

COLUMBIA SPORTSWEAR CO  
Form 10-Q  
May 08, 2007  
[Table of Contents](#)

---

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

Washington, DC 20549

---

**FORM 10-Q**

---

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

For the quarterly period ended March 31, 2007

OR

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

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

---

**COLUMBIA SPORTSWEAR COMPANY**

(Exact name of registrant as specified in its charter)

---

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

**0-23939**  
(Commission File Number)

**93-0498284**  
(IRS Employer

Identification Number)

**14375 Northwest Science Park Drive Portland, Oregon**  
(Address of principal executive offices)

**(503) 985-4000**

**97229**  
(Zip Code)

Edgar Filing: COLUMBIA SPORTSWEAR CO - Form 10-Q

(Registrant's telephone number, including area code)

---

**Securities registered pursuant to Section 12(b) of the Act:**

<b>Title of each class</b>	<b>Name of each exchange on which registered</b>
<b>Common Stock</b>	<b>The NASDAQ Stock Market</b>
<b>Securities registered pursuant to Section 12(g) of the Act: None</b>	

---

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 is a large accelerated filer, an accelerated filer, or a non-accelerated filer. See definition of accelerated filer and large accelerated filer in Rule 12b-2 of the Exchange Act.

Large accelerated filer  Accelerated filer  Non-accelerated filer

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 May 1, 2007 was 36,301,012.

---

**Table of Contents**

**COLUMBIA SPORTSWEAR COMPANY**

**MARCH 31, 2007**

INDEX TO FORM 10-Q

	<b>PAGE NO.</b>
<b>PART I. FINANCIAL INFORMATION</b>	
Item 1 <u>Financial Statements - Columbia Sportswear Company (Unaudited)</u>	
<u>Condensed Consolidated Balance Sheets</u>	2
<u>Condensed Consolidated Statements of Operations</u>	3
<u>Condensed Consolidated Statements of Cash Flows</u>	4
<u>Notes to Condensed Consolidated Financial Statements</u>	5
Item 2 <u>Management's Discussion and Analysis of Financial Condition and Results of Operations</u>	14
Item 3 <u>Quantitative and Qualitative Disclosures About Market Risk</u>	22
Item 4 <u>Controls and Procedures</u>	22
<b>PART II. OTHER INFORMATION</b>	
Item 1A <u>Risk Factors</u>	23
Item 6 <u>Exhibits</u>	27
<u>Signature</u>	28

**Table of Contents****Item 1 FINANCIAL STATEMENTS**

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

(In thousands)

(Unaudited)

	March 31, 2007	December 31, 2006
<b>ASSETS</b>		
Current Assets:		
Cash and cash equivalents	\$ 79,266	\$ 64,880
Short-term investments	189,360	155,170
Accounts receivable, net of allowance of \$8,345 and \$6,732, respectively	234,278	285,858
Inventories, net (Note 2)	209,712	212,323
Deferred income taxes	26,761	26,740
Prepaid expenses and other current assets	12,631	12,713
<b>Total current assets</b>	<b>752,008</b>	<b>757,684</b>
Property, plant, and equipment, net of accumulated depreciation of \$142,028 and \$145,569, respectively	199,827	199,426
Intangibles and other assets (Note 3)	52,336	52,681
Goodwill (Note 3)	17,273	17,498
<b>Total assets</b>	<b>\$ 1,021,444</b>	<b>\$ 1,027,289</b>
<b>LIABILITIES AND SHAREHOLDERS EQUITY</b>		
Current Liabilities:		
Notes payable	\$	\$ 3,540
Accounts payable	55,950	88,107
Accrued liabilities	59,095	64,379
Deferred income taxes	1,002	948
Income taxes payable	8,164	31,523
Current portion of long-term debt	142	159
<b>Total current liabilities</b>	<b>124,353</b>	<b>188,656</b>
Deferred income taxes	7,964	7,794
Other liabilities (Note 9)	21,483	136
<b>Total liabilities</b>	<b>153,800</b>	<b>196,586</b>
Commitments and contingencies		
Shareholders' Equity:		
Preferred stock; 10,000 shares authorized; none issued and outstanding		
Common stock (no par value); 125,000 shares authorized; 36,288 and 35,998 issued and outstanding	38,718	24,370
Retained earnings	792,950	771,939
Accumulated other comprehensive income (Note 4)	35,976	34,394
<b>Total shareholders' equity</b>	<b>867,644</b>	<b>830,703</b>
<b>Total liabilities and shareholders' equity</b>	<b>\$ 1,021,444</b>	<b>\$ 1,027,289</b>

See accompanying notes to condensed consolidated financial statements.

**Table of Contents**

**COLUMBIA SPORTSWEAR COMPANY**  
**CONDENSED CONSOLIDATED STATEMENTS OF OPERATIONS**

(In thousands, except per share amounts)

(Unaudited)

	Three Months Ended March 31,	
	2007	2006
Net sales	\$ 289,640	\$ 260,211
Cost of sales	162,942	148,574
<b>Gross profit</b>	<b>126,698</b>	<b>111,637</b>
Selling, general, and administrative expense	90,361	84,819
Net licensing income	(996)	(1,005)
Income from operations	37,333	27,823
Interest income	(2,244)	(2,138)
Interest expense	52	240
Income before income tax	39,525	29,721
Income tax expense	13,439	10,254
Net income	\$ 26,086	\$ 19,467
Earnings per share (Note 5):		
Basic	\$ 0.72	\$ 0.53
Diluted	0.71	0.52
Weighted average shares outstanding:		
Basic	36,181	36,900
Diluted	36,555	37,339

See accompanying notes to condensed consolidated financial statements.

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

	<b>Three Months Ended March 31,</b>	
	<b>2007</b>	<b>2006</b>
<b>Cash Provided By (Used In) Operating Activities:</b>		
Net income	\$ 26,086	\$ 19,467
Adjustments to reconcile net income to net cash provided by (used in) operating activities:		
Depreciation and amortization	6,331	5,980
Loss on disposal of property, plant, and equipment	127	170
Deferred income tax provision (benefit)	172	(1,011)
Stock-based compensation	1,749	3,417
Tax benefit from employee stock plans	2,241	654
Excess tax benefit from employee stock plans	(1,200)	(264)
Changes in operating assets and liabilities:		
Accounts receivable	52,512	70,454
Inventories	3,086	(797)
Prepaid expenses and other current assets	123	(1,349)
Other assets	297	130
Accounts payable	(32,698)	(30,645)
Accrued liabilities	(5,499)	(7,709)
Income taxes payable	(1,916)	1,033
Net cash provided by operating activities	51,411	59,530
<b>Cash Provided by (Used in) Investing Activities:</b>		
Purchases of short-term investments	(135,450)	(132,152)
Sales of short-term investments	101,260	109,375
Capital expenditures	(6,001)	(15,577)
Acquisitions, net of cash acquired	225	(35,377)
Proceeds from sale of licenses		1,700
Proceeds from sale of property, plant, and equipment	19	6
Other liabilities	(48)	(26)
Net cash used in investing activities	(39,995)	(72,051)
<b>Cash Provided by (Used in) Financing Activities:</b>		
Proceeds from notes payable	4,495	4,117
Repayments on notes payable	(8,122)	(34,611)
Repayment of long-term debt	(5)	(2,555)
Proceeds from issuance of common stock	10,483	2,852
Excess tax benefit from employee stock plans	1,200	264
Cash dividends paid	(5,075)	
Repurchase of common stock	(125)	(1,748)
Net cash provided by (used in) financing activities	2,851	(31,681)

<b>Net Effect of Exchange Rate Changes on Cash</b>	119	308
<b>Net Increase (Decrease) in Cash and Cash Equivalents</b>	14,386	(43,894)
<b>Cash and Cash Equivalents, Beginning of Period</b>	64,880	101,091
<b>Cash and Cash Equivalents, End of Period</b>	\$ 79,266	\$ 57,197

**Supplemental Disclosures of Cash Flow Information:**

Cash paid during the period for interest, net of capitalized interest	\$ 44	\$ 338
Cash paid during the period for income taxes	12,989	9,445

**Supplemental Disclosures of Non-Cash Financing Activities:**

Assumption of Montrail debt	\$	\$ 5,833
-----------------------------	----	----------

See accompanying notes to condensed consolidated financial statements.



**Table of Contents**

**COLUMBIA SPORTSWEAR COMPANY**

**NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS**

**(Unaudited)**

**NOTE 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES**

***Basis of presentation:***

The accompanying unaudited condensed consolidated financial statements have been prepared by the management of Columbia Sportswear Company (the Company) and in the opinion of management contain all adjustments, consisting only of normal recurring adjustments, necessary to present fairly the Company's financial position as of March 31, 2007, the results of operations for the three months ended March 31, 2007 and 2006 and cash flows for the three months ended March 31, 2007 and 2006. The results of operations for the three months ended March 31, 2007 are not necessarily indicative of the results to be expected for the full year.

