

COLUMBIA SPORTSWEAR CO  
Form 10-Q  
May 08, 2013

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, 2013

OR

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

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

Commission file number 0-23939

COLUMBIA SPORTSWEAR COMPANY

(Exact name of registrant as specified in its charter)

Oregon

(State or other jurisdiction of  
incorporation or organization)

14375 Northwest Science Park Drive

Portland, Oregon

(Address of principal executive offices)

(503) 985-4000

(Registrant's telephone number, including area code)

93-0498284

(IRS Employer  
Identification Number)

97229

(Zip Code)

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

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

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

Large accelerated filer

Accelerated filer

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

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

Yes  No

The number of shares of Common Stock outstanding on April 26, 2013 was 34,284,092.

COLUMBIA SPORTSWEAR COMPANY  
MARCH 31, 2013  
INDEX TO FORM 10-Q

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## PART I. FINANCIAL INFORMATION

## Item 1 – FINANCIAL STATEMENTS

## COLUMBIA SPORTSWEAR COMPANY

## CONDENSED CONSOLIDATED BALANCE SHEETS

(In thousands)

(Unaudited)

	March 31, 2013	December 31, 2012	March 31, 2012
<b>ASSETS</b>			
Current Assets:			
Cash and cash equivalents	\$ 303,654	\$ 290,781	\$ 240,725
Short-term investments	70,988	44,661	12,028
Accounts receivable, net of allowance of \$7,829, \$7,377 and \$6,753, respectively	238,325	334,324	253,297
Inventories, net (Note 3)	325,241	363,325	366,564
Deferred income taxes	48,444	50,929	51,519
Prepaid expenses and other current assets	41,814	38,583	37,421
Total current assets	1,028,466	1,122,603	961,554
Property, plant and equipment, at cost, net of accumulated depreciation of \$306,637, \$303,043 and \$286,744, respectively	266,946	260,524	256,420
Intangible assets, net (Note 4)	37,285	37,618	38,670
Goodwill	14,438	14,438	14,438
Other non-current assets	25,346	23,659	28,990
Total assets	\$ 1,372,481	\$ 1,458,842	\$ 1,300,072
<b>LIABILITIES AND SHAREHOLDERS' EQUITY</b>			
Current Liabilities:			
Notes payable	\$—	\$ 156	\$—
Accounts payable	75,980	142,240	90,665
Accrued liabilities (Note 5)	88,338	105,190	80,460
Income taxes payable	2,217	4,406	9,470
Deferred income taxes	23	67	986
Total current liabilities	166,558	252,059	181,581
Income taxes payable	12,096	11,638	13,274
Deferred income taxes	1,755	1,807	1,807
Other long-term liabilities	27,949	27,171	24,899
Total liabilities	208,358	292,675	221,561
Commitments and contingencies (Note 11)			
Shareholders' Equity:			
Preferred stock; 10,000 shares authorized; none issued and outstanding	—	—	—
Common stock (no par value); 125,000 shares authorized; 34,281, 34,075 and 33,770 issued and outstanding, respectively (Note 8)	31,407	24,814	7,795
Retained earnings	1,097,271	1,094,690	1,021,090
Accumulated other comprehensive income (Note 7)	35,445	46,663	49,626
Total shareholders' equity	1,164,123	1,166,167	1,078,511
Total liabilities and shareholders' equity	\$ 1,372,481	\$ 1,458,842	\$ 1,300,072
See accompanying notes to condensed consolidated financial statements.			



COLUMBIA SPORTSWEAR COMPANY  
CONDENSED CONSOLIDATED STATEMENTS OF OPERATIONS

(In thousands, except per share amounts)  
(Unaudited)

	Three Months Ended March 31,		
	2013	2012	
Net sales	\$348,307	\$333,141	
Cost of sales	195,003	185,205	
Gross profit	153,304	147,936	
Selling, general and administrative expenses	142,903	144,556	
Net licensing income	2,327	1,975	
Income from operations	12,728	5,355	
Interest income, net	132	247	
Other non-operating expense	(630	) —	
Income before income tax	12,230	5,602	
Income tax expense	(2,128	) (1,704	)
Net income	\$10,102	\$3,898	
Earnings per share (Note 8):			
Basic	\$0.30	\$0.12	
Diluted	0.29	0.11	
Cash dividends per share	\$0.22	\$0.22	
Weighted average shares outstanding (Note 8):			
Basic	34,167	33,705	
Diluted	34,449	33,953	

See accompanying notes to condensed consolidated financial statements.

COLUMBIA SPORTSWEAR COMPANY  
 CONDENSED CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME

(In thousands)

(Unaudited)

	Three Months Ended March 31,	
	2013	2012
Net income	\$ 10,102	\$ 3,898
Other comprehensive income (loss):		
Unrealized holding gains (losses) on available-for-sale securities (net of tax (expense) benefit of (\$3) and less than \$1, respectively)	9	(1 )
Unrealized gains (losses) on derivative transactions (net of tax expense of \$550 and \$229, respectively)	1,430	(1,877 )
Foreign currency translation adjustments (net of tax (expense) benefit of \$235 and (\$335), respectively)	(12,657	) 4,607
Other comprehensive income (loss)	(11,218	) 2,729
Comprehensive income (loss)	\$(1,116	) \$6,627

See accompanying notes to condensed consolidated financial statements.

