrated in the Sorel brand, followed by the Columbia brand and was led by the EMEA region, followed by the United States, Canada and the LAAP region. The net sales increase in footwear in the EMEA region was concentrated in our direct business. The footwear net sales increase in the United States region was led by our wholesale business, followed by our direct-to-consumer business.

Net sales of accessories and equipment increased \$6.8 million, or 23%, to \$35.9 million for the third quarter of 2011 from \$29.1 million for the comparable period in 2010. The increase in accessories and equipment net sales was spread across all regions and was primarily concentrated in the Columbia brand.

**Gross Profit:** Gross profit, as a percentage of net sales, increased to 44.0% for the third quarter of 2011 from 42.5% for the comparable period in 2010 predominantly driven by lower air freight costs. Other factors favorably impacting gross margin included:

A lower proportion of shipments to EMEA and LAAP distributors, which carry lower gross margins than direct wholesale and direct-to-consumer sales;

Increased direct-to-consumer sales at higher gross margins; and

Favorable foreign currency hedge rates;  
partially offset by:

A higher volume of close-out product sales at lower gross margins; and

Increased product costs.

Our gross profits may not be comparable to those of other companies in our industry because some include all of the costs related to their distribution network in cost of sales, 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 our design, merchandising, marketing, distribution and corporate functions, including related depreciation and amortization.

SG&A expense increased \$19.3 million, or 13%, to \$167.4 million for the third quarter of 2011 from \$148.1 million for the comparable period in 2010. The SG&A expense increase was primarily due to:

The expansion of direct-to-consumer operations globally,

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The unfavorable effect of foreign currency translation,

Information technology initiatives, including our ERP implementation, and

Additions to staff and other expenses to support business initiatives and growth.

SG&A expense increased to 29.5% of net sales for the third quarter of 2011 from 29.4% of net sales for the comparable period in 2010.

Depreciation and amortization included in SG&A expense totaled \$10.9 million for the third quarter of 2011, compared to \$9.3 million for the same period in 2010.

**Net Licensing Income:** Net licensing income increased \$2.1 million to \$4.4 million for the third quarter of 2011 from \$2.3 million for the same period in 2010, primarily due to increased apparel and footwear licensing income in the LAAP region.

**Interest Income, Net:** Net interest income was \$0.5 million for the third quarter of 2011 compared to \$0.1 million for the same period in 2010. Interest income increased due to higher average interest rates on cash equivalents and short-term investments and interest on income tax refunds compared to the same period in 2010. Interest expense was nominal for the third quarter of 2011 and for the comparable period in 2010.

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**Income Tax Expense:** Income tax expense increased to \$19.5 million for the third quarter of 2011 from \$16.5 million for the comparable period in 2010. Our effective income tax rate was 22.4% for the third quarter of 2011 compared to 24.0% for the same period in 2010. Our effective income tax rate decreased primarily because we earned a higher proportion of our income from foreign jurisdictions with tax rates that are generally lower than the U.S. tax rate.

**Net Income:** Net income increased \$15.3 million, or 29%, to \$67.5 million for the third quarter of 2011 from \$52.2 million for the comparable period in 2010. Diluted earnings per share was \$1.98 for the third quarter of 2011, compared to \$1.53 for the third quarter of 2010.

**Nine Months Ended September 30, 2011 Compared to Nine Months Ended September 30, 2010**

**Net Sales:** Consolidated net sales increased \$141.7 million, or 14%, to \$1,167.9 million for the nine months ended September 30, 2011 from \$1,026.2 million for the comparable period in 2010. Net sales increased across each of our major brands, all geographic regions and all product categories. Changes in foreign currency exchange rates, compared with the nine months ended September 30, 2010, contributed approximately a three percentage point benefit to the consolidated net sales comparison.

*Sales by Brand*

Net sales by brand are summarized in the following table:

	Nine Months Ended September 30,		
	2011	2010	% Change
	(In millions, except for percentage changes)		
Columbia	\$ 975.0	\$ 897.4	9%
Mountain Hardwear	99.1	82.1	21%
Sorel	86.0	39.2	119%
Other	7.8	7.5	4%
	\$ 1,167.9	\$ 1,026.2	14%

The net sales increase was led by the Columbia brand, followed by the Sorel brand and Mountain Hardwear brand. The Columbia brand net sales increase was led by the LAAP region, followed by the EMEA region, the United States and Canada.