Certain information and footnote disclosures normally included in financial statements prepared in accordance with accounting principles generally accepted in the United States of America (generally accepted accounting principles) have been condensed or omitted pursuant to the rules and regulations of the Securities and Exchange Commission. The Company, however, believes that the disclosures contained in this report comply with the requirements of Section 13(a) of the Securities Exchange Act of 1934 for a Quarterly Report on Form 10-Q and are adequate to make the information presented not misleading. These unaudited condensed consolidated financial statements should be read in conjunction with the financial statements and notes thereto included in the Company's Annual Report on Form 10-K for the year ended December 31, 2006.

***Reclassifications:***

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

***Use of estimates:***

The preparation of condensed consolidated 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 disclosures of contingent assets and liabilities at the date of the condensed consolidated financial statements and the reported amounts of revenues and expenses during the reported period. Actual results could differ materially from these estimates and assumptions. Some of these more significant estimates relate to revenue recognition, allowance for doubtful accounts, inventory, product warranty, and income taxes.

***Cash and cash equivalents:***

Cash and cash equivalents are stated at cost and include investments with maturities of three months or less at the date of acquisition. Cash and cash equivalents were \$79,266,000 and \$64,880,000 at March 31, 2007 and December 31, 2006, respectively, primarily consisting of money market funds and certificates of deposit.

***Short-term investments:***

Short-term investments consist of variable rate demand notes and obligations and municipal auction rate notes that generally mature up to 30 years from the purchase date. Investments with maturities beyond one year may be classified as short-term based on their highly liquid nature and because such marketable securities represent the investment of cash that is available for current operations. All cash and short-term investments are classified as available-for-sale securities and are recorded at fair value with any unrealized gains and losses reported, net of tax, in other comprehensive income. Realized gains or losses are determined based on the specific identification method. The Company has no investments considered to be trading securities. The carrying value of available-for-sale securities approximates fair market value due to their short-term interest rate reset periods.

***Stock-based compensation:***

**1997 Stock Incentive Plan**

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

The Company's 1997 Stock Incentive Plan (the Plan) provides for issuance of up to 7,400,000 shares of the Company's Common Stock, of which 1,300,679 shares were available for future grants under the Plan at March 31, 2007. The Plan allows for grants of incentive stock options, non-statutory stock options, restricted stock awards, restricted stock units and other stock-based awards. The Company uses original issuance shares to satisfy share-based payments.

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

Options to purchase the Company's common stock are granted at prices equal to or greater than the fair market value on the date of grant. Options granted prior to 2001 generally vest and become exercisable ratably over a period of five years from the date of grant and expire ten years from the date of grant. Options granted after 2000 generally vest and become exercisable over a period of four years (25 percent on the first anniversary date following the date of grant and monthly thereafter) and expire ten years from the date of the grant, with the exception of most options granted in 2005. Most options granted in 2005 vest one year from the date of grant and expire ten years from the date of grant.

The Company estimates the fair value of stock options using the Black-Scholes model. Key input 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 expected annual dividend yield. The expected option term represents the estimated time until exercise and is based on the Company's historical experience with similar awards, taking into consideration contractual terms, vesting schedules and expected employee behavior. The expected stock price volatility is based on the historical volatility of the Company's stock over the most recent period equal to the expected term of the option and adjusted for activity that is not expected to occur in the future. The risk-free interest rate is based on the U.S. Treasury yield curve in effect at the time of grant for periods corresponding with the expected term of the option. The expected dividend yield is based on the Company's dividend policy at the time the options were granted. Assumptions will be evaluated and revised as necessary to reflect changes in market conditions and the Company's experience. Estimates of fair value are not intended to predict actual future events or the value ultimately realized by people who receive equity awards.

The following table presents the weighted average assumptions for the three months ended March 31, 2007 and 2006:

	Options	
	2007	2006
Expected term	5.0 years	6.5 years
Expected stock price volatility	28.62%	41.75%
Risk-free interest rate	4.58%	4.46%
Expected dividend yield <sup>(1)</sup>	1%	0%
Estimated average fair value per option granted	\$18.64	\$23.91

<sup>(1)</sup> On November 30, 2006, the Company began paying a quarterly cash dividend.

The following table summarizes stock option activity for the three months ended March 31, 2007:

	Number of Shares	Weighted Average Exercise Price	Weighted Average Remaining Contractual Term	Aggregate Intrinsic Value (in thousands)
Options outstanding at December 31, 2006	1,579,150	\$ 41.93	6.78	\$ 21,761
Granted	226,527	61.47		
Cancelled	(9,822)	49.19		
Exercised	(287,617)	36.45		
Options outstanding at March 31, 2007	1,508,238	\$ 45.87	7.19	\$ 24,972

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

Options vested and expected to vest at March 31, 2007	1,413,850	\$ 45.30	7.07	\$	24,187
Options exercisable at March 31, 2007	933,847	\$ 40.65	6.11	\$	20,223

The aggregate intrinsic value in the table above represents pre-tax intrinsic value, based on the Company's closing stock price of \$62.31 on the last business day of the three month period ended March 31, 2007. Total stock option compensation expense for the three months ended March 31, 2007 and 2006 was \$1,276,000 and \$3,399,000, respectively. At March 31, 2007 and 2006, unrecognized costs related to stock options totaled approximately \$9,114,000 and \$11,870,000, respectively, before any related tax benefit. The unrecognized costs related to stock options are being amortized over the related vesting period using the straight-line attribution method. Unrecognized costs related to stock options at March 31, 2007 are expected to be recognized over a weighted average period of 2.93 years. The aggregate intrinsic value of stock options exercised was \$7,915,000 and \$2,108,000 for the three months ended March 31, 2007 and 2006, respectively. The total cash received as a result of stock option exercises for the three months ended March 31, 2007 and 2006 was \$10,483,000 and \$2,852,000, respectively. In connection with these exercises, the tax benefit realized by the Company was \$2,224,000 and \$639,000 for the three months ended March 31, 2007 and 2006, respectively.

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

The Company grants restricted stock units to attract and reward key employees. The restricted stock units vest in accordance with the terms and conditions established by the Compensation Committee of the Board of Directors, and are based on continued service and, in some instances, on individual performance and /or Company performance.

Service-based restricted stock units are granted at no cost to key employees and generally vest over three years from the date of grant. For the quarter ended March 31, 2007, 69,824 service-based restricted stock units were granted.

Performance-based restricted stock units are granted at no cost to members of the Company's senior executive team, excluding the Chairman and the President and Chief Executive Officer. The number of shares ultimately received under these grants depends on actual company and individual performance, as well as continued service. The vesting period generally consists of a performance period of between 2.5 and 3 years with an additional required service period of 1 year. 15,500 performance-based restricted stock units were granted during the three months ended March 31, 2007.

Prior to vesting, both service-based and performance-based restricted stock units do not have dividend equivalent rights, are non-transferable, non-voting and not considered issued and outstanding. In addition, any unvested restricted stock units are subject to forfeiture upon certain early termination events and are subject to accelerated vesting in certain circumstances. Once the applicable vesting criteria have been met, the shares underlying the units will be issued. Upon the issuance of shares, the Company will withhold a portion of the common stock to be issued to meet minimum statutory tax withholding requirements.

Prior to 2007, the fair value of service-based and performance-based restricted stock units was determined based on the number of units granted and the closing price of the Company's common stock on the date of grant. Effective January 1, 2007, the fair value of service-based and performance-based restricted stock units is discounted by the present value of the future stream of dividends over the vesting period using the Black-Scholes model. The relevant assumptions used in the Black-Scholes model to compute the discount are the vesting period, dividend yield and closing price of the Company's common stock on the date of grant. This change in method is the result of the Company's initiation of a quarterly cash dividend in the fourth quarter of 2006.

The following table presents the weighted average assumptions for the three months ended March 31, 2007:

	<b>Restricted Stock Units</b>
Vesting period	3.16 years
Expected dividend yield <sup>(1)</sup>	1%
Estimated average fair value per restricted stock unit granted	\$60.20

<sup>(1)</sup> On November 30, 2006, the Company began paying a quarterly cash dividend.

The following table summarizes the restricted stock unit activity for the three months ended March 31, 2007:

	<b>Number of Shares</b>	<b>Weighted Average Grant Date Fair Value Per Share</b>
Restricted stock units outstanding at December 31, 2006	99,688	\$ 49.06
Granted	85,324	60.20

Edgar Filing: COLUMBIA SPORTSWEAR CO - Form 10-Q

Vested	(4,754)		53.50
Forfeited	(3,434)		52.97
Restricted stock units outstanding at March 31, 2007	176,824	\$	54.24

Restricted stock unit compensation expense for the three months ended March 31, 2007 and 2006 was \$473,000 and \$18,000, respectively. At March 31, 2007 and 2006, unrecognized costs related to restricted stock units totaled approximately \$7,299,000 and \$1,215,000, respectively, before any related tax benefit. The unrecognized costs related to restricted stock units are being amortized over the related vesting period using the straight-line attribution method. These unrecognized costs at March 31, 2007 are expected to be recognized over a weighted average period of 2.67 years. The total fair value of restricted stock units vested during the three months ended March 31, 2007 was \$254,000. In connection with these vested restricted stock units, the tax benefit realized by the Company was \$15,000 for the three months ended March 31, 2007. No restricted stock units vested in the three months ended March 31, 2006.

