

COLUMBIA SPORTSWEAR CO

Form 10-Q

May 07, 2010

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

Washington, DC 20549

**FORM 10-Q**

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

For the quarterly period ended March 31, 2010

OR

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

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

Commission file number 0-23939

**COLUMBIA SPORTSWEAR COMPANY**

(Exact name of registrant as specified in its charter)

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

**14375 Northwest Science Park Drive**

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

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

**97229**  
(Zip Code)

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

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

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

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

Large accelerated filer  Accelerated filer   
Non-accelerated filer  (Do not check if a smaller reporting company) Smaller reporting company   
Indicate by check mark whether the registrant is a shell company (as defined in Rule 12b-2 of the Exchange Act). Yes  No

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

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**COLUMBIA SPORTSWEAR COMPANY**

**MARCH 31, 2010**

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

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

(In thousands)

(Unaudited)

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

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Total shareholders' equity	1,001,510	997,228
Total liabilities and shareholders' equity	\$ 1,189,982	\$ 1,212,883

See accompanying notes to condensed consolidated financial statements.

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

	<b>Three Months Ended March 31,</b>	
	<b>2010</b>	<b>2009</b>
Net sales	\$ 300,406	\$ 271,966
Cost of sales	173,102	161,471
Gross profit	127,304	110,495
Selling, general and administrative expenses	115,539	102,009
Net licensing income	725	1,908
Income from operations	12,490	10,394
Interest income, net	534	914
Income before income tax	13,024	11,308
Income tax expense	(3,796)	(4,410)
Net income	\$ 9,228	\$ 6,898
Earnings per share:		
Basic	\$ 0.27	\$ 0.20
Diluted	0.27	0.20
Cash dividends per share	\$ 0.18	\$ 0.16
Weighted average shares outstanding (Note 6):		
Basic	33,733	33,873
Diluted	33,990	33,968

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

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<b>Cash and cash equivalents, beginning of period</b>	386,664	230,617
<b>Cash and cash equivalents, end of period</b>	\$ 365,948	\$ 272,112
<b>Supplemental disclosures of cash flow information:</b>		
Cash paid during the period for interest, net of capitalized interest	\$ 12	\$ 8
Cash paid during the period for income taxes	4,863	6,398
<b>Supplemental disclosures of non-cash investing and financing activities:</b>		
Capital expenditures incurred but not yet paid	\$ 3,004	\$ 5,180
Common stock issuance for which proceeds have not yet been received	1,202	
See accompanying notes to condensed consolidated financial statements.		



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**COLUMBIA SPORTSWEAR COMPANY**

**NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS**

**(Unaudited)**

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

***Basis of presentation:***

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

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

***Estimates and assumptions:***

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

***Concentration of credit risk:***

*Trade Receivables*

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

*Cash and Cash Equivalents*

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

*Short-term Investments*

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

*Derivatives*

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

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

***Cash and cash equivalents:***

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

***Investments:***

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

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

***Property, plant and equipment:***

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

***Product warranty:***

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

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

***Recent accounting pronouncements:***

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

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

**NOTE 2 - INVENTORIES, NET**

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

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

	March 31, 2010	December 31, 2009
Raw materials	\$ 1,036	\$ 1,021
Work in process	352	163
Finished goods	221,316	220,977
	\$ 222,704	\$ 222,161

**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):

	March 31, 2010		December 31, 2009	
	Gross Carrying Amount	Accumulated Amortization	Gross Carrying Amount	Accumulated Amortization
<b>Intangible assets subject to amortization:</b>				
Patents	\$ 898	\$ (671)	\$ 898	\$ (643)
<b>Intangible assets not subject to amortization:</b>				
Trademarks and trade names	\$ 26,872		\$ 26,872	
Goodwill	12,659		12,659	
	\$ 39,531		\$ 39,531	

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

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

	<b>March 31, 2010</b>	<b>December 31, 2009</b>
Deferred tax assets	\$ 3,650	\$ 5,435
Long-term deposits	8,051	8,360
Other	2,493	2,150
	\$ 14,194	\$ 15,945

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The Company's 1997 Stock Incentive Plan (the "Plan") provides for issuance of up to 8,900,000 shares of the Company's Common Stock, of which 1,706,575 shares were available for future grants under the Plan at March 31, 2010. The Plan allows for grants of incentive stock options, non-statutory stock options, restricted stock awards, restricted stock units and other stock-based awards. The Company uses original issuance shares to satisfy share-based payments.