COLUMBIA SPORTSWEAR COMPANY  
CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS

(In thousands)

(Unaudited)

	Three Months Ended March 31,	
	2013	2012
Cash flows from operating activities:		
Net income	\$10,102	\$3,898
Adjustments to reconcile net income to net cash provided by operating activities:		
Depreciation and amortization	9,858	11,018
Loss on disposal or impairment of property, plant, and equipment	43	84
Deferred income taxes	2,624	571
Stock-based compensation	1,950	2,112
Excess tax benefit from employee stock plans	(574)	(225)
Changes in operating assets and liabilities:		
Accounts receivable	95,995	98,893
Inventories	38,075	(1,640)
Prepaid expenses and other current assets	(3,186)	(730)
Other assets	(1,752)	(820)
Accounts payable	(69,839)	(60,810)
Accrued liabilities	(16,470)	(26,101)
Income taxes payable	(1,769)	(5,105)
Other liabilities	778	1,068
Net cash provided by operating activities	65,835	22,213
Cash flows from investing activities:		
Purchases of short-term investments	(26,947)	(9,591)
Sales of short-term investments	630	441
Capital expenditures	(14,770)	(12,004)
Proceeds from sale of property, plant, and equipment	41	—
Net cash used in investing activities	(41,046)	(21,154)
Cash flows from financing activities:		
Proceeds from credit facilities	800	519
Repayments on credit facilities	(956)	(519)
Proceeds from issuance of common stock under employee stock plans	6,005	3,475
Tax payments related to restricted stock unit issuances	(1,891)	(1,116)
Excess tax benefit from employee stock plans	574	225
Cash dividends paid	(7,521)	(7,419)
Net cash used in financing activities	(2,989)	(4,835)
Net effect of exchange rate changes on cash	(8,927)	3,467
Net increase (decrease) in cash and cash equivalents	12,873	(309)
Cash and cash equivalents, beginning of period	290,781	241,034
Cash and cash equivalents, end of period	\$303,654	\$240,725
Supplemental disclosures of cash flow information:		
Cash paid during the period for income taxes	\$3,507	\$7,610
Supplemental disclosures of non-cash investing activities:		
Capital expenditures incurred but not yet paid	\$3,803	\$2,236

See accompanying notes to condensed consolidated financial statements.

COLUMBIA SPORTSWEAR COMPANY

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

(Unaudited)

NOTE 1 – BASIS OF PRESENTATION AND ORGANIZATION

The accompanying unaudited condensed consolidated financial statements have been prepared by the management of Columbia Sportswear Company (the "Company") and in the opinion of management include all normal recurring material adjustments necessary to present fairly the Company's financial position as of March 31, 2013 and 2012, the results of operations for the three months ended March 31, 2013 and 2012 and cash flows for the three months ended March 31, 2013 and 2012. The December 31, 2012 financial information was derived from the Company's audited financial statements included in the Company's Annual Report on Form 10-K for the year ended December 31, 2012. A significant part of the Company's business is of a seasonal nature; therefore, results of operations for the three months ended March 31, 2013 are not necessarily indicative of results to be expected for the full year.

Certain information and footnote disclosures normally included in financial statements prepared in accordance with accounting principles generally accepted in the United States of America ("generally accepted accounting principles") have been condensed or omitted pursuant to the rules and regulations of the Securities and Exchange Commission.

The Company, however, believes that the disclosures contained in this report comply with the requirements of Section 13(a) of the Securities Exchange Act of 1934 for a Quarterly Report on Form 10-Q and are adequate to make the information presented not misleading. These unaudited condensed consolidated financial statements should be read in conjunction with the consolidated financial statements and notes thereto included in the Company's Annual Report on Form 10-K for the year ended December 31, 2012.

Certain amounts relating to foreign currency gains and losses previously included in "Selling, general and administrative expenses" are now reported as "Other non-operating expense" on the Condensed Consolidated Statements of Operations. Prior year amounts are immaterial and have not been reclassified.

Estimates and assumptions:

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

NOTE 2 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

There have been no significant changes to the Company's significant accounting policies as described in the Company's Annual Report on Form 10-K for the year ended December 31, 2012.

Restructuring charges:

In connection with its continuing cost containment measures, the Company accrued and expensed restructuring charges of \$2,371,000 and \$4,007,000 during the three months ended March 31, 2013 and 2012, respectively. Restructuring charges incurred during the three months ended March 31, 2013 primarily consisted of employee termination costs in our European operation. All such costs are included in selling, general and administrative expenses.

Recent Accounting Pronouncements:

In July 2012, the Financial Accounting Standards Board ("FASB") issued Accounting Standards Update ("ASU") No. 2012-02, Intangibles—Goodwill and Other (Topic 350): Testing Indefinite-Lived Intangible Assets for Impairment.

This ASU permits an entity to make a qualitative assessment of whether it is more likely than not that indefinite-lived intangible assets are impaired before calculating the fair value of the assets. This ASU is effective for annual and interim impairment tests performed for fiscal years beginning after September 15, 2012. The Company performs its annual impairment evaluation in the fourth quarter, or more frequently if events or circumstances indicate that the Company's intangible assets might be impaired. The Company does not expect the adoption of this standard to have a



material effect on the Company's financial position, results of operations or cash flows.

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COLUMBIA SPORTSWEAR COMPANY  
 NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS—(Continued)  
 (Unaudited)

In February 2013, the FASB issued ASU No. 2013-02, Comprehensive Income (Topic 220): Reporting of Amounts Reclassified Out of Accumulated Other Comprehensive Income. This ASU requires an entity to disclose additional information with respect to changes in accumulated other comprehensive income (AOCI) balances by component. In addition, an entity is required to present, either on the face of the financial statements or in the notes, significant amounts reclassified out of AOCI by the respective line items of net income, but only if the amount reclassified is required to be reclassified in its entirety in the same reporting period. For amounts that are not required to be reclassified in their entirety to net income, an entity is required to cross-reference to other disclosures that provide additional details about those amounts. The Company adopted the new guidance on January 1, 2013. The adoption of this standard did not have a material effect on the Company's consolidated financial position, results of operations or cash flows.