**Table of Contents****COLUMBIA SPORTSWEAR COMPANY****NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (Continued)****(Unaudited)**1999 Employee Stock Purchase Plan

In 1999, the Company's shareholders approved the 1999 Employee Stock Purchase Plan ( ESPP ). There are 750,000 shares of common stock authorized for issuance under the ESPP, which allows qualified employees of the Company to purchase shares on a quarterly basis up to fifteen percent of their respective compensation. The purchase price of the shares is equal to eighty-five percent of the lesser of the closing price of the Company's common stock on the first or last trading day of the respective quarter. Effective July 1, 2005, the Company suspended offerings under the ESPP indefinitely. As of March 31, 2007, a total of 275,556 shares of common stock had been issued under the ESPP.

In connection with disqualifying dispositions related to ESPP shares, the tax benefit realized by the Company for the three months ended March 31, 2007 and 2006 was \$2,000 and \$15,000, respectively.

**Product warranty:**

Some of the Company's products are warranted to be free from defect in material and workmanship. A reserve is established at the time of sale to cover estimated warranty costs based on the Company's history of warranty repairs and replacements. A summary of accrued warranties and related activity for the three months ended March 31, 2007 and 2006 is as follows (in thousands):

	<b>Three Months Ended</b>	
	<b>March 31,</b>	
	<b>2007</b>	<b>2006</b>
Balance at beginning of period	\$ 11,162	\$ 9,907
Charged to costs and expenses	971	1,373
Claims settled	(863)	(1,217)
Balance at end of period	\$ 11,270	\$ 10,063

**Recent Accounting Pronouncements:**

In February 2007, the Financial Accounting Standards Board ( FASB ) issued Statement of Financial Accounting Standards ( SFAS ) No. 159, *The Fair Value Option for Financial Assets and Financial Liabilities including an amendment of FASB Statement No. 115*. This standard permits an entity to measure many financial instruments and certain other assets and liabilities at fair value on an instrument-by-instrument basis. SFAS No. 159 is effective for fiscal years beginning after November 15, 2007. The Company does not expect the adoption of this statement to have a material effect on its consolidated financial position, results of operations or cash flows.

In September 2006, the FASB issued SFAS No. 158, *Employers' Accounting for Defined Benefit Pension and Other Postretirement Plans, an amendment of FASB Statements No. 87, 88, 106 and 132(R)*. SFAS No. 158 requires a company to recognize an asset for a defined benefit pension or postretirement plan's overfunded status or a liability for a plan's underfunded status in its statement of financial position, and to recognize changes in that funded status through other comprehensive income in the year in which the changes occur. SFAS No. 158 will not change the amount of net periodic benefit expense recognized in an entity's results of operations. SFAS No. 158 is effective for fiscal years ending after December 15, 2006. The adoption of this statement did not have a material effect on the Company's financial position, results of operations or cash flows.

In September 2006, the FASB issued SFAS No. 157, *Fair Value Measurements*. SFAS No. 157 establishes a framework for measuring the fair value of assets and liabilities. This framework is intended to increase consistency in how fair value determinations are made under various existing accounting standards that permit, or in some cases require, estimates of fair market value. SFAS No. 157 also expands financial

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

statement disclosure requirements about a company's use of fair value measurements, including the effect of such measures on earnings. SFAS No. 157 is effective for fiscal years beginning after November 15, 2007, and interim periods within those fiscal years. The Company does not expect the adoption of this statement to have a material effect on its consolidated financial position, results of operations or cash flows.

In September 2006, the Securities and Exchange Commission staff issued Staff Accounting Bulletin No. 108, *Considering the Effects of Prior Year Misstatements when Quantifying Misstatements in Current Year Financial Statements* ( SAB 108 ). The intent of SAB 108 is to reduce diversity in practice for the method companies use to quantify financial statement misstatements, including the effect of prior year uncorrected errors. SAB 108 establishes an approach that requires quantification of financial statement errors using both an income statement and a cumulative balance sheet approach. SAB 108 is effective for fiscal years ending after November 15, 2006. The adoption of this statement did not have a material effect on the Company's financial position, results of operations or cash flows.

In July 2006, the FASB issued FIN 48. FIN 48 creates a single model to address accounting for uncertainty in tax positions and clarifies the accounting for income taxes, by prescribing a minimum recognition threshold a tax position is required to meet before



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

being recognized in the financial statements. FIN 48 also provides guidance on derecognition, measurement, classification, interest and penalties, accounting in interim periods, disclosure, and transition. FIN 48 is effective for fiscal years beginning after December 15, 2006. The cumulative effect, if any, of adopting FIN 48 is recorded in retained earnings. The adoption of this statement did not have a material effect on the Company's financial position, results of operations or cash flows.

**NOTE 2 INVENTORIES, NET**

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

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

	<b>March 31, 2007</b>	<b>December 31, 2006</b>
Raw materials	\$ 2,005	\$ 2,219
Work in process	11,111	10,664
Finished goods	196,596	199,440
	\$ 209,712	\$ 212,323

**NOTE 3 INTANGIBLE ASSETS AND GOODWILL**

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

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

	<b>March 31, 2007</b>		<b>December 31, 2006</b>	
	<b>Carrying Amount</b>	<b>Accumulated Amortization</b>	<b>Carrying Amount</b>	<b>Accumulated Amortization</b>
<b>Intangible assets subject to amortization:</b>				
Patents	\$ 1,603	\$ (424)	\$ 1,603	\$ (381)
<b>Intangible assets not subject to amortization:</b>				
Trademarks and trade names	\$ 46,771		\$ 46,771	
Goodwill	17,273		17,498	
	\$ 64,044		\$ 64,269	

Amortization expense for intangible assets subject to amortization is estimated to be \$175,000 in each of 2007, 2008, 2009, and 2010 and \$138,000 in 2011.

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

Other non-current assets totaled \$4,386,000 and \$4,688,000 at March 31, 2007 and December 31, 2006, respectively.

### NOTE 4 COMPREHENSIVE INCOME

Accumulated other comprehensive income reported on the Company's consolidated balance sheets consists of foreign currency translation adjustments, net of applicable taxes, and the unrealized gains and losses, net of applicable taxes, on derivative transactions. A summary of comprehensive income, net of related tax effects, is as follows (in thousands):

	Three months ended March 31,	
	2007	2006
Net income	\$ 26,086	\$ 19,467
Other comprehensive income:		
Unrealized derivative holding gains (losses) arising during period	194	(792)
Reclassification to net income of previously deferred (gains) losses on derivative transactions	(234)	470
Foreign currency translation adjustments	1,622	2,305
Other comprehensive income	1,582	1,983
Comprehensive income	\$ 27,668	\$ 21,450

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

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

	Foreign currency translation	Unrealized holding gains (losses) on derivative transactions	Accumulated other comprehensive income
Balance at December 31, 2006	\$ 35,668	\$ (1,274)	\$ 34,394
Activity for the three months ended March 31, 2007	1,622	(40)	1,582
Balance at March 31, 2007	\$ 37,290	\$ (1,314)	\$ 35,976

**NOTE 5 EARNINGS PER SHARE**

SFAS No. 128, *Earnings per Share*, requires dual presentation of basic and diluted earnings per share (EPS). Basic EPS is based on the weighted average number of common shares outstanding. Diluted EPS reflects the potential dilution that could occur if 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 option and restricted stock units determined using the treasury stock method. While the conceptual computation of EPS is not changed by SFAS No. 123R, the inclusion of stock-based compensation expense affects the mechanics of the calculation. Stock-based compensation expense is recognized under SFAS No. 123R only for awards that are expected to vest (determined by applying a pre-vesting forfeiture rate assumption), while all stock option or restricted stock units that have not been forfeited are included in diluted EPS. As such, the amount of stock-based compensation cost in the numerator includes a forfeiture rate assumption while the number of shares in the denominator does not.

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

	Three months ended	
	March 31,	
	2007	2006
Weighted average common shares outstanding, used in computing basic earnings per share	36,181	36,900
Effect of dilutive stock options	374	439
Weighted-average common shares outstanding, used in computing diluted earnings per share	36,555	37,339
Earnings per share of common stock:		
Basic	\$ 0.72	\$ 0.53
Diluted	0.71	0.52

Options to purchase an additional 272,905 and 877,879 shares of common stock were outstanding for the three months ended March 31, 2007 and 2006, respectively, but these shares were excluded in the computation of diluted EPS because their effect would be anti-dilutive.

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

Since the inception of the Company's stock repurchase plan in April 2004, the Company's Board of Directors has authorized the repurchase of \$400,000,000 of the Company's common stock and the Company has repurchased 6,015,342 shares under this program at an aggregate purchase price of approximately \$284,317,000. 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 6 SEGMENT INFORMATION**

The Company operates in one industry segment: the design, production, marketing and selling of active outdoor apparel, including outerwear, sportswear, footwear, related accessories and equipment.