*Sales by Geographic Region*

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

	Nine Months Ended September 30,		
	2011	2010	% Change
	(In millions, except for percentage changes)		
United States	\$ 655.1	\$ 622.5	5%
LAAP	216.7	166.9	30%
EMEA	198.3	151.8	31%
Canada	97.8	85.0	15%
	\$ 1,167.9	\$ 1,026.2	14%

Net sales in the United States increased \$32.6 million, or 5%, to \$655.1 million for the nine months ended September 30, 2011 from \$622.5 million for the comparable period in 2010. The increase in net sales in the United States by product category was led by footwear and included increased net sales in all product categories. The net sales increase by brand was led by the Sorel brand, followed by the Mountain Hardwear brand and the Columbia brand. The net sales increase by channel consisted of a net sales increase in our direct-to-consumer business, partially offset by a slight net sales decrease in our wholesale business. The net sales increase in our direct-to-consumer business was driven by strong

comparable store sales growth, increased e-commerce sales and the addition of 3 new outlet stores.

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Net sales in the LAAP region increased \$49.8 million, or 30%, to \$216.7 million for the nine months ended September 30, 2011 from \$166.9 million for the comparable period in 2010. Changes in foreign currency exchange rates compared with the nine months ended September 30, 2010, contributed approximately a nine percentage point benefit to the LAAP net sales comparison. The net sales increase in the LAAP region by product category was concentrated in outerwear and sportswear and included increased net sales in all product categories. The LAAP net sales increase was primarily concentrated in the Columbia brand and was led by Korea, followed by Japan and our LAAP distributor business. The increase in Korea net sales was primarily due to increased sales from existing stores, followed by a greater number of retail stores operating at September 30, 2011 than at September 30, 2010. The increase in Japan net sales was primarily the result of the favorable effect of foreign currency exchange rates and increased wholesale net sales in the sports chain channel.

Net sales in the EMEA region increased \$46.5 million, or 31%, to \$198.3 million for the nine months ended September 30, 2011 from \$151.8 million for the comparable period in 2010. Changes in foreign currency exchange rates compared with the nine months ended September 30, 2010 contributed approximately a seven percentage point benefit to the EMEA net sales comparison. By product category, the increase in net sales was concentrated in footwear and included increased net sales in all product categories. The EMEA net sales increase was led by the Sorel brand, followed by the Columbia brand. The EMEA net sales increase was led by our direct business, followed by our distributor business.

Net sales in Canada increased \$12.8 million, or 15%, to \$97.8 million for the nine months ended September 30, 2011 from \$85.0 million for the comparable period in 2010. Changes in foreign currency exchange rates compared with 2010 contributed approximately an eight percentage point benefit to the Canada net sales comparison. By product category, the increase in net sales was concentrated in footwear and sportswear. The increase in net sales was led by the Sorel brand, followed by the Columbia and Mountain Hardwear brands.

*Sales by Product Category*

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

	Nine Months Ended September 30,		
	2011	2010	% Change
	(In millions, except for percentage changes)		
Outerwear	\$ 383.4	\$ 354.9	8%
Sportswear	470.2	436.5	8%
Footwear	233.0	167.6	39%
Accessories and Equipment	81.3	67.2	21%
	\$ 1,167.9	\$ 1,026.2	14%

Net sales of outerwear increased \$28.5 million, or 8%, to \$383.4 million for the nine months ended September 30, 2011 from \$354.9 million for the comparable period in 2010. The increase in outerwear net sales was concentrated in the Columbia brand in the LAAP and EMEA regions.

Net sales of sportswear increased \$33.7 million, or 8%, to \$470.2 million for the nine months ended September 30, 2011 from \$436.5 million for the comparable period in 2010. The increase in sportswear net sales was led by the Columbia brand, followed by the Mountain Hardwear brand, and was led by the LAAP region, followed by the United States, the EMEA region and Canada.

Net sales of footwear increased \$65.4 million, or 39%, to \$233.0 million for the nine months ended September 30, 2011 from \$167.6 million for the comparable period in 2010. The increase in footwear net sales was led by the Sorel brand, followed by the Columbia brand and was led by the EMEA region, followed by the United States, the LAAP region and Canada. The net sales increase in footwear in the EMEA region was concentrated in our direct business. The footwear net sales increase in the United States was led by our wholesale business, followed by our direct-to-consumer business.

Net sales of accessories and equipment increased \$14.1 million, or 21%, to \$81.3 million for the nine months ended September 30, 2011 from \$67.2 million for the comparable period in 2010. The increase in accessories and equipment net sales was primarily concentrated in the Columbia brand in the United States and the LAAP region.