In March 2013, the FASB issued ASU No. 2013-05, Foreign Currency Matters (Topic 830): Parent's Accounting for the Cumulative Translation Adjustment upon Derecognition of Certain Subsidiaries or Groups of Assets within a Foreign Entity or of an Investment in a Foreign Entity. This ASU provides clarification regarding the release of any cumulative translation adjustment when the parent ceases to have controlling financial interest in a business or group of assets held within a foreign entity. The amendment is effective on a prospective basis for interim and annual periods beginning after December 15, 2013. The Company does not expect the adoption of this standard to have a material effect on the Company's financial position, results of operations or cash flows.

NOTE 3 – INVENTORIES, NET

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

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

	March 31, 2013	December 31, 2012	March 31, 2012
Raw materials	\$738	\$1,633	\$1,196
Work in process	1,579	1,969	2,198
Finished goods	322,924	359,723	363,170
	\$325,241	\$363,325	\$366,564

NOTE 4 – INTANGIBLE ASSETS, NET

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

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

	March 31, 2013	December 31, 2012	March 31, 2012
Intangible assets subject to amortization			
Gross carrying amount	\$14,198	\$14,198	\$14,198
Accumulated amortization	(4,334)	(4,001)	(2,949)
Net carrying amount	9,864	10,197	11,249
Intangible assets not subject to amortization	27,421	27,421	27,421
Intangible assets, net	\$37,285	\$37,618	\$38,670

Annual amortization expense for intangible assets subject to amortization is estimated to be \$1,330,000 in 2013 through 2017.



COLUMBIA SPORTSWEAR COMPANY  
 NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS—(Continued)  
 (Unaudited)

NOTE 5 – PRODUCT WARRANTY

Some of the Company's products carry limited warranty provisions for defects in quality and workmanship. A warranty reserve is established at the time of sale to cover estimated costs based on the Company's history of warranty repairs and replacements and is recorded in cost of sales. The warranty reserve is included in accrued liabilities in the Condensed Consolidated Balance Sheets.

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

	Three Months Ended March 31,	
	2013	2012
Balance at beginning of period	\$10,209	\$10,452
Charged to costs and expenses	1,515	1,179
Claims settled	(1,934)	(1,889)
Other	(107)	91
Balance at end of period	\$9,683	\$9,833

NOTE 6 – STOCK-BASED COMPENSATION

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

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

	Three Months Ended March 31,	
	2013	2012
Stock options	\$827	\$908
Restricted stock units	1,123	1,204
Total	\$1,950	\$2,112

Stock Options

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

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

	Three Months Ended March 31,	
	2013	2012
Expected term	4.49 years	4.51 years
Expected stock price volatility	31.02%	32.44%
Risk-free interest rate	0.61%	0.87%
Expected dividend yield	1.65%	1.80%
Weighted average grant date fair value	\$11.91	\$11.44

During the three months ended March 31, 2013 and 2012, the Company granted a total of 298,805 and 323,615 stock options, respectively. At March 31, 2013, unrecognized costs related to outstanding stock options totaled approximately \$7,588,000, before any related tax benefit. The unrecognized costs related to stock options are amortized over the related



COLUMBIA SPORTSWEAR COMPANY  
NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS—(Continued)  
(Unaudited)

vesting period using the straight-line attribution method. Unrecognized costs related to stock options at March 31, 2013 are expected to be recognized over a weighted average period of 2.84 years.

Restricted Stock Units

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

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

	Three Months Ended March 31,	
	2013	2012
Vesting period	4.00 years	3.90 years
Expected dividend yield	1.61%	1.79%
Estimated average grant date fair value per restricted stock unit	\$51.22	\$45.90

During the three months ended March 31, 2013 and 2012, the Company granted 128,989 and 149,691 restricted stock units, respectively. At March 31, 2013, unrecognized costs related to outstanding restricted stock units totaled approximately \$13,712,000, before any related tax benefit. The unrecognized costs related to restricted stock units are being amortized over the related vesting period using the straight-line attribution method. These unrecognized costs at March 31, 2013 are expected to be recognized over a weighted average period of 2.91 years.

NOTE 7 – ACCUMULATED OTHER COMPREHENSIVE INCOME

Accumulated other comprehensive income, net of applicable taxes, reported on the Company's Condensed Consolidated Balance Sheets consists of unrealized holding gains and losses on available-for-sale securities, unrealized gains and losses on certain derivative transactions and foreign currency translation adjustments. The following table sets forth the changes in accumulated other comprehensive income, net of tax, for the three months ended March 31, 2013 (in thousands):

	Unrealized gains (losses) on available for sale securities	Unrealized holding gains (losses) on derivative transactions	Foreign currency translation adjustments	Total
Balance at December 31, 2012	\$(9 )	\$2,505	\$44,167	\$46,663
Other comprehensive income before reclassifications	9	2,153	(12,657 )	(10,495 )
Amounts reclassified from other comprehensive income	—	(723 )	—	(723 )
Net other comprehensive income during the period	9	1,430	(12,657 )	(11,218 )
Balance at March 31, 2013	\$—	\$3,935	\$31,510	\$35,445

The following table sets forth the changes in accumulated other comprehensive income, net of tax, for the three months ended March 31, 2012 (in thousands):

	Unrealized gains (losses) on available for sale securities	Unrealized holding gains (losses) on derivative transactions	Foreign currency translation adjustments	Total
Balance at December 31, 2011	\$(2 )	\$7,250	\$39,649	\$46,897
Other comprehensive income before reclassifications	(1 )	(1,170 )	4,607	3,436

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Amounts reclassified from other comprehensive income	—	(707	)	—	(707	)
Net other comprehensive income during the period	(1	)	(1,877	)	4,607	2,729
Balance at March 31, 2012	\$(3	)	\$5,373	\$44,256	\$49,626	

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COLUMBIA SPORTSWEAR COMPANY  
 NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS—(Continued)  
 (Unaudited)

All reclassification adjustments related to derivative transactions are recorded in cost of sales on the Condensed Consolidated Statements of Operations. See Note 10 for further information regarding derivative instrument reclassification adjustments.