The geographic distribution of the Company's net sales, income before income tax, interest income (expense), income tax expense, depreciation and amortization expense and identifiable assets are summarized in the tables below (in thousands). In addition to the geographic distribution of net sales, the Company's net sales by major product line are also summarized below. Inter-geographic net sales, which are recorded at a negotiated mark-up and eliminated in consolidation, are not material.

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

	<b>Three months ended</b>	
	<b>March 31,</b>	
	<b>2007</b>	<b>2006</b>
Net sales to unrelated entities:		
United States	\$ 155,499	\$ 144,387
Europe	54,146	47,975
Canada	25,767	26,381
Other International	54,228	41,468
	\$ 289,640	\$ 260,211
Income before income tax:		
United States	\$ 19,761	\$ 13,387
Europe	5,724	4,434
Canada	5,494	4,982
Other International	6,313	4,782
Interest and other income (expense) and eliminations	2,233	2,136
	\$ 39,525	\$ 29,721
Interest income (expense), net:		
United States	\$ 2,635	\$ 2,383
Europe	(493)	(228)
Canada	(131)	(38)
Other International	181	(219)
	\$ 2,192	\$ 1,898
Income tax expense:		
United States	\$ 8,984	\$ 6,851
Europe	1,160	1,084
Canada	1,826	1,714
Other International	1,469	605
	\$ 13,439	\$ 10,254
Depreciation and amortization expense:		
United States	\$ 3,688	\$ 4,171
Europe	2,322	1,489
Canada	70	104
Other International	251	216
	\$ 6,331	\$ 5,980

**March 31,**

Edgar Filing: COLUMBIA SPORTSWEAR CO - Form 10-Q

	2007	December 31, 2006
<b>Assets:</b>		
United States	\$ 1,009,721	\$ 988,867
Europe	387,342	386,716
Canada	96,070	98,054
Other International	110,665	133,648
Total identifiable assets	1,603,798	1,607,285
Eliminations and reclassifications	(582,354)	(579,996)
Total assets	\$ 1,021,444	\$ 1,027,289

	Three months ended March 31,	
	2007	2006
<b>Net sales to unrelated entities:</b>		
Outerwear	\$ 59,846	\$ 55,201
Sportswear	163,082	141,808
Footwear	52,907	50,718
Accessories and equipment	13,805	12,484
	\$ 289,640	\$ 260,211

**NOTE 7 FINANCIAL INSTRUMENTS AND RISK MANAGEMENT**

As part of the Company's risk management programs, the Company uses a variety of financial instruments, including foreign currency option and forward exchange contracts. The Company does not hold or issue derivative financial instruments for trading purposes.

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

The Company hedges against the currency risk associated with firmly committed and anticipated transactions for the next twelve months denominated in European euros, Canadian dollars and Japanese yen. The Company accounts for these instruments as cash flow hedges. In accordance with SFAS No. 133, *Accounting for Derivative Instruments and Hedging Activity*, as amended, such financial instruments are marked to market with the offset to accumulated other comprehensive income and subsequently recognized as a component of cost of goods sold when the underlying transaction is recognized. Hedge effectiveness is determined by evaluating whether gains and losses on hedges will offset gains and losses on the underlying exposures. Hedge ineffectiveness was not material during the three months ended March 31, 2007 and 2006.

**NOTE 8 ACQUISITIONS**

On March 31, 2006, the Company acquired a group of trademarks from Pacific Trail, Inc. ( Pacific Trail ) and the London Fog Group, Inc., as a result of a bankruptcy auction, for \$20,400,000. On March 31, 2006, the Company sold the acquired Dockers brand licenses formerly owned by the London Fog Group for \$1,700,000. The Pacific Trail® brand is known for producing quality outerwear apparel at an exceptional value. Net intangible assets acquired from Pacific Trail consisted of \$14,800,000 for the trademarks and \$3,900,000 for goodwill. The \$14,800,000 of purchase price allocated to the trademarks was determined by management, based in part on a third party appraisal using established valuation techniques.

On January 26, 2006, the Company acquired substantially all of the assets of Montrail, Inc. ( Montrail ) for cash consideration of \$15,000,000 plus the assumption of certain liabilities less \$225,000 for certain purchase price adjustments made in January 2007. The Montrail® brand is recognized as a premium outdoor footwear brand with a reputation for delivering technical, high performance trail running, hiking, and climbing footwear for outdoor enthusiasts. The acquisition was accounted for under the purchase method of accounting and the results of operations have been recorded in the Company's consolidated financial statements since January 26, 2006. The cost of the acquisition was allocated on the basis of the estimated fair value of the assets acquired and the liabilities assumed. The effect of this acquisition was not material to the Company's results of operations; therefore, pro forma financial information has not been included. The fair values of assets and liabilities acquired are presented below (in thousands):

Cash	\$ 23
Accounts receivable	1,778
Inventory	6,878
Prepays and other assets	112
Property, plant and equipment	597
Intangible assets	11,914
<b>Total assets acquired</b>	<b>21,302</b>
Accounts payable and accrued liabilities	694
Note payable	5,833
<b>Total liabilities assumed</b>	<b>6,527</b>
<b>Net assets acquired</b>	<b>\$ 14,775</b>

Intangible assets acquired from Montrail consisted of \$10,000,000 for trademarks, \$714,000 for goodwill, \$700,000 for a patent and \$500,000 for order backlog. The \$11,200,000 of purchase price allocated to the trademark, patent and order backlog was determined by management, based in part on a third party appraisal using established valuation techniques. Patents are subject to amortization over the lesser of 17 years from the date filed with the U.S. Patent and Trademark Office or the estimated useful life. At the time of the acquisition, the remaining useful

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

life of the patent was approximately 11 years. The order backlog was amortized over the period for which the orders were shipped in 2006. At June 30, 2006, the order backlog was fully amortized.

The goodwill and trademarks acquired are not subject to amortization because these assets are deemed to have indefinite useful lives. These intangible assets are reviewed for impairment in accordance with SFAS No. 142, *Goodwill and Other Intangible Assets*.

### **NOTE 9 INCOME TAXES**

The Company adopted the provisions of Financial Accounting Standards Interpretation No. 48 ( FIN 48 ), *Accounting for Uncertainty in Income Taxes - an interpretation of FASB Statement No. 109*, on January 1, 2007. The Company did not recognize a material adjustment in the liability for unrecognized tax benefits as a result of the implementation of FIN 48. At the adoption date of January 1, 2007, the Company had \$20,307,000 of unrecognized tax benefits, including related penalties and interest, all of which would affect the effective tax rate if recognized. Included in this balance is approximately \$8,500,000 related to tax positions for which it is reasonably possible that the total amounts could significantly change during the 12 months following the adoption date. This amount represents a potential decrease in unrecognized tax benefits comprised primarily of uncertain tax positions relative to the Company's foreign affiliates.



**Table of Contents**

**COLUMBIA SPORTSWEAR COMPANY**

**NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (Continued)**

**(Unaudited)**

The Company recognizes interest expense and penalties related to income tax matters in income tax expense. At the adoption date, the Company had approximately \$2,971,000 of accrued interest and penalties related to uncertain tax positions. The liability for the payment of interest and penalties did not materially change at March 31, 2007.

The Company and its subsidiaries are subject to income tax in the United States as well as various state and foreign jurisdictions. At the adoption date, the Company had effectively settled all material income tax matters through the year 2003. The Company is currently under audit for the 2004 and 2005 tax years by the Internal Revenue Service as well as other state and foreign jurisdictions for various other tax years.

Consistent with the provisions of FIN 48, the Company reclassified \$21,384,000 of income tax liabilities at March 31, 2007 from current to non-current liabilities because payment of cash is not anticipated within one year from the balance sheet date. These non-current income tax liabilities are recorded in Other Liabilities in the Condensed Consolidated Balance Sheet. Income tax liabilities for uncertain tax positions at December 31, 2006, prior to the adoption of FIN 48, have not been reclassified.

**NOTE 10 SUBSEQUENT EVENT**

In April 2007, the Board of Directors approved a quarterly dividend of \$0.14 per share, payable on May 31, 2007 to shareholders of record on May 17, 2007.

---

**Table of Contents**

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

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

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

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

All references to quarters relate to the quarter ended March 31 of the particular year.

**Overview**

Since our initial public offering in 1998, our net sales have steadily increased from \$427.3 million in 1998 to \$1,287.7 million in 2006, which equates to a compound annual growth rate of 14.8% for this period. Although we cannot predict future results with certainty, our long-term goal is to capitalize on global market opportunities for each of our brands and key product categories. We are committed to our growth strategies of enhancing the channel productivity of our existing customers, leveraging our brands internationally, further developing our existing merchandise categories, increasing our penetration into the department store and specialty footwear channels and expanding the global awareness of our brands through license agreements. With our well-developed sourcing and distribution infrastructure and proven design and product development team, we believe that we are well positioned for future long-term growth.