*Stock Options*

Options to purchase the Company's common stock are granted at prices equal to or greater than the fair market value on the date of grant. Options granted prior to 2001 generally vested and became exercisable ratably on a monthly basis over a period of five years from the date of grant and expire ten years from the date of grant. Options granted after 2000 and before 2009 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 vested and became exercisable one year from the date of grant and expire ten years from the date of grant. Options granted after 2008 generally vest and become exercisable ratably on an annual basis over a period of four years and expire ten years from the date of the grant.

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

The following table shows the weighted average assumptions for the three months ended March 31, 2010 and 2009:

	2010	2009
Expected term	4.37 years	4.34 years
Expected stock price volatility	28.75%	29.64%
Risk-free interest rate	1.88%	1.54%
Expected dividend yield	1.66%	2.19%
Weighted average grant date fair value	\$ 9.76	\$ 6.19

The following table summarizes stock option activity for the three months ended March 31, 2010:

	Number of Shares	Weighted Average Exercise Price	Weighted Average Remaining Contractual Term	Aggregate Intrinsic Value (in thousands)
Options outstanding at December 31, 2009	1,760,173	\$ 42.08	6.25	\$ 4,599
Granted	355,033	43.64		

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Cancelled	(37,332)	44.57		
Exercised	(78,190)	30.54		
Options outstanding at March 31, 2010	1,999,684	\$ 42.76	6.92	\$ 21,247
Options vested and expected to vest at March 31, 2010	1,909,878	\$ 42.93	6.82	\$ 20,041
Options exercisable at March 31, 2010	1,089,608	\$ 45.48	5.28	\$ 9,037

The aggregate intrinsic value in the table above represents pre-tax intrinsic value that would have been realized if all options had been exercised on the last business day of the period indicated, based on the Company's closing stock price on that day. Total stock option compensation expense for the three months ended March 31, 2010 and 2009 was \$793,000 and \$609,000, respectively. At March 31, 2010 and 2009, unrecognized costs related to stock options totaled approximately \$6,702,000 and \$6,497,000, respectively, before any related tax benefit. The unrecognized costs related to stock options are amortized over the related vesting period using the straight-line attribution method. Unrecognized costs related to stock options at March 31, 2010 are expected to be recognized over a



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weighted average period of 2.84 years. The aggregate intrinsic value of stock options exercised was \$1,253,000 and \$149,000 for the three months ended March 31, 2010 and 2009, respectively. The total proceeds resulting from stock option exercises during the three months ended March 31, 2010 were \$2,388,000, of which \$1,202,000 had not yet been received. The total proceeds resulting from stock option exercises during the three months ended March 31, 2009 were \$165,000. The realized tax benefit for the deduction from stock option transactions for the three months ended March 31, 2010 and 2009 was \$389,000 and \$55,000, respectively.

*Restricted Stock Units*

Service-based restricted stock units are granted at no cost to key employees, and shares granted prior to 2009 generally vest over three years from the date of grant. Service-based restricted stock units granted after 2008 generally vest over a period of four years. Performance-based restricted stock units are granted at no cost to certain members of the Company's senior executive team, excluding the Chairman and the President and Chief Executive Officer. Performance-based restricted stock units granted prior to 2010 vest based on achievement of specified performance goals during a performance period of three years with an additional required service period of one year. Performance-based restricted stock units granted after 2009 vest based on achievement of specified performance goals during a performance period of three years. Restricted stock units vest in accordance with the terms and conditions established by the Compensation Committee of the Board of Directors, and are based on continued service and, in some instances, on individual performance and/or Company performance. For the majority of restricted stock units granted, the number of shares issued on the date the restricted stock units vest is net of the minimum statutory withholding requirements that the Company pays in cash to the appropriate taxing authorities on behalf of its employees. For the three months ended March 31, 2010 and 2009, the Company withheld 16,863 and 11,362 shares, respectively, to satisfy \$751,000 and \$307,000 of employees' tax obligations, respectively.

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

The following table presents the weighted average assumptions for the three months ended March 31, 2010 and 2009:

	2010	2009
Vesting period	3.86 years	3.97 years
Expected dividend yield	1.59%	2.21%
Estimated average fair value per restricted stock unit granted	\$ 43.07	\$ 26.63

The following table summarizes the restricted stock unit activity for the three months ended March 31, 2010:

	Number of Shares	Weighted Average Grant Date Fair Value Per Share
Restricted stock units outstanding at December 31, 2009	286,520	\$ 36.35
Granted	104,977	43.07
Vested	(44,741)	43.60
Forfeited	(6,208)	33.90
Restricted stock units outstanding at March 31, 2010	340,548	\$ 37.52

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Restricted stock unit compensation expense for the three months ended March 31, 2010 and 2009 was \$752,000 and \$789,000, respectively. At March 31, 2010 and 2009, unrecognized costs related to restricted stock units totaled approximately \$7,080,000 and \$6,532,000, 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, 2010 are expected to be recognized over a weighted average period of 2.38 years. The total grant date fair value of restricted stock units vested during the three months ended March 31, 2010 and 2009 was \$1,951,000 and \$1,811,000, respectively. The realized tax benefit for the deduction from restricted stock unit transactions for the three months ended March 31, 2010 and 2009 was \$681,000 and \$280,000, respectively.