**Gross Profit:** Gross profit, as a percentage of net sales, increased to 43.8% for the nine months ended September 30, 2011 from 42.7% for the comparable period in 2010. Gross profit expansion was predominately driven by lower airfreight costs compared to the same period last year. Other factors favorably impacting gross margin included:

Favorable foreign currency hedge rates;

Improved gross margins on close-out product sales; and

A higher proportion of direct-to-consumer sales at higher gross margins;

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partially offset by:

Increased product costs; and

A higher proportion of close-out product sales.

**Selling, General and Administrative Expense:** SG&A expense increased \$58.9 million, or 16%, to \$436.0 million for the nine months ended September 30, 2011 from \$377.1 million for the comparable period in 2010. The SG&A expense increase was primarily due to:

Expansion of direct-to-consumer operations globally;

The unfavorable effect of foreign currency translation;

Information technology initiatives, including our ERP implementation; and

Additions to staff and other expenses to support business initiatives and growth.

SG&A expense increased to 37.3% of net sales for the nine months ended September 30, 2011 from 36.7% of net sales for the comparable period in 2010. Depreciation and amortization included in SG&A expense totaled \$31.6 million for the nine months ended September 30, 2011, compared to \$27.4 million for the same period in 2010.

**Net Licensing Income:** Net licensing income increased \$5.5 million to \$10.4 million for the nine months ended September 30, 2011 from \$4.9 million for the same period in 2010, primarily due to increased apparel and footwear licensing income in the LAAP region.

**Interest Income, Net:** Net interest income was \$1.2 million for the nine months ended September 30, 2011 compared to \$1.1 million for the same period in 2010. Interest income increased due to higher average interest rates on cash equivalents and short-term investments compared to the same period in 2010. Interest expense was nominal for the nine months ended September 30, 2011 and for the comparable period in 2010.

**Income Tax Expense:** Income tax expense increased to \$20.4 million for the nine months ended September 30, 2011 from \$16.6 million for the comparable period in 2010. Our effective income tax rate was 23.4% for the nine months ended September 30, 2011 compared to 24.6% for the same period in 2010. Our effective income tax rate decreased primarily because we earned a higher proportion of our income from foreign jurisdictions with tax rates that are generally lower than the U.S. tax rate.

**Net Income:** Net income increased \$16.0 million, or 31%, to \$66.8 million for the nine months ended September 30, 2011 from \$50.8 million for the comparable period in 2010. Diluted earnings per share was \$1.95 for the nine months ended September 30, 2011, compared to \$1.49 for comparable period in 2010.

## **Liquidity and Capital Resources**

Our primary ongoing funding requirements are for working capital, investing activities associated with the expansion of our global operations and general corporate needs. At September 30, 2011, we had total cash and cash equivalents of \$87.9 million, compared to \$234.3 million at December 31, 2010 and \$173.9 million at September 30, 2010. In addition, we had short-term investments of \$2.4 million at September 30, 2011, compared to \$68.8 million at December 31, 2010 and \$62.4 million at September 30, 2010. At September 30, 2011, approximately 35% of our cash and short-term investments were held in foreign jurisdictions where a repatriation of those funds to the United States would likely result in a significant tax cost to the Company.

Net cash used in operating activities was \$142.0 million for the nine months ended September 30, 2011, compared to \$108.1 million for the same period in 2010. The increase in cash used in operating activities for the nine months ended September 30, 2011 reflected the combined effect of lower increases in accounts payable and accrued liabilities compared with the 2010 period, a decrease in income taxes payables compared to an increase in the 2010 period and an increase in prepaid expenses compared to a decrease in the 2010 period, partially offset by



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higher net income in the 2011 period and lower increases in accounts receivable and inventory compared to the 2010 period.

Net cash provided by investing activities was \$26.3 million for the nine months ended September 30, 2011, compared to net cash used in investing activities of \$76.9 million for the comparable period in 2010. 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 \$41.4 million for capital expenditures. For the 2010 period, net cash used in investing activities primarily consisted of \$39.6 million in net purchases of short-term investments and \$38.8 million for acquisitions and capital expenditures.

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Net cash used in financing activities was \$28.9 million for the nine months ended September 30, 2011, compared to \$26.9 million for the comparable period in 2010. 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 an aggregate price of \$19.3 million, partially offset by net proceeds from stock plan activity of \$7.4 million. For the 2010 period, net cash used in financing activities primarily consisted of dividend payments of \$18.2 million and the repurchase of common stock at an aggregate price of \$13.8 million, partially offset by proceeds from issuance of common stock of \$4.7 million.