Highlights as of and for the quarter ended March 31, 2007 are as follows:

Our backlog for the fall 2007 selling season as of March 31, 2007 increased \$21.4 million, or 3.0%, to \$742.1 million from \$720.7 million as of March 31, 2006. Excluding changes in currency exchange rates, fall 2007 backlog increased \$11.5 million, or 1.6%. The increase in our fall backlog was largely the result of strong sportswear orders in the United States. We attribute the strength of our sportswear backlog to continued retail and consumer demand for our sportswear products. Based in part on our fall 2007 backlog, we currently project full year 2007 sales growth of approximately 5.0%. Although we cannot predict with certainty any future results, our reported backlog is one indicator of our anticipated sales for the fall 2007 selling season. Many factors, however, could cause actual sales to differ materially from reported future order backlog, including the potential cancellation of orders by customers. Moreover, our fall 2007 backlog should not be used in forecasting sales beyond the fall 2007 selling season.

Net sales increased \$29.4 million, or 11.3%, to \$289.6 million from \$260.2 million for the comparable period in 2006. Excluding changes in currency exchange rates, net sales increased 9.6%. Our sales growth was largely attributable to increased shipments in the United States and our Other International businesses, which include our direct business in Japan and Korea and our international distributor markets worldwide. From a product categorical perspective, the sales increase was predominantly attributable to increased sales of sportswear.

Gross profit increased 80 basis points to 43.7% of net sales from 42.9% of net sales for the comparable period in 2006. Gross margins increased due to improvements in our sportswear margins, favorable effects of foreign currency exchange rates, prior year unfavorable effect of marking the Montrail inventory to market upon acquisition in January 2006 and higher costs associated with certain international promotional campaigns in Europe last year. The favorable gross profit effect of these items was partially offset by lower gross margins on a higher volume of close-out product sales as well as increased sales to our international distributors, which generally carry lower gross margins than our direct sales.

Selling, general and administrative ( SG&A ) expense increased \$5.6 million, or 6.6%, to \$90.4 million from \$84.8 million for the comparable period in 2006. We expect full year 2007 SG&A expense, as a percentage of net sales, to expand compared to 2006 due primarily to incremental depreciation expense associated with the recent upgrade to our Portland, Oregon distribution center and an expansion of our distribution center in Cambrai, France.

**Table of Contents**

Net income was \$26.1 million or \$0.71 per diluted share compared to \$19.5 million or \$0.52 per diluted share for the comparable period in 2006.

**Results of Operations**

Net income increased \$6.6 million, or 33.8%, to \$26.1 million for the first quarter of 2007 from \$19.5 million for the comparable period in 2006. Diluted earnings per share was \$0.71 for the first quarter of 2007 compared to \$0.52 for the comparable period in 2006.

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

	<b>Three Months Ended March 31,</b>	
	<b>2007</b>	<b>2006</b>
Net sales	100.0%	100.0%
Cost of sales	56.3	57.1
Gross profit	43.7	42.9
Selling, general and administrative	31.2	32.6
Net licensing income	(0.4)	(0.4)
Income from operations	12.9	10.7
Interest income, net	(0.7)	(0.7)
Income before income tax	13.6	11.4
Income tax expense	4.6	3.9
Net income	9.0%	7.5%

***Quarter Ended March 31, 2007 Compared to Quarter Ended March 31, 2006***

**Net Sales:** Consolidated net sales increased 11.3% to \$289.6 million for the first quarter of 2007 from \$260.2 million for the comparable period in 2006. Excluding changes in currency exchange rates, consolidated net sales increased 9.6%.

***Reconciliation of Net Sales Changes to Net Sales Changes Excluding Changes in Currency Exchange Rates***

Net sales from year to year are affected by changes in selling prices and unit volume as well as changes in currency exchange rates where we have sales in foreign locations. Our net sales changes excluding the effect of changes in currency exchange rates are presented below. We disclose changes in sales excluding changes in currency exchange rates because we use the measure to understand sales growth excluding any impact from foreign currency exchange rate changes. In addition, our foreign sales management teams are generally evaluated and compensated in part based on the results of operations excluding currency exchange rate changes for their respective regions. Amounts calculated in accordance with accounting principles generally accepted in the United States of America, or GAAP, are denoted.

	<b>Quarter ended March 31, 2007</b>	
	<b>Amount (millions)</b>	<b>% Change</b>
<i>Consolidated:</i>		
Net sales change (GAAP)	\$ 29.4	11.3%
Effect of currency exchange rate changes	(4.4)	(1.7)
Net sales change excluding changes in currency exchange rates	\$ 25.0	9.6%

Edgar Filing: COLUMBIA SPORTSWEAR CO - Form 10-Q

*United States:*

Net sales change (GAAP)	\$ 11.1	7.7%
-------------------------	---------	------

*Europe:*

Net sales change (GAAP)	\$ 6.1	12.7%
-------------------------	--------	-------

Effect of currency exchange rate changes	(4.8)	(10.0)
--	-------	--------

Net sales change excluding changes in currency exchange rates	\$ 1.3	2.7%
---	--------	------

*Canada:*

Net sales change (GAAP)	\$ (0.6)	(2.3)%
-------------------------	----------	--------

Effect of currency exchange rate changes	0.6	2.3
--	-----	-----

Net sales change excluding changes in currency exchange rates	\$ 0.0	0.0%
---	--------	------

*Other International:*

Net sales change (GAAP)	\$ 12.8	30.9%
-------------------------	---------	-------

Effect of currency exchange rate changes	(0.2)	(0.5)
--	-------	-------

Net sales change excluding changes in currency exchange rates	\$ 12.6	30.4%
---	---------	-------

## **Table of Contents**

The increase in net sales was led by our Other International business, followed by our United States and European businesses, offset by a slight decrease in our Canadian business. By product category, increased net sales were led by sportswear, followed by outerwear, footwear and accessories and equipment. Sales growth was primarily the result of an increase in the quantity of units sold in each geographic region and product category.

Net sales from sportswear increased \$21.3 million, or 15.0%, to \$163.1 million for the first quarter of 2007 from \$141.8 million for the comparable period in 2006. We primarily attribute the increase in sportswear sales to an increase in sales of spring 2007 product in the United States, followed by Europe, Other International and Canada. The increase in sportswear sales was driven by continued growth in the United States resulting from a broad assortment of products, competitive pricing and related consumer demand for our sportswear products, particularly knit and woven tops, shorts and pants.

Net sales from outerwear increased \$4.6 million, or 8.3%, to \$59.8 million for the first quarter of 2007 from \$55.2 million for the comparable period in 2006. The increase in outerwear sales was predominantly the result of increased sales of spring 2007 outerwear products in Other International and, to a lesser degree, increased sales in the United States and Europe, offset by decreased sales in Canada. Other International outerwear sales growth was attributable to continued strength in certain key international distributor markets, including Russia, Argentina, and Hong Kong/China.

Net sales from footwear increased \$2.2 million, or 4.3%, to \$52.9 million for the first quarter of 2007 from \$50.7 million for the comparable period in 2006. Footwear sales growth was led by Other International, followed by Europe, while sales of footwear decreased in Canada and the United States. Other International's footwear sales growth was largely attributable to strong sales of spring men's and women's footwear to key international distributor markets. Our footwear business, in general, has suffered from strong competition, undifferentiated product and several changes within our footwear merchandising and design leadership team. Despite these challenges, we believe that we have built a strong team and have a portfolio of authentic outdoor brands to execute our footwear strategies.

Net sales from accessories and equipment increased \$1.3 million, or 10.4%, to \$13.8 million for the first quarter of 2007 from \$12.5 million for the comparable period in 2006. Accessories and equipment sales growth was led by Other International and the United States while net sales in Europe and Canada remained flat.

Net sales in the United States increased \$11.1 million, or 7.7%, to \$155.5 million for the first quarter of 2007 from \$144.4 million for the comparable period in 2006. The increase in net sales in the United States was predominantly the result of the continued strength of sales of our spring apparel, which was well received by our retail customers. Sales growth was particularly strong in our women's business. Footwear sales decreased for the quarter due to general weakness in our spring 2007 Columbia footwear product line.

Net sales in Europe increased \$6.1 million, or 12.7%, to \$54.1 million for the first quarter of 2007 from \$48.0 million for the comparable period in 2006. Excluding changes in currency exchange rates, Europe's net sales increased 2.7%. European sales growth was largely due to the strength of our spring 2007 sportswear product line. Net sales of all other product categories remained essentially flat.

Net sales in Canada decreased \$0.6 million, or 2.3%, to \$25.8 million for the first quarter of 2007 from \$26.4 million for the comparable period in 2006. Excluding changes in currency exchange rates, Canada's net sales remained essentially flat. The weakness in our Canadian business was mainly due to softness in our spring footwear lines for the Columbia and Sorel brands, partially offset by sportswear sales growth.

Net sales from Other International, which includes our direct business in Japan and Korea and our international distributor markets worldwide, increased \$12.8 million, or 30.9%, to \$54.2 million for the first quarter of 2007 from \$41.4 million for the

## **Table of Contents**

comparable period in 2006. Excluding changes in currency exchange rates, Other International sales increased 30.4%. Sales growth for Other International was predominantly the result of increased sales by our international distributors, followed by increased sales by our Korean and Japanese businesses. International distributor sales growth was particularly strong due to the continued strength of our distributors in Russia, South America and Hong Kong/China.