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## COLUMBIA SPORTSWEAR COMPANY

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

(Unaudited)

## NOTE 5 - COMPREHENSIVE INCOME

Accumulated other comprehensive income, net of applicable taxes, reported on the Company's Condensed Consolidated Balance Sheets consists of foreign currency translation adjustments, unrealized gains and losses on certain derivative transactions and unrealized gains and losses on available-for-sale securities. A summary of comprehensive income, net of related tax effects, for the three months ended March 31, 2010 and 2009 is as follows (in thousands):

	2010	2009
Net income	\$ 9,228	\$ 6,898
Other comprehensive income (loss):		
Unrealized holding gains/(losses) on available-for-sale securities	(22)	260
Unrealized derivative holding gains arising during period	869	1,864
Reclassification to net income of previously deferred (gains) losses on derivative transactions	1,169	(1,652)
Foreign currency translation adjustments	(505)	(12,968)
Other comprehensive income (loss)	1,511	(12,496)
Comprehensive income (loss)	\$ 10,739	\$ (5,598)

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

	Foreign currency translation adjustments	Unrealized holding gains (losses) on derivative transactions	Unrealized holding gains (losses) on available-for-sale securities	Accumulated other comprehensive income
Balance at December 31, 2009	\$ 44,538	\$ (1,158)	\$ 64	\$ 43,444
Activity for the three months ended March 31, 2010	(505)	2,038	(22)	1,511
Balance at March 31, 2010	\$ 44,033	\$ 880	\$ 42	\$ 44,955

## NOTE 6 - EARNINGS PER SHARE

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

A reconciliation of common shares used in the denominator for computing basic and diluted EPS for the three months ended March 31, 2010 and 2009 is as follows (in thousands, except per share amounts):

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	2010	2009
Weighted average shares of common stock outstanding, used in computing basic earnings per share	33,733	33,873
Effect of dilutive stock options and restricted stock units	257	95
Weighted-average shares of common stock outstanding, used in computing diluted earnings per share	33,990	33,968

Earnings per share of common stock:

Basic	\$ 0.27	\$ 0.20
Diluted	0.27	0.20

Stock options and service-based restricted stock units representing 820,867 and 1,762,856 shares of common stock were outstanding for the three months ended March 31, 2010 and 2009, respectively, but these shares were excluded in the computation of diluted EPS because their effect would be anti-dilutive as a result of applying the treasury stock method. In addition, performance-based restricted stock units representing 34,864 and 41,625 shares for the three months ended March 31, 2010 and 2009, respectively, were excluded from the computation of diluted EPS because these shares were subject to performance conditions that had not been met.

Since the inception of the Company's stock repurchase plan in 2004 through March 31, 2010, the Company's Board of Directors has authorized the repurchase of \$500,000,000 of the Company's common stock. As of March 31, 2010, the Company had repurchased 8,987,421 shares under this program at an aggregate purchase price of approximately \$411,237,000. During the three months ended March 31, 2010, the Company repurchased an aggregate of \$3,838,000 of its common stock under the stock repurchase

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plan, of which \$1,960,000 was recorded as a reduction to total retained earnings; otherwise, the aggregate purchase price would have resulted in a negative common stock carrying amount. The Company did not repurchase any shares under this program for the three months ended March 31, 2009. Shares of the Company's common stock may be purchased in the open market or through privately negotiated transactions, subject to market conditions. The repurchase program does not obligate the Company to acquire any specific number of shares or to acquire shares over any specified period of time.