We have an unsecured, committed \$125.0 million revolving line of credit available to fund our domestic working capital requirements. At September 30, 2011, 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 us with a combined limit of approximately \$90.4 million at September 30, 2011, of which \$3.3 million is designated as a European customs guarantee. At September 30, 2011, no balance was outstanding under these 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 quarter. 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 \$15.0 million at September 30, 2011 available for issuing documentary letters of credit. At September 30, 2011, 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, 2010 have the greatest potential impact on our financial statements, so we consider these to be our critical accounting policies and estimates. Because of the uncertainty inherent in these matters, actual results could differ from the estimates we use in applying the critical accounting policies. We base our ongoing estimates on historical experience and other various assumptions that we believe to be reasonable under the circumstances. Many of these critical accounting policies affect working capital account balances, including the policy for revenue recognition, the allowance for 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, 2010.

## **Recent Accounting Pronouncements**

See Recent Accounting Pronouncements in Note 2 to the notes to the 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, 2010.

**Item 4 *CONTROLS AND PROCEDURES***

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

There has been no change in our internal control over financial reporting that occurred during our fiscal quarter ended September 30, 2011 that has materially affected, or is reasonably likely to materially affect, our internal control over financial reporting.

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### **PART II. OTHER INFORMATION**

#### **Item 1. *LEGAL PROCEEDINGS***

The Company is 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. The Company has considered facts related to legal and regulatory matters and opinions of counsel handling these matters, and does not believe the ultimate resolution of such proceedings will have a material adverse effect on the Company's 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, 2010.

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

Our business strategies are to achieve sustainable, profitable growth by creating innovative products, elevating consumer perception of our brands, increasing consumer and retailer awareness and demand for our products, creating compelling retail environments, and building stronger emotional brand connections with consumers over time. We intend to pursue these strategies across 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. However, 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 various aspects of our business, to maintain and enhance our information systems and supply chain operations to respond to increased demand and to attract, retain and manage qualified personnel. Changes in our business may place an increasing strain on management, financial, product design, marketing, distribution, 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.

In addition, an increasing percentage of our anticipated sales growth is being driven by our winter footwear business (both Sorel and Columbia brands) and the majority of these advance orders typically schedule to ship in the fourth quarter. Combined with the anticipated growth of our direct-to-consumer business, this growth is expected to result in net sales and operating income being more heavily weighted toward the fourth quarter compared with prior years. 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.

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

Our products are produced by independent factories worldwide. We do not own or operate any production facilities. Although we enter into purchase order commitments with these independent factories each season, we generally do not maintain long-term manufacturing commitments with them. Without long-term or reserve commitments, in a capacity-constrained environment, there is no assurance that we will be able to

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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.

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Reliance on independent factories also creates quality control risks. In a capacity-constrained environment, we may need to use sub-contracted manufacturers to fulfill demand and these manufacturers may have less experience producing our products or 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 and other environmental, health and safety standards for the benefit of workers and for compliance with product safety and other laws on our contractors. 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 brand images, consumer demand for our products may decrease, and in some circumstances parties may attempt to assert that we are liable for the independent manufacturer's or licensee's practices, any of which could have a material adverse effect on our financial condition, results of operations or cash flows.

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

Following a long period of generally stable-to-declining input costs, the apparel and footwear industry appears to be entering what may become a prolonged period of inflationary pressure on some or all of these input costs, resulting in increased costs to produce 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.

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### **Our Sales and Profitability May be Adversely Affected by Increased Product Costs and Reduced Selling Prices**

The apparel industry is subject to significant pressures on pricing and input costs caused by many factors, including intense competition, constrained sourcing capacity and related inflationary pressures, consolidation in the retail industry, pressure from retailers to reduce the costs of products and changes in consumer demand. These factors may cause us to experience increased costs, reduce our sales prices to retailers and consumers or experience reduced sales in response to increased prices, any of which could cause our operating margin to decline if we are unable to offset these factors with reductions in operating costs and could have a material adverse effect on our financial condition, results of operations or cash flows.

Attracting superior retail channel partners and improving the sales productivity of our customers each depend on various factors, including the strength of our brand names, our ability to design and source innovative products, competitive conditions, the availability of desirable locations and the negotiation of terms with customers. Future terms with customers may be less favorable to us than those under which we now operate. Large wholesale customers in particular increasingly seek to transfer various costs of business to their vendors, such as the cost of lost profits from promotional activity and product price markdowns, which could cause our gross margins to decline if we are unable to offset price reductions with comparable reductions in operating costs.