**Gross Profit:** Gross profit, as a percentage of net sales, increased to 43.7% for the first quarter of 2007 from 42.9% for the comparable period in 2006. The increase in gross profit was due to several factors including improvements in our sportswear margins, favorable effects of foreign currency exchange rates, prior year unfavorable effect of marking the Montrail inventory to market upon acquisition in January 2006 and higher costs associated with certain international promotional campaigns in Europe last year. The favorable gross profit effect of these items was partially offset by lower gross margins on a higher volume of close-out product sales as well as increased sales to our international distributors, which generally carry lower gross margins than our direct sales. While our international distributor sales generally carry lower gross margins, they incur significantly lower SG&A expense than our direct sales.

Our sportswear gross margins increased in the first quarter due to modest improvement in average selling prices in our spring 2007 sportswear product line.

Improvement in foreign currency hedge rates for our spring 2007 selling season favorably affected our gross profit. Since our global supply of inventory is generally purchased with U.S. dollars, the gross profit of our direct international businesses is partially dependent on the valuation of the U.S. dollar. For our spring 2007 selling season, the hedge rates for our European and Canadian businesses improved from our spring 2006 selling season.

The favorable effects on gross profit resulting from improvement in foreign currency hedge rates and increased efficiencies were partially offset by lower margins on a higher volume of close-out product and international distributor sales. In the first quarter of 2007, sales of close-out products increased significantly due to unseasonably warm weather in North America during the fourth quarter of 2006 which led to higher than normal excess inventory that was eventually sold at reduced close-out margins in the first quarter of 2007.

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

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

SG&A expense increased \$5.6 million, or 6.6%, to \$90.4 million for the first quarter of 2007 from \$84.8 million for the comparable period in 2006. Selling expenses increased \$1.5 million, or 5.9%, and general and administrative expenses increased \$4.1 million, or 6.9%. As a percentage of net sales, SG&A expense decreased to 31.2% of net sales for the first quarter of 2007 from 32.6% of net sales for the comparable period in 2006.

Selling expenses, including commissions and advertising, decreased to 9.3% of net sales for the first quarter of 2007 from 9.8% of net sales for the comparable period in 2006. The decrease in selling expenses as a percentage of net sales was largely attributable to a reduction in commissions expense resulting from changes to our sales agency structures in Europe and the United States.

The increase in general and administrative expenses primarily resulted from an increase in personnel related costs and bad debt expense. Personnel related costs increased as a result of the conversion to an in-house sales force in certain key European markets and increased European personnel to support the business. The increase in bad debt expense resulted from favorable write-off experience last year.

Depreciation and amortization included in SG&A expense totaled \$6.1 million for the first quarter of 2007 compared to \$5.7 million for the same period in 2006.

**Net Licensing Income:** We derive net licensing income from income that we earn through licensing our trademarks across a range of categories that complement our current product offerings.

For the first quarter of 2007, we recognized licensing income from 16 licensees. Products distributed by our licensees for the first quarter of 2007 included socks, performance base layer, leather outerwear and accessories, camping gear, eyewear, home furnishings, bicycles and other accessories.

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

Net licensing income remained flat at \$1.0 million for the first quarter of 2007 compared to the same period in 2006. The components of licensing income were led by Columbia licensed bicycles, followed by licensed camping gear, eyewear, socks and leather accessories.



## **Table of Contents**

**Interest (Income) Expense, Net:** Interest income was \$2.2 million for the first quarter of 2007 compared to \$2.1 million for the same period in 2006. The increase in interest income was due to a higher cash and cash equivalents balance compared to the same period in 2006. Interest expense was nominal for the first quarter of 2007 compared to \$0.2 million for the comparable period in 2006. The decrease in interest expense was primarily attributable to a lower long-term debt level.

**Income Tax Expense:** The provision for income taxes increased to \$13.4 million for the first quarter of 2007 from \$10.3 million for the comparable period in 2006 due to higher income for the first quarter of 2007 compared to the same period in 2006. Our effective income tax rate was 34.0% for the quarter as compared to 34.5% for the same period in 2006.

## **Backlog**

We typically receive the bulk of our orders for each of the fall and spring seasons at least three months prior to the date the products are shipped to customers. Generally, orders are subject to cancellation prior to the date of shipment. At March 31, 2007, our order backlog was \$888.7 million, compared to \$848.9 million at March 31, 2006. For a variety of reasons, including the timing of shipments, timing of order deadlines, timing of receipt of orders, product mix of customer orders, order cancellations, the amount of in-season orders, and fluctuations in foreign currency rates, backlog at March 31 may not be a reliable measure of future sales for any succeeding period. For these reasons backlog figures in one year also may not be directly comparable to backlog figures in another year when measured at the same date.

## **Seasonality of Business**

Our business is affected by the general seasonal trends common to the outdoor apparel industry, with sales and profits highest in the third calendar quarter. Our products are marketed on a seasonal basis, with product sales mix weighted substantially toward the fall season. Results of operations in any period should not be considered indicative of the results to be expected for any future period. Sales of our products are subject to substantial cyclical fluctuation and impacts from unseasonable weather conditions. Sales tend to decline in periods of recession or uncertainty regarding future economic prospects that affect consumer spending, particularly on discretionary items. This cyclical nature and any related fluctuation in consumer demand could have a material adverse effect on our results of operations, cash flows and financial position.

## **Liquidity and Capital Resources**

Our primary ongoing funding requirements are to finance working capital and for the continued growth of the business. At March 31, 2007, we had total cash and cash equivalents of \$79.3 million compared to \$64.9 million at December 31, 2006. Cash provided by operating activities was \$51.4 million for the three months ended March 31, 2007 compared to \$59.5 million for the same period in 2006. The change was primarily due to an increase in receivables from our customers driven by an increase in demand for our spring products over the prior year spring season coupled with higher cash collections in the first quarter of 2006.

Our primary capital requirements are for working capital, investing activities associated with the expansion of our global operations and general corporate needs. Net cash used in investing activities was \$40.0 million for the three months ended March 31, 2007 and \$72.1 for the comparable period in 2006. For the 2007 period, net cash used in investing activities primarily consisted of \$34.2 million for net purchases of short-term investments and \$6.0 million for capital expenditures. For the 2006 period, net cash used in investing activities primarily consisted of \$33.7 million used for the acquisitions of Montrail and Pacific Trail, net of \$1.7 million for the sale of the acquired Dockers licenses, \$22.8 million net purchases of short-term investments, and \$15.6 million for capital expenditures.

Cash provided by financing activities was \$2.9 million for the three months ended March 31, 2007. Cash used in financing activities was \$31.7 million for the three months ended March 31, 2006. For the 2007 period, net cash provided by financing activities primarily consisted of \$10.5 million of proceeds from the issuance of common stock, offset by payment of a dividend of \$5.1 million and the repayment of notes payable of \$3.6 million. For the 2006 period, net cash used in financing activities primarily consisted of \$37.2 million for the repayment of notes and long-term debt, offset by proceeds from notes payable of \$4.1 million and proceeds from the issuance of common stock of \$2.9 million.

To fund our domestic working capital requirements, we have available unsecured revolving lines of credit with aggregate seasonal limits ranging from \$50 million to \$125 million, of which \$25 million to \$100 million is committed. At March 31, 2007, no balance was outstanding under these lines of credit. Internationally, our subsidiaries have local currency operating lines in place guaranteed by us with a combined limit of approximately \$111.3 million at March 31, 2007, of which \$4.1 million is designated as a European customs guarantee. At March 31, 2007, no balance was outstanding under these lines of credit.



## **Table of Contents**

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

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

### *Off-Balance Sheet Arrangements*

We maintain unsecured and uncommitted import lines of credit with a combined limit of \$225.0 million at March 31, 2007, available for issuing documentary letters of credit. At March 31, 2007, we had letters of credit outstanding of \$37.6 million issued for purchase orders for inventory.

### **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 GAAP. The preparation of these financial statements requires us to make various estimates and judgments that affect reported amounts of assets, liabilities, sales, cost of sales and expenses and related disclosure of contingent assets and liabilities. We believe that the estimates, assumptions and judgments involved in the accounting policies described below have the greatest potential impact on our financial statements, so we consider these to be our critical accounting policies and estimates. Because of the uncertainty inherent in these matters, actual results could differ from the estimates we use in applying the critical accounting policies. We base our ongoing estimates on historical experience and other various assumptions that we believe to be reasonable under the circumstances. Many of these critical accounting policies affect working capital account balances, including the policy for revenue recognition, the allowance for uncollectible accounts receivable, the provision for potential excess, close-out and slow moving inventory, product warranty, income taxes and stock-based compensation.

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

### ***Revenue Recognition***

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

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

At the time of revenue recognition, we also provide for estimated sales returns and miscellaneous claims from customers as reductions to revenues. The estimates are based on historical rates of product returns and claims. However, actual returns and claims in any future period are inherently uncertain and thus may differ from the estimates. If actual or expected future returns and claims are significantly greater or lower than the reserves that we have established, we will record a reduction or increase to net revenues in the period in which we make such a determination. Over the three year period ended December 31, 2006, our actual annual sales returns and miscellaneous claims from customers were less than two percent of net sales.