**NOTE 7 - SEGMENT INFORMATION**

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

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

	<b>Three Months Ended</b>	
	<b>March 31,</b>	
	<b>2010</b>	<b>2009</b>
<b>Net sales to unrelated entities:</b>		
United States	\$ 173,248	\$ 156,278
EMEA	46,859	49,808
LAAP	56,053	46,085
Canada	24,246	19,795
	\$ 300,406	\$ 271,966
<b>Income (loss) before income tax:</b>		
United States	\$ 4,827	\$ (2,616)
EMEA	(639)	4,648
LAAP	6,786	5,374
Canada	1,516	2,988
Interest income, net	534	914
	\$ 13,024	\$ 11,308

	<b>March 31,</b>	<b>December 31,</b>
	<b>2010</b>	<b>2009</b>
<b>Assets:</b>		
United States	\$ 902,224	\$ 916,847
EMEA	234,866	249,838
LAAP	103,887	104,734
Canada	127,369	127,205

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Total identifiable assets	1,368,346	1,398,624
Eliminations and reclassifications	(178,364)	(185,741)
Total assets	\$ 1,189,982	\$ 1,212,883

### NOTE 8 - FINANCIAL INSTRUMENTS AND RISK MANAGEMENT

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

The Company's exchange rate risk management objective is to mitigate the uncertainty of anticipated cash flows attributable to changes in exchange rates. The Company focuses on anticipated cash flows resulting from firmly and non-firmly committed inventory purchases and the related receivables and payables, including third party or intercompany transactions. The Company

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manages this risk primarily by using currency forward and option contracts. The Company hedges anticipated, but not yet firmly committed, transactions that carry a high level of certainty and are expected to be recognized within one year. Hedged transactions are denominated primarily in U.S. dollars and are generally obligations of subsidiaries that use European euros, Canadian dollars, Japanese yen or Korean won as the functional currency. The Company uses foreign currency forward contracts to hedge foreign currency denominated payments related to intercompany loan agreements.

The Company hedges against the exchange rate risk associated with anticipated transactions denominated in non-functional currencies and accounts for these instruments as cash flow hedges. The effective change in fair value of these financial instruments is initially offset to accumulated other comprehensive income and any ineffective portion is offset to current income. Amounts accumulated in other comprehensive income are subsequently reclassified to cost of sales when the underlying transaction is included in income. Hedge effectiveness is determined by evaluating the ability of a hedging instrument's cumulative change in fair value to offset the cumulative change in the present value of expected cash flows on the underlying exposures. For forward contracts and options, the change in fair value attributable to changes in forward points and time value, respectively, are excluded from the determination of hedge effectiveness and included in current cost of sales. Hedge ineffectiveness was not material during the three months ended March 31, 2010 and 2009.

At March 31, 2010, the notional value of outstanding forward contracts designated as hedging anticipated inventory purchases was approximately \$79,050,000. At March 31, 2010, insignificant deferred gains and losses (net of tax) on both outstanding and matured derivatives accumulated in other comprehensive income are expected to be reclassified to net income during the next twelve months as a result of underlying hedged transactions also being recorded in net income. Actual amounts ultimately reclassified to net income are dependent on U.S. dollar exchange rates in effect against the European euro, Canadian dollar, Japanese yen and Korean won when outstanding derivative contracts mature.

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

The Company also uses derivative instruments not formally designated and qualifying as hedges to manage the exchange rate risk associated with the remeasurement of monetary assets and liabilities. At March 31, 2010, the notional value of outstanding forward contracts not formally designated as hedges was approximately \$73,574,000. The change in fair value of these instruments is recognized immediately in cost of sales or selling, general and administrative (SG&A) expense, depending on the underlying exposure.

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

The following table presents the balance sheet classification and fair value of derivative instruments at March 31, 2010 and December 31, 2009 (in thousands):

		December
	Classification	March 31, 2010      31, 2009
Derivative instruments designated as cash flow hedges:		
Derivative instruments in asset positions:		

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Currency forward contracts	Prepaid expenses and other current assets	\$ 2,673	\$ 1,099
Derivative instruments in liability positions:			
Currency forward contracts	Accrued liabilities	1,396	890

		<b>March 31,</b>	<b>December</b>
		<b>2010</b>	<b>31,</b>
		<b>2009</b>	
<b>Classification</b>			
Derivative instruments not designated as hedges:			
Derivative instruments in asset positions:			
Currency forward contracts	Prepaid expenses and other current assets		\$ 453
Derivative instruments in liability positions:			
Currency forward contracts	Accrued liabilities	625	1,065



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The following table presents the effect and classification of derivative instruments for the three months ended March 31, 2010 and 2009 (in thousands):

	Three Months Ended March 31, 2010		Three Months Ended March 31, 2009	
	Statement Of Operations Classification	Gain (loss)	Statement Of Operations Classification	Gain (loss)
Currency Forward Contracts:				
Derivative instruments designated as cash flow hedges:				
Gain recognized in other comprehensive income, net of tax		\$ 869		\$ 1,864
Gain (Loss) reclassified from accumulated other comprehensive income to income for the effective portion, net of tax	Cost of sales	(1,157)	Cost of sales	1,652
Loss recognized in income for amount excluded from effectiveness testing and for the ineffective portion	Cost of sales			