NOTE 8 – EARNINGS PER SHARE

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

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

	Three Months Ended March 31,	
	2013	2012
Weighted average shares of common stock outstanding, used in computing basic earnings per share	34,167	33,705
Effect of dilutive stock options and restricted stock units	282	248
Weighted-average shares of common stock outstanding, used in computing diluted earnings per share	34,449	33,953
Earnings per share of common stock:		
Basic	\$0.30	\$0.12
Diluted	0.29	0.11

Stock options and service-based restricted stock units representing 854,755 and 977,668 shares of common stock outstanding for the three months ended March 31, 2013 and 2012, respectively, were outstanding but were excluded from the computation of diluted EPS because their effect would be anti-dilutive as a result of applying the treasury stock method. In addition, performance-based restricted stock units representing 13,484 and 30,865 shares of common stock for the three months ended March 31, 2013 and 2012, respectively, were outstanding but were excluded from the computation of diluted EPS because these shares were subject to performance conditions that had not been met. Since the inception of the Company’s stock repurchase plan in 2004 through March 31, 2013, the Company’s Board of Directors has authorized the repurchase of \$500,000,000 of the Company’s common stock. As of March 31, 2013, the Company had repurchased 9,593,278 shares under this program at an aggregate purchase price of approximately \$441,443,000. During the three months ended March 31, 2013 and 2012, the Company did not repurchase any shares of the Company’s common stock. Shares of the Company’s common stock may be purchased in the open market or through privately negotiated transactions, subject to market conditions. The repurchase program does not obligate the Company to acquire any specific number of shares or to acquire shares over any specified period of time.

NOTE 9 – SEGMENT INFORMATION

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



COLUMBIA SPORTSWEAR COMPANY  
 NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS—(Continued)  
 (Unaudited)

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

	Three Months Ended March 31,	
	2013	2012
Net sales to unrelated entities:		
United States	\$200,498	\$193,047
LAAP	83,046	76,752
EMEA	40,920	38,131
Canada	23,843	25,211
	\$348,307	\$333,141
Segment income (loss) from operations:		
United States	\$8,053	\$2,738
LAAP	7,796	10,960
EMEA	(5,112)	(9,972)
Canada	1,991	1,629
Total income from operations	12,728	5,355
Interest	132	247
Other non-operating expense	(630)	—
Income before income taxes	\$12,230	\$5,602

**NOTE 10 – FINANCIAL INSTRUMENTS AND RISK MANAGEMENT**

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

The Company actively manages the risk of changes in functional currency equivalent cash flows resulting from anticipated U.S. dollar denominated inventory purchases by subsidiaries that use European euros, Canadian dollars, Japanese yen or Korean won as their functional currency. The Company manages this risk by using currency forward contracts formally designated and effective as cash flow hedges. Hedge effectiveness is determined by evaluating the ability of a hedging instrument's cumulative change in fair value to offset the cumulative change in the present value of expected cash flows on the underlying exposures. For forward contracts, the change in fair value attributable to changes in forward points are excluded from the determination of hedge effectiveness and included in current cost of sales. Hedge ineffectiveness was not material during the three months ended March 31, 2013 and 2012.

The Company also uses currency forward contracts not formally designated as hedges to manage the currency exchange rate risk associated with the remeasurement of non-functional currency denominated monetary assets and liabilities. Non-functional currency denominated monetary assets and liabilities consist primarily of cash and cash equivalents, short-term investments, payables and intercompany loans. The gains and losses generated on these currency forward contracts not formally designated as hedges are expected to be largely offset in other non-operating income (expense), net by the gains and losses generated from the remeasurement of the non-functional currency denominated monetary assets and liabilities.

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



COLUMBIA SPORTSWEAR COMPANY  
 NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS—(Continued)  
 (Unaudited)

	March 31, 2013	December 31, 2012	March 31, 2012
Derivative instruments designated as cash flow hedges:			
Currency forward contracts	\$72,500	\$70,000	\$118,525
Derivative instruments not designated as cash flow hedges:			
Currency forward contracts	78,968	121,934	104,605

At March 31, 2013, approximately \$4,847,000 of deferred net gains on both outstanding and matured derivatives accumulated in other comprehensive income are expected to be reclassified to net income during the next twelve months as a result of underlying hedged transactions also being recorded in net income. Actual amounts ultimately reclassified to net income are dependent on U.S. dollar exchange rates in effect against the European euro, Canadian dollar, Japanese yen and Korean won when outstanding derivative contracts mature.

At March 31, 2013, the Company's derivative contracts had a remaining maturity of approximately one year or less. All the counterparties to these transactions had both long-term and short-term investment grade credit ratings and as a result, the Company does not require collateral to facilitate transactions. The maximum net exposure to any single counterparty, which is generally limited to the aggregate unrealized gain of all contracts with that counterparty, was less than \$2,000,000 at March 31, 2013. The Company does not hold derivatives featuring credit-related contingent terms. In addition, the Company is not a party to any derivative master agreement featuring credit-related contingent terms. Finally, the Company has not pledged assets or posted collateral as a requirement for entering into or maintaining derivative positions.