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

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

We make ongoing estimates of the uncollectibility of our accounts receivable and maintain an allowance for estimated losses resulting from the inability of our customers to make required payments. In determining the amount of the allowance, we consider our historical level of credit losses and we make judgments about the creditworthiness of customers based on ongoing credit evaluations.

---

**Table of Contents**

We analyze specific customer accounts, customer concentrations, credit insurance coverage, current economic trends, and changes in customer payment terms. Because we cannot predict future changes in the financial stability of our customers, actual future losses from uncollectible accounts may differ from our estimates. If the financial condition of our customers deteriorates, resulting in their inability to make payments, a larger allowance may be required. If we determine that a smaller or larger allowance is appropriate, we will record a credit or a charge to SG&A expense in the period in which we make such a determination.

***Inventory Obsolescence and Product Warranty***

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

***Income Taxes***

We use the asset and liability method of accounting for income taxes. Under this method, we recognize income tax expense for the amount of taxes payable or refundable for the current year and for the amount of deferred tax liabilities and assets for the future tax consequences of events that have been recognized in our financial statements or tax returns. We make assumptions, judgments and estimates to determine our current provision for income taxes, our deferred tax assets and liabilities, and our uncertain tax positions in accordance with Financial Accounting Standards Interpretation No. 48 ( FIN 48 ), *Accounting for Uncertainty in Income Taxes – an interpretation of FASB Statement No. 109*. Our judgments, assumptions and estimates relative to the current provision for income tax take into account current tax laws, our interpretation of current tax laws and possible outcomes of current and future audits conducted by foreign and domestic tax authorities. Changes in tax law or our interpretation of tax laws and the resolution of current and future tax audits could significantly affect the amounts provided for income taxes in our consolidated financial statements. Our assumptions, judgments and estimates relative to the value of a deferred tax asset take into account predictions of the amount and category of future taxable income. Actual operating results and the underlying amount and category of income in future years could cause our current assumptions, judgments and estimates of recoverable net deferred taxes to be inaccurate. Any of the assumptions, judgments and estimates mentioned above could cause our actual income tax obligations to differ from our estimates, which could materially affect our financial position and results of operations.

On a quarterly basis, we estimate what our effective tax rate will be for the full fiscal year and record an appropriate quarterly income tax provision, in accordance with the anticipated effective rate. As the calendar year progresses, we periodically refine our estimate based on actual events and earnings by jurisdiction during the year. This ongoing estimation process can result in changes to our expected effective tax rate for the full calendar year. When this occurs, we adjust the income tax provision during the quarter in which the change in estimate occurs so that our year-to-date provision equals our expected annual effective tax rate.

***Stock-Based Compensation***

We account for stock-based compensation in accordance with Statement of Financial Accounting Standards ( SFAS ) No. 123(R), *Share-Based Payment*. Under the provisions of SFAS No. 123R, stock-based compensation cost is estimated at the grant date based on the award's fair-value and is recognized as expense over the requisite service period using the straight-line attribution method. Estimation of stock-based compensation for stock options granted, utilizing the Black-Scholes option-pricing model, requires various highly subjective assumptions including volatility and expected option life. Further, as required under SFAS No. 123R, we estimate forfeitures for stock-based awards granted, which are not expected to vest. If any of these inputs or assumptions changes significantly, stock-based compensation expense may differ materially in the future from that recorded in the current period.

***Recent Accounting Pronouncements***

In February 2007, the Financial Accounting Standards Board ( FASB ) issued SFAS No. 159, *The Fair Value Option for Financial Assets and Financial Liabilities – including an amendment of FASB Statement No. 115*. This standard permits us to measure many financial instruments and certain other assets and liabilities at fair value on an instrument-by-instrument basis. SFAS No. 159 is effective for fiscal years beginning after November 15, 2007. We do not expect the adoption of this statement to have a material effect on our consolidated financial position, results of operations or cash flows.

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

In September 2006, the FASB issued SFAS No. 158, *Employers' Accounting for Defined Benefit Pension and Other Postretirement Plans, an amendment of FASB Statements No. 87, 88, 106 and 132(R)*. SFAS No. 158 requires a company to recognize an asset for a defined benefit pension or postretirement plan's overfunded status or a liability for a plan's underfunded status in its statement of financial position, and to recognize changes in that funded status through other comprehensive income in the year in

**Table of Contents**

which the changes occur. SFAS No. 158 will not change the amount of net periodic benefit expense recognized in a company's results of operations. SFAS No. 158 is effective for fiscal years ending after December 15, 2006. The adoption of this statement did not have a material effect on our financial position, results of operations or cash flows.

In September 2006, the FASB issued SFAS No. 157, *Fair Value Measurements*. SFAS No. 157 establishes a framework for measuring the fair value of assets and liabilities. This framework is intended to increase consistency in how fair value determinations are made under various existing accounting standards that permit, or in some cases require, estimates of fair market value. SFAS No. 157 also expands financial statement disclosure requirements about a company's use of fair value measurements, including the effect of such measures on earnings. SFAS No. 157 is effective for fiscal years beginning after November 15, 2007, and interim periods within those fiscal years. We do not expect the adoption of this statement to have a material effect on our consolidated financial position, results of operations or cash flows.

In September 2006, the SEC staff issued Staff Accounting Bulletin No. 108, *Considering the Effects of Prior Year Misstatements when Quantifying Misstatements in Current Year Financial Statements* ( SAB 108 ). The intent of SAB 108 is to reduce diversity in practice for the method companies use to quantify financial statement misstatements, including the effect of prior year uncorrected errors. SAB 108 establishes an approach that requires quantification of financial statement errors using both an income statement and a cumulative balance sheet approach. SAB 108 is effective for fiscal years ending after November 15, 2006. The adoption of this statement did not have a material effect on our financial position, results of operations or cash flows.

In July 2006, the FASB issued FIN 48. FIN 48 creates a single model to address accounting for uncertainty in tax positions and clarifies the accounting for income taxes, by prescribing a minimum recognition threshold a tax position is required to meet before being recognized in the financial statements. FIN 48 also provides guidance on derecognition, measurement, classification, interest and penalties, accounting in interim periods, disclosure, and transition. FIN 48 is effective for fiscal years beginning after December 15, 2006. The cumulative effect, if any, of adopting FIN 48 is recorded in retained earnings. The adoption of this statement did not have a material effect on our financial position, results of operations or cash flows.

**Table of Contents**

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

There has not been any material change in the market risk disclosure contained in the Company's Annual Report on Form 10-K for the year ended December 31, 2006.

**Item 4 *CONTROLS AND PROCEDURES***

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

There has been no change in our internal control over financial reporting that occurred during our fiscal quarter ended March 31, 2007 that has materially affected, or is reasonably likely to materially affect, our internal control over financial reporting.



## **Table of Contents**

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

#### **Item 1A. RISK FACTORS**

In addition to the other information contained in this Form 10-Q, the following risk factors should be considered carefully in evaluating our business. Our business, financial condition, or results of operations may be materially adversely affected by any of these risks. Please note that additional risks not presently known to us or that we currently deem immaterial may also impair our business and operations.

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

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

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

Sales of our products are subject to substantial cyclical fluctuation. Consumer demand for our products may not reach our growth targets, or may decline, when there is an economic downturn or economic uncertainty in our key markets, particularly markets in North America and Europe. For example, a slower economy in the United States in 2002 and 2003 created additional uncertainties for our customers and our business. In addition, continued volatility in the global oil markets has resulted in rising fuel prices, which shipping companies may pass on to us. Because we price our products to our customers in advance and external cost increases may be difficult to anticipate, we may not be able to pass these increased costs on to our customers. Rising oil prices and interest rates may also adversely affect consumer demand. Our sensitivity to economic cycles and any related fluctuation in consumer demand and rising shipping and other costs may have a material adverse effect on our results of operations and financial condition.

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

We are subject to the risks generally associated with doing business abroad. These risks include foreign laws and regulations, foreign consumer preferences, political unrest, disruptions or delays in shipments and changes in economic conditions in countries in which we manufacture or sell products. In addition, disease outbreaks, terrorist acts and U.S. military operations have increased the risks of doing business abroad. 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. In addition, many of our imported products are subject to duties, tariffs or quotas that affect the cost and quantity of various types of goods imported into the United States or into our other sales markets. For example, the European Commission recently imposed additional duties on certain leather footwear imported into Europe from Vietnam and China. These duties may significantly affect the sale of our footwear in Europe. Any country in which our products are produced or sold may eliminate, adjust or impose new quotas, duties, tariffs, antidumping penalties or other charges or restrictions, any of which may have a material adverse effect on our results of operations and financial condition.

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

We extend credit to our customers based on an assessment of a customer's financial condition, generally without requiring collateral. To assist in the scheduling of production and the shipping of seasonal products, we offer customers discounts for placing pre-season orders and extended payment terms for taking delivery before the peak shipping season. These extended payment terms increase our exposure to the risk of uncollectible receivables. In addition, we face increased risk of order reduction or cancellation when dealing with financially ailing retailers or retailers struggling with economic uncertainty. Some of our significant customers have had financial difficulties in the past, which in turn have had an adverse effect on our business. A slowing economy in our key markets may also have an adverse effect on the financial health of our customers, which may in turn have a material adverse effect on our results of operations and financial condition.