### **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. As global economic conditions continue to be volatile or economic uncertainty remains, trends in consumer discretionary spending also remain unpredictable and subject to reductions due to credit constraints and uncertainties about the future. Consumer demand for our products may not reach our sales targets, or may decline, when there is an economic downturn or economic uncertainty in our key markets, particularly markets in North America and 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.

### **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 and forecast operating results. System failures, breaches of confidential information or service interruptions may occur as the result of a number of factors, including computer viruses, programming errors, hacking or other unlawful activities by third parties and disasters, or our failure to properly maintain systems redundancy or to protect, repair, maintain or upgrade our systems. Any breach or interruption of critical business information systems could have a material adverse effect on our financial condition, results of operations or cash flows.

Our existing ERP system is highly customized to our business. As a result, the availability of internal and external resources with the expertise to maintain our current ERP system is limited. As we plan for future growth, our current customized 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 current ERP system may not be compatible with other systems that support desired functionality for our operations.

### **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, but are not limited to, 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 when we transition to new or upgraded systems and processes, including loss of data and decreases in productivity as our personnel become familiar with new systems. In addition, transitioning to 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 financial condition, results of operations or cash flows.

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 internal controls over financial reporting as our implementation progresses. If we are unable to successfully implement this



system, including harmonizing our systems, data and processes, our ability to process transactions accurately and efficiently may be affected, and any unsuccessful implementation could have a material adverse effect on our capital resources, financial condition, results of operations, or cash flows.

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

Many factors may significantly affect demand for our products, including, among other things, economic conditions, fashion trends, consumer preferences and weather, making it difficult to accurately forecast demand for our products and our future results of operations. To minimize our purchasing costs, the time necessary to fill customer orders and the risk of non-delivery, we place a significant amount of orders for our products with independent factories prior to receiving all of our customers' orders, and we maintain an inventory of various products that we anticipate will be in greater demand. In 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:

An increase or decrease in consumer demand for our products or for products of our competitors;

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

Our failure to accurately forecast customer acceptance of new products;

New product introductions by competitors;

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, our production orders may not match actual demand, which could result in our inability to deliver product in a timely manner, higher transportation costs to expedite delivery and higher inventory levels. During periods of weak economic conditions we may experience a significant increase in the volume of order cancellations by our customers, including cancellations resulting from the bankruptcy, liquidation or contraction of certain customers' operations. We may not be able to sell all of the products we have ordered from independent factories or that we have in our inventory. Inventory levels in excess of customer demand may result in inventory write-downs and the sale of excess inventory at discounted prices through discount direct-to-consumer 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 may decline in years in which weather conditions do not favor the use of these products. Periods of unseasonably warm weather in the fall or winter or unseasonably cold or wet weather in the spring and summer may have a material adverse effect on our financial condition, results of operations or cash flows. Inventory accumulation by our wholesale customers resulting from unseasonable weather in one season may negatively affect orders in future seasons, which may have a material adverse effect on our financial condition, results of operations or cash flows.

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

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

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

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

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 or into our other sales markets. Any country in which our products are produced or sold may eliminate, adjust or impose new import limitations, duties, tariffs, anti-dumping penalties or other charges or restrictions, any of which could have a material adverse effect on our financial condition, results of operations or cash flows.

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

The markets for outerwear, sportswear, 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 of production and the shipping of seasonal products, we offer customers discounts for placing advance orders and extended payment terms for taking delivery before the peak shipping season. These extended payment terms increase our exposure to the risk of uncollectible receivables. In addition, we face increased risk of order reduction or cancellation or reduced availability of credit insurance coverage when dealing with financially ailing retailers or retailers struggling with economic uncertainty. Some of our significant wholesale customers have liquidated or reorganized, while others have had financial difficulties in the past and have recently experienced tightened credit markets and sales declines and reduced profitability, which in turn has an adverse effect on our business. We may reduce our level of business with customers experiencing financial difficulties and may not be able to replace that business with other customers, which could have a material adverse effect on our financial condition, results of operations or cash flows.