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

	Balance Sheet Classification	March 31, 2013	December 31, 2012	March 31, 2012
Derivative instruments designated as cash flow hedges:				
Derivative instruments in asset positions:				
Currency forward contracts	Prepaid expenses and other current assets	\$4,553	\$2,147	\$4,250
Currency forward contracts	Other non-current assets	—	489	565
Derivative instruments in liability positions:				
Currency forward contracts	Accrued liabilities	119	579	67
Derivative instruments not designated as cash flow hedges:				
Derivative instruments in asset positions:				
Currency forward contracts	Prepaid expenses and other current assets	512	4,072	1,193
Derivative instruments in liability positions:				
Currency forward contracts	Accrued liabilities	684	743	421

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



COLUMBIA SPORTSWEAR COMPANY  
 NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS—(Continued)  
 (Unaudited)

	Statement of Operations Classification	Three Months Ended March 31,	
		2013	2012
Currency Forward Contracts:			
Derivative instruments designated as cash flow hedges:			
Gain (loss) recognized in other comprehensive income or loss	—	\$2,153	\$(1,170 )
Gain reclassified from accumulated other comprehensive income or loss to income for the effective portion	Cost of sales	860	311
Gain reclassified from accumulated other comprehensive income or loss to income as a result of cash flow hedge discontinuance	Cost of sales	—	441
Gain (loss) recognized in income for amount excluded from effectiveness testing and for the ineffective portion	Cost of sales	(43 )	91
Derivative instruments not designated as cash flow hedges:			
Gain recognized in income	Other non-operating expense	3,349	—
Loss recognized in income	Selling, general and administrative expense	—	(2,773 )

NOTE 11 – COMMITMENTS AND CONTINGENCIES

Inventory Purchase Obligations

Inventory purchase obligations consist of open production purchase orders and other commitments for raw materials and sourced apparel, footwear, accessories and equipment. At March 31, 2013, inventory purchase obligations were \$372,676,000.

NOTE 12 – FAIR VALUE MEASURES

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

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

Assets and liabilities measured at fair value on a recurring basis at March 31, 2013 are as follows (in thousands):

COLUMBIA SPORTSWEAR COMPANY  
 NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS—(Continued)  
 (Unaudited)

	Level 1	Level 2	Level 3	Total
Assets:				
Cash equivalents				
Money market funds	\$ 130,794	\$—	\$—	\$ 130,794
Time deposits	25,054	1,800	—	26,854
U.S. Government-backed repurchase agreements	—	50,000	—	50,000
Available-for-sale short-term investments <sup>(1)</sup>				
Certificates of deposit	—	7,599	—	7,599
Variable-rate demand notes	—	31,500	—	31,500
U.S. Government-backed municipal bonds	—	31,889	—	31,889
Other current assets				
Derivative financial instruments (Note 10)	—	5,065	—	5,065
Other non-current assets				
Mutual fund shares	4,513	—	—	4,513
Total assets measured at fair value	\$ 160,361	\$ 127,853	\$—	\$ 288,214
Liabilities:				
Accrued liabilities				
Derivative financial instruments (Note 10)	\$—	\$ 803	\$—	\$ 803
Total liabilities measured at fair value	\$—	\$ 803	\$—	\$ 803

Assets and liabilities measured at fair value on a recurring basis at December 31, 2012 are as follows (in thousands):

	Level 1	Level 2	Level 3	Total
Assets:				
Cash equivalents				
Money market funds	\$ 70,857	\$—	\$—	\$ 70,857
Time deposits	25,035	—	—	25,035
Certificates of deposit	—	2,450	—	2,450
U.S. Government-backed repurchase agreements	—	25,000	—	25,000
U.S. Government-backed municipal bonds	—	5,348	—	5,348
Available-for-sale short-term investments <sup>(1)</sup>				
Certificates of deposit	—	7,596	—	7,596
Variable-rate demand notes	—	22,640	—	22,640
U.S. Government-backed municipal bonds	—	14,425	—	14,425
Other current assets				
Derivative financial instruments (Note 10)	—	6,219	—	6,219
Other non-current assets				
Derivative financial instruments (Note 10)	—	489	—	489
Mutual fund shares	4,080	—	—	4,080
Total assets measured at fair value	\$ 99,972	\$ 84,167	\$—	\$ 184,139
Liabilities:				
Accrued liabilities				
Derivative financial instruments (Note 10)	\$—	\$ 1,322	\$—	\$ 1,322
Total liabilities measured at fair value	\$—	\$ 1,322	\$—	\$ 1,322

Assets and liabilities measured at fair value on a recurring basis at March 31, 2012 are as follows (in thousands):



COLUMBIA SPORTSWEAR COMPANY  
 NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS—(Continued)  
 (Unaudited)

	Level 1	Level 2	Level 3	Total
Assets:				
Cash equivalents				
Money market funds	\$59,853	\$—	\$—	\$59,853
Time deposits	10,000	5,295	—	15,295
Available-for-sale short-term investments <sup>(1)</sup>				
Time deposits	—	2,438	—	2,438
U.S. Government-backed municipal bonds	—	9,590	—	9,590
Other current assets				
Derivative financial instruments (Note 10)	—	5,443	—	5,443
Other non-current assets				
Derivative financial instruments (Note 10)	—	565	—	565
Mutual fund shares	3,552	—	—	3,552
Total assets measured at fair value	\$73,405	\$23,331	\$—	\$96,736
Liabilities:				
Accrued liabilities				
Derivative financial instruments (Note 10)	\$—	\$488	\$—	\$488
Total liabilities measured at fair value	\$—	\$488	\$—	\$488

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

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

There were no material assets and liabilities measured at fair value on a nonrecurring basis as of March 31, 2013, December 31, 2012, or March 31, 2012.