## **Table of Contents**

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

The markets for outerwear, sportswear, footwear, related accessories and equipment are highly competitive, as are the markets for our licensed products. In each of our geographic markets, we face significant competition from global and regional branded apparel, footwear, accessories and equipment companies. Retailers who are our customers often pose our most significant competitive threat by marketing apparel, footwear and equipment under their own labels. For example, in 2006 our European business was negatively affected by a key customer's decision to expand its private label program, which resulted in reduced outerwear and footwear orders from that key customer. We also compete with other companies for the production capacity of independent manufacturers that produce our products and for import quota capacity. Many of our competitors are significantly larger than us, have substantially greater financial, distribution, marketing and other resources than we have, and have achieved greater recognition for their products than we have. Increased competition may result in 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 results of operations and financial condition.

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

When retailers 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 label 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. We expect retailer consolidation to continue, which may have a material adverse effect on our results of operations and financial condition.

### **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, although we believe that our products have not been significantly affected by past fashion trends, changes in fashion trends may have a greater impact as we expand our offerings to include more product categories in more geographic areas. We also face risks because our business requires us to anticipate consumer preferences. Our decisions about product designs often are made far in advance of consumer acceptance. Although we try to manage our inventory risk through early order commitments by retailers, we must generally place production orders with manufacturers before we have received all of a season's orders, and orders may be cancelled by retailers before shipment. If we fail to anticipate and respond to consumer preferences, we may have lower sales, excess inventories and lower profit margins, any of which may have a material adverse effect on our results of operations and financial condition.

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

Our registered and common law trademarks have significant value and are important to our ability to create and sustain demand for our products. We also place significant value on our trade dress, the overall appearance and image of our products. From time to time, we discover products that are counterfeit reproductions of our products or design knock offs, or that otherwise infringe on our proprietary rights. Counterfeiting activities typically increase as brand recognition increases, especially in markets outside the United States. If we are unsuccessful in challenging a party's products on the basis of trademark or design infringement, continued sales of these products may adversely affect our sales and our brand and result in a shift of consumer preference away from our products. The actions we take to establish and protect trademarks and other proprietary rights may not be adequate to prevent imitation of our products by others or to prevent others from seeking to block sales of our products as violations of proprietary rights. Additionally, 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. Actions or decisions in the management of our intellectual property portfolio may affect the strength of the brand, which may in turn have a material adverse effect on our results of operations and financial condition.

Although we have not been materially inhibited from selling products in connection with trademark and trade dress disputes, as we extend our brand into new product categories and new product lines and expand the geographic scope of our marketing, we may become subject to litigation based on allegations of the infringement of intellectual property rights of third parties including third party copyright and patent rights. Future litigation also may be necessary to defend us against such claims or to enforce and protect our intellectual property rights. Any intellectual property litigation may be costly and may divert management's attention from the operation of our business. Adverse determinations in any litigation may result in the loss of our proprietary rights, subject us to significant liabilities or require us to seek licenses from third parties, which may not be available on commercially reasonable terms, if at all. This may have a material adverse effect on our results of operations and financial condition.

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

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

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

## **Table of Contents**

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 center in Strathroy, Ontario; and in Europe we rely primarily on our distribution center in Cambrai, France.

Our distribution facilities in the United States and France are highly automated, which means that their operations are complicated and may be subject to a number of risks related to computer viruses, the proper operation of software and hardware, electronic or power interruptions, and other system failures. In 2007, we are continuing to upgrade our Portland distribution center. Risks associated with upgrading or expanding these facilities may significantly disrupt or increase the cost of our operations.

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

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

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

### **Our Success Depends on Our Growth Strategies**

We face many challenges in implementing our growth strategies. For example, our expansion into international markets involves countries where we have little sales or distribution experience and where our brands are not yet widely known. Expanding our product categories involves, among other things, gaining experience with new brands and products, gaining consumer acceptance, and establishing and protecting intellectual property rights. Increasing sales to department stores and improving the sales productivity of our customers will each depend on various factors, including strength of our brand names, competitive conditions, our ability to manage increased sales and future expansion, the availability of desirable locations and the negotiation of terms with retailers. Future terms with customers may be less favorable to us than those under which we now operate. Large retailers in particular increasingly seek to transfer various costs of business to their vendors, such as the cost of lost profits from product price markdowns.

To implement our business strategy, we must manage growth effectively. We must continue to modify various aspects of our business, to maintain and enhance our information systems and operations to respond to increased demand and to attract, retain and manage qualified personnel. Growth may place an increasing strain on management, financial, product design, marketing, distribution and other resources, and we may have operating difficulties as a result. For example, in recent years, we have undertaken a number of new initiatives that require significant management attention and corporate resources, including the development or expansion of distribution facilities on two continents, the acquisition, rejuvenation and expansion of the Sorel and Pacific Trail brands, and the acquisition, integration and expansion of Mountain Hardwear, Inc. and the Montrail brand. This growth involves many risks and uncertainties that, if not managed effectively, may have a material adverse effect on our results of operations and financial condition.

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

Although we generally purchase products in U.S. dollars, the cost of these products, which are generally produced overseas, may be affected by changes in the value of the relevant currencies. 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 foreign currencies, and these revenues and expenses may be materially affected by currency fluctuations, including amounts recorded in foreign currencies and translated into U.S. dollars for consolidated financial reporting. Currency exchange rate fluctuations may also disrupt the business of the independent manufacturers that produce our products by making their purchases of raw materials more expensive and more difficult to finance. As a result, foreign currency fluctuations may have a material adverse effect on our results of operations and financial condition.

## **Table of Contents**

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

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

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

Our products are produced by independent manufacturers worldwide. We do not operate or own any production facilities. Although we enter into a number of purchase order commitments each season, we generally do not maintain long-term manufacturing contracts. Because of these factors, manufacturing operations may fail to perform as expected or our competitors may obtain production or quota capacities that effectively limit or eliminate the availability of these resources to us. If a manufacturer fails to ship orders in a timely manner or to meet our standards or if we are unable to obtain necessary production or quota capacities, we may miss delivery deadlines, or incur additional costs, which may result in cancellation of orders, refusal to accept deliveries, a reduction in purchase prices, or increased costs, any of which may have a material adverse effect on our business. Reliance on independent manufacturers also creates quality control risks. A failure in our quality control program may result in diminished product quality, which may result in increased order cancellations and returns and decreased consumer demand for our products, which may have a material adverse effect on our results of operations and financial condition. Finally, if a manufacturer violates labor or other laws, or engages in practices that are not generally accepted as ethical in our key markets, we may be subject to significant negative publicity, consumer demand for our products may decrease, and under some circumstances we may be subject to liability for the manufacturer's practices, any of which may have a material adverse effect on our results of operations and financial condition.

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

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

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

To minimize our purchasing costs, the time necessary to fill customer orders and the risk of non-delivery, we place orders for our products with manufacturers prior to receiving all of our customers' orders and we maintain an inventory of various products that we anticipate will be in greater demand. We may not be able to sell the products we have ordered from manufacturers or that we have in our inventory. Customers are allowed to cancel an order prior to shipment with sufficient notice. Inventory levels in excess of customer demand may result in inventory write-downs and the sale of excess inventory at discounted prices, which may have a material adverse effect on our results of operations and financial condition.

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

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

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

Our results of operations are likely to continue to fluctuate significantly from period to period. Our products are marketed on a seasonal basis; our results of operations for the quarter ended September 30 in the past have been much stronger than the results for the other quarters. This seasonality, along with other factors that are beyond our control, and that are discussed elsewhere in this section, may adversely affect our business and cause our results of operations to fluctuate. Our operating margins are also sensitive to a number of factors that are beyond our control, including shifts in product sales mix, geographic sales trends, and currency exchange rate fluctuations, all of which we expect to

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

continue as we expand our product offerings and geographic penetration. Results of operations in any period should not be considered indicative of the results to be expected for any future period.

## **Table of Contents**

### **We Face Risks of Product Liability and Warranty Claims**

Our products are used in outdoor activities, sometimes in severe conditions. Although we have not incurred any significant expense as the result of product recalls or product liability claims, recalls or claims in the future may have a material adverse effect on our results of operations and financial condition. Some of our products carry warranties for defects in quality and workmanship. We maintain a warranty reserve for future warranty claims, but the actual costs of servicing future warranty claims may exceed the reserve, which may also have a material adverse effect on our results of operations and financial condition.

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

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

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

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

## **Item 6 *EXHIBITS***

(a) Exhibits

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

31.2 Rule 13a-14(a) Certification of Bryan L. Timm, Vice President and Chief Financial Officer

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

32.2 Section 1350 Certification of Bryan L. Timm, Vice President and Chief Financial Officer

**Table of Contents**

**SIGNATURE**

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

**COLUMBIA SPORTSWEAR COMPANY**

Date: May 8, 2007

/s/ BRYAN L. TIMM  
Bryan L. Timm  
*Vice President and Chief Financial Officer*