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### **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 retailer 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. We also face risks because our business requires us and our customers to anticipate consumer preferences. Our decisions about product designs often are made far in advance of consumer acceptance. Although we try to manage our inventory risk through early order commitments by retailers, we must generally place a significant portion of our seasonal production orders with our independent factories before we have received all of a season's orders, and orders may be cancelled by customers before shipment. If we or our customers fail to anticipate and respond to consumer preferences, we may have lower sales, excess inventories and lower profit margins, any of which could have a material adverse effect on our financial condition, results of operations or cash flows.

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### **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 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 the performance characteristics and fabrications from those of our competitors. Actions or decisions in the management of our intellectual property portfolio may affect the strength of our brands, which may in turn have a material adverse effect on our financial condition, results of operations or cash flows.

Although we have not been materially inhibited from selling products in connection with patent, trademark and trade dress disputes, as we focus on innovation in our product lines, extend our brands into new product categories and expand the geographic scope of our marketing, we may become subject to litigation based on allegations of infringement of intellectual property rights of third parties, including third party trademark, copyright and patent rights. An increasing number of our products include technologies and/or designs for which we have obtained or applied for patent protection. Failure to successfully obtain and maintain patents on these innovations could negatively affect our ability to market and sell our products. Future litigation also may be necessary to defend against such claims or to enforce and protect our intellectual property rights. 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 rely primarily on our distribution facilities in Strathroy, Ontario; 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 (which are known to occur in the Northwestern United States and Japan), 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, resulting in lower interest income, less diversification, longer investment maturities and/or higher other-than-temporary impairments.

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

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

### **We Depend on 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 may result in increased costs or production delays, which may have a material adverse effect on our financial condition, results of operations or cash flows.

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

Our future success will depend in part on the continued service of key personnel and our ability to attract, retain and develop key managers, designers, sales people and others. We face intense competition for these individuals worldwide, and there is a significant concentration of well-funded apparel and footwear competitors in and around 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.



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### **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 product mix is weighted substantially toward the fall season. Our annual net sales are weighted more 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 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 affect our business and cause our results of operations to fluctuate. Results of operations in any period should not be considered indicative of the results to be expected for any future period.

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

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

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

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

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

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

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

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

<b>Period</b>	<b>Total Number of Shares Purchased</b>	<b>Average Price Paid per Share</b>	<b>Total Number of Shares Purchased as Part of Publicly Announced Plans or Programs <sup>(1)</sup></b>	<b>Approximate Dollar Value of Shares that May Yet Be Purchased Under the Plans or Programs</b>
July 1, 2011 through July 31, 2011				\$ 78,763,000
August 1, 2011 through August 31, 2011	281,086	\$ 51.45	281,086	64,301,000
September 1, 2011 through September 30, 2011	102,257	47.55	102,257	59,438,000
<b>Total</b>	<b>383,343</b>	<b>\$ 50.41</b>	<b>383,343</b>	<b>\$ 59,438,000</b>

<sup>(1)</sup> Since the inception of the Company's stock repurchase plan in 2004 through September 30, 2011, the Company's Board of Directors has authorized the repurchase of \$500,000,000 of the Company's common stock. As of September 30, 2011, the Company had repurchased 9,574,233 shares under this program at an aggregate purchase price of approximately \$440,562,000, including \$2,896,000 not yet settled. Shares of the Company's common stock may be purchased in the open market or through privately negotiated transactions, subject to market conditions. The repurchase program does not obligate the Company to acquire any specific number of shares or to acquire shares over any specified period of time.

**Item 6 EXHIBITS**

## (a) Exhibits

10.1	Second Amendment to Credit Agreement between the Company and Wells Fargo Bank National Association dated September 20, 2011 (incorporated by reference to the Company's Form 8-K filed on September 21, 2011) (File No. 0-23939).
31.1	Rule 13a-14(a) Certification of Timothy P. Boyle, President and Chief Executive Officer
31.2	Rule 13a-14(a) Certification of Thomas B. Cusick, Senior Vice President, Chief Financial Officer and Treasurer
32.1	Section 1350 Certification of Timothy P. Boyle, President and Chief Executive Officer
32.2	Section 1350 Certification of Thomas B. Cusick, Senior Vice President, Chief Financial Officer and Treasurer
101.INS	XBRL Instance Document *
101.SCH	XBRL Taxonomy Extension Schema Document *
101.CAL	XBRL Taxonomy Extension Calculation Linkbase Document *
101.LAB	XBRL Taxonomy Extension Label Linkbase Document *
101.PRE	XBRL Taxonomy Extension Presentation Linkbase Document *

\* 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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**SIGNATURE**

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

**COLUMBIA SPORTSWEAR COMPANY**

Date: November 4, 2011

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