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

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

### Our Business

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

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

### Seasonality and Variability of Business

Our business is affected by the general seasonal trends common to the outdoor industry and is heavily dependent upon weather and discretionary consumer spending patterns. Our products are marketed on a seasonal basis and our sales are weighted substantially toward the third and fourth quarters, while our operating costs are more equally distributed throughout the year. The expansion of our direct-to-consumer operations has increased the proportion of sales and profits that we generate in the fourth calendar quarter. As a result, our sales and profits tend to be highest in the third and fourth calendar quarters. In 2012, approximately 63 percent of our net sales and all of our profitability were realized in the second half of the year, illustrating our dependence upon sales results in the second half of the year, as well as the less seasonal nature of our operating costs.

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

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

### Business Outlook

The global business climate continues to present us with a great deal of uncertainty, making it more difficult to predict future results. Factors that could significantly affect our full year 2013 outlook include:

Unseasonable weather conditions or other unforeseen factors affecting consumer demand and the resulting effect on order cancellations, sales returns, customer accommodations, reorders, direct-to-consumer sales and suppressed demand in subsequent seasons;

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

- Costs to support supply chain and information technology infrastructure investments and projects, including our multi-year global enterprise resource planning ("ERP") system implementation;
- Our ability to implement and maintain effective cost containment measures in order to limit the growth of selling, general and administrative ("SG&A") expenses to a rate comparable to or lower than sales growth;
- Continued economic uncertainty, which is creating headwinds in key global markets, particularly Europe as it relates to our EMEA direct business where we have ongoing efforts to revitalize Columbia brand sales;
- The rate of new store expansion and performance of our existing stores in our direct-to-consumer operations;

Changes in consumer spending activity; and

Fluctuating currency exchange rates.

Our previously announced joint venture in mainland China with Swire Resources Limited ("Swire") is expected to commence operations effective January 1, 2014, subject to regulatory approval in the People's Republic of China and other conditions customary in transactions of this size and type. During 2013, our financial results will be affected as we transition to the joint venture from our current third-party distributor relationship with Swire. We expect to fund our approximately \$50 million share of joint venture capitalization in 2013 and the early part of 2014. Our shipments of spring 2014 inventory for the China market, anticipated to begin in the fourth quarter of 2013, will be sold directly to the joint venture entity. The related sales, gross margin, and licensing income, which we would have recognized in the fourth quarter of 2013 under the distributor model, will be deferred and recognized in future periods as the joint venture sells that inventory to wholesale customers and consumers. Similarly, on or about December 31, 2013, Swire's inventory of fall 2013 and prior seasons will be transferred to the joint venture. We have begun deferring 2013 profits related to the existing inventory expected to be transferred to the joint venture and we will recognize those profits as the inventory is sold by the joint venture in future periods. The actual amount of profit eliminations and deferrals from the remainder of 2013 into future periods will be dependent upon the volume of inventory purchased by the joint venture in the fourth quarter of 2013 and the actual remaining balance of prior season inventory transferred to the joint venture at December 31, 2013. These adjustments have been included in our 2013 outlook described below.

Our preliminary fiscal year 2013 outlook assumes:

a slight decline in 2013 net sales compared to 2012 net sales, including a decline in North America wholesale net sales resulting from cautious Fall 2013 advance orders from customers following mild winter weather in 2012 and declines in Europe primarily due to continued product assortment and macro-economic challenges that have hampered our ongoing efforts to revitalize our brands in key European markets. We also expect net sales to decline in the LAAP region following two years of rapid growth, driven by a decline in Japan resulting primarily from a significantly weaker yen, the effects of transitioning to a joint venture in China, and the transition to a new distributor in Australia. These declines are expected to be largely offset by expansion of our direct-to-consumer business;

gross margins will be flat with 2012, reflecting less promotional activity and a higher proportion of direct-to-consumer sales, offset by the effect of deferring approximately \$3.0 million of gross profit into 2014 as a result of the transition to a joint venture in China, and unfavorable foreign currency hedge rates;

SG&A expenses approximately 3 percent higher than 2012, including approximately \$3.7 million in pre-operating expenses related to the China joint venture and pre-tax restructuring charges of approximately \$4.1 million, primarily related to employee termination and lease exit costs in our European operation, coupled with the effect of 2013 compensation and benefit increases, expansion of our direct-to-consumer platform, and the continued investment in information technology and ERP implementation, resulting in SG&A expense deleverage of approximately 135 basis points;

licensing income comparable to 2012, including the effect of deferring approximately \$4.0 million of licensing income into 2014 in conjunction with the transition to the China joint venture.

the year-over-year differences in currency exchange rates, particularly with respect to the Japanese yen, are anticipated to negatively impact net sales and operating income by approximately 1.5% and 4.0%, respectively;

a full year tax rate of approximately 26 percent; however, the actual rate could differ, perhaps significantly, based on the status of tax uncertainties, the geographic mix of pre-tax income, as well as other discrete events that may occur during the year;

2013 capital expenditures of approximately \$65 million, comprising information technology, project-based and maintenance capital, and direct-to-consumer expansion.

The combination of the above assumptions leads us to anticipate 2013 operating margin of approximately 6.6 percent. Full year 2013 operating margins are expected to be approximately 7.5 percent, excluding anticipated restructuring charges of approximately \$4.1 million, and the effects of pre-operating costs of approximately \$3.7 million and income deferral of approximately \$7.0 million related to transitioning to the China joint venture. We continue to evaluate all areas of our business in order to streamline our business and improve operating results.

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

#### Results of Operations

The following discussion of our results of operations and liquidity and capital resources should be read in conjunction with the Condensed Consolidated Financial Statements and accompanying Notes that appear elsewhere in this quarterly report. All references to quarters relate to the quarter ended March 31 of the particular year.

#### Highlights of the First Quarter of 2013

Net sales for the first quarter of 2013 increased \$15.2 million, or 5%, to \$348.3 million from \$333.1 million for the first quarter of 2012. Changes in foreign currency exchange rates compared with the first quarter of 2012 negatively affected the consolidated net sales comparison by less than one percentage point.

Net income for the first quarter of 2013 increased 159% to \$10.1 million, or \$0.29 per diluted share, including restructuring charges of approximately \$2.0 million, or \$0.06 per diluted share, net of tax, compared to net income of \$3.9 million, or \$0.11 per diluted share, which included restructuring charges of approximately \$2.8 million, or \$0.08 per diluted share, net of tax, for the first quarter of 2012.

We paid a quarterly cash dividend of \$0.22 per share, or \$7.5 million, in the first quarter of 2013.

The following table sets forth, for the periods indicated, the percentage relationship to net sales of specified items in our Condensed Consolidated Statements of Operations:

	Three Months Ended March 31,			
	2013		2012	
Net sales	100.0	%	100.0	%
Cost of sales	56.0		55.6	
Gross profit	44.0		44.4	
Selling, general and administrative expense	41.0		43.4	
Net licensing income	0.7		0.6	
Income from operations	3.7		1.6	
Interest income, net	—		0.1	
Other non-operating expense	(0.2	)	—	
Income before income tax	3.5		1.7	
Income tax expense	(0.6	)	(0.5	)
Net income	2.9	%	1.2	%

#### Quarter Ended March 31, 2013 Compared to Quarter Ended March 31, 2012

Net Sales: Consolidated net sales increased \$15.2 million, or 5%, to \$348.3 million for the first quarter of 2013 from \$333.1 million for the comparable period in 2012. Changes in foreign currency exchange rates compared with the first quarter of 2012 negatively affected the consolidated net sales comparison by less than one percentage point.

#### Sales by Geographic Region

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

	Three Months Ended March 31,		
	2013	2012	% Change
	(In millions, except for percentage changes)		
United States	\$200.5	\$193.0	4%
LAAP	83.1	76.8	8%
EMEA	40.9	38.1	7%
Canada	23.8	25.2	(6)%
	\$348.3	\$333.1	5%

Net sales in the United States increased \$7.5 million, or 4%, to \$200.5 million for the first quarter of 2013 from \$193.0 million for the comparable period in 2012. The increase in net sales in the United States was led by apparel, accessories and equipment, followed by footwear, and consisted of an increase in our direct-to-consumer business, partially offset by a net sales decrease in our wholesale business. The net sales increase in our direct-to-consumer business was led by the Columbia brand, followed by the Sorel brand, and was led by increased net sales within our retail stores, followed by increased e-commerce net sales. At March 31, 2013, we operated 63 retail stores, compared with 51 at March 31, 2012.

Net sales in the LAAP region increased \$6.3 million, or 8%, to \$83.1 million for the first quarter of 2013 from \$76.8 million for the comparable period in 2012. Changes in foreign currency exchange rates compared with the first quarter of 2012 negatively affected the LAAP net sales comparison by approximately five percentage points. The net sales increase in the LAAP region was led by apparel, accessories and equipment, followed by footwear. The LAAP net sales increase consisted of an increase in the Columbia brand and was led by our LAAP distributor business, followed by Korea, partially offset by a net sales decrease in Japan. The LAAP distributor net sales increase was primarily due to higher demand in key distributor markets and a shift in timing of shipments as a higher percentage of spring 2013 advance orders shipped in the first quarter of 2013, while a higher percentage of spring 2012 advance orders shipped in the fourth quarter of 2011. The increase in Korea net sales was primarily due to favorable changes in currency exchange rates. The decrease in Japan net sales was primarily due to unfavorable changes in currency exchange rates that offset a net sales increase in local currency.

Net sales in the EMEA region increased \$2.8 million, or 7%, to \$40.9 million for the first quarter of 2013 from \$38.1 million for the comparable period in 2012. Changes in foreign currency exchange rates compared with the first quarter of 2012 contributed approximately a one percentage point benefit to the EMEA net sales comparison. The net sales increase in the EMEA region was led by apparel, accessories and equipment, followed by footwear. The increase in net sales in the EMEA region was led by the Columbia brand, followed by the Mountain Hardwear brand, and consisted of an increase in sales to our EMEA distributors, partially offset by a net sales decrease in our EMEA direct business. The EMEA distributor net sales increase was primarily due to higher demand in Russia and a shift in the timing of shipments as a higher percentage of spring 2013 advance orders shipped in the first quarter of 2013, while a higher percentage of spring 2012 advance orders shipped in the fourth quarter of 2011. The decrease in net sales in the EMEA direct business was due to continued challenges in the macroeconomic environment, as well as difficulties in our ongoing efforts to revitalize the Columbia brand in key European markets.

Net sales in Canada decreased \$1.4 million, or 6%, to \$23.8 million for the first quarter of 2013 from \$25.2 million for the comparable period in 2012. Changes in foreign currency exchange rates compared with the first quarter of 2012 contributed approximately one percentage point of benefit to the Canada net sales comparison. The decrease in net sales in Canada was concentrated in the Columbia brand, and was led by apparel, accessories and equipment, partially offset by a net sales increase in footwear.

#### Sales by Product Category

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

	Three Months Ended March 31,		
	2013	2012	% Change
	(In millions, except for percentage changes)		
Apparel, Accessories and Equipment	\$294.3	\$284.3	4%
Footwear	54.0	48.8	11%
	\$348.3	\$333.1	5%

Net sales of apparel, accessories and equipment increased \$10.0 million, or 4%, to \$294.3 million for the first quarter of 2013 from \$284.3 million for the comparable period in 2012. The increase in apparel, accessories and equipment net sales was primarily concentrated in the Columbia brand, and was led by the LAAP region, followed by the United States and the EMEA region, partially offset by a net sales decrease in Canada. The apparel, accessories and equipment net sales increase in the LAAP

region was led by our LAAP distributor business, reflecting higher demand in key distributor markets and a shift in timing of shipments of spring 2013 advance orders into the first quarter of 2013 compared to the same period in 2012. Net sales of footwear increased \$5.2 million, or 11%, to \$54.0 million for the first quarter of 2013 compared to \$48.8 million for the comparable period in 2012. The increase in footwear net sales consisted of a net sales increase in the Sorel brand, partially offset by a net sales decrease in the Columbia and Montrail brands. The increase in footwear net sales was led by the United States, followed by the LAAP region, the EMEA region and Canada. The increase in footwear net sales in the United States consisted of an increase in the Sorel brand and was due to cold weather during the first quarter of 2013 which allowed us to liquidate a higher volume of fall product than in the first quarter of 2012.

#### Sales by Brand

Net sales by brand are summarized in the following table:

	Three Months Ended March 31,		
	2013	2012	% Change
	(In millions, except for percentage changes)		
Columbia	\$301.1	\$293.1	3%
Mountain Hardwear	32.1	30.7	5%
Sorel	12.4	6.4	94%
Other	2.7	2.9	(7)%
	\$348.3	\$333.1	5%

The net sales increase for the first quarter of 2013 compared to the first quarter of 2012 was led by the Columbia brand, followed by the Sorel and Mountain Hardwear brands. The Columbia brand net sales increase was led by the LAAP region, followed by the EMEA region.

Gross Profit: Gross profit, as a percentage of net sales, decreased to 44.0% for the first quarter of 2013 from 44.4% for the comparable period in 2012. Gross profit contraction was primarily due to:

- ▲ higher volume of promotional and close-out product sales ;
  - ▲ higher proportion of shipments to distributors, which carry lower margins; and
  - ◆ Deferral of gross profit related to sales of Spring 2013 product to our current independent distributor in China.
- partially offset by:
- ◆ Favorable foreign currency hedge rates.

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

Selling, General and Administrative Expense: SG&A expense includes all costs associated with design, merchandising, marketing, distribution and corporate functions, including related depreciation and amortization. SG&A expense decreased \$1.7 million, or 1%, to \$142.9 million, or 41.0% of net sales, for the first quarter of 2013 from \$144.6 million, or 43.4% of net sales, for the comparable period in 2012. The SG&A decrease was primarily due to:

- ◆ Lower restructuring charges;
- ◆ Favorable foreign currency exchange rates;
- ◆ Lower depreciation expense resulting from assets that are now fully depreciated; and
- ◆ Lower sales commissions expense;

partially offset by:

- ◆ Higher provisions for bad debt;
  - ◆ Expansion of direct-to-consumer operations globally; and
  - ◆ Pre-operating costs related to the formation of a new China joint venture with our current independent distributor.
- Depreciation and amortization included in SG&A expense totaled \$9.6 million for the first quarter of 2013, compared to \$10.8 million for the same period in 2012.

Net Licensing Income: Net licensing income increased \$0.3 million to \$2.3 million for the first quarter of 2013 compared to \$2.0 million for the same period in 2012. The increase in net licensing income was primarily due to increased apparel and





footwear licensing income in the LAAP region, where a third party distributor is licensed to locally manufacture Columbia brand apparel and footwear for sale in local markets, and increased licensing income from accessories in the United States.

**Interest Income, Net:** Net interest income was \$0.1 million for the first quarter of 2013 compared to \$0.2 million for the same period in 2012. Interest income decreased due to lower average yields on cash and cash equivalents and short-term investments, partially offset by higher average balances compared to the same period in 2012. Interest expense was nominal for the first quarter of 2013 and for the comparable period in 2012.

**Income Tax Expense:** Income tax expense increased to \$2.1 million for the first quarter of 2013 from \$1.7 million for the comparable period in 2012. Our effective income tax rate was 17.4% for the first quarter of 2013 compared to 30.4% for the same period in 2012. Our effective income tax rate decreased primarily due to the U.S. legislative reinstatement of the research and development tax credit in 2013, which required us to recognize the benefit of our 2012 research and development activities in the first quarter of 2013. Many factors could cause our annual effective tax rate to differ materially from our quarterly effective tax rates, including changes in the geographic mix of taxable income and discrete events in future periods.

**Net Income:** Net income increased \$6.2 million, or 159%, to \$10.1 million, or \$0.29 per diluted share, including restructuring charges of approximately \$2.0 million, or \$0.06 per diluted share, net of tax, for the first quarter of 2013 from \$3.9 million, or \$0.11 per diluted share, which included restructuring charges of approximately \$2.8 million, or \$0.08 per diluted share, net of tax, for the comparable period in 2012.

#### Liquidity and Capital Resources

Our primary ongoing funding requirements are for working capital, investing activities associated with our ongoing ERP implementation and the expansion of our global operations, including our planned joint venture in China, and general corporate needs. At March 31, 2013, we had total cash and cash equivalents of \$303.7 million, compared to \$290.8 million at December 31, 2012 and \$240.7 million at March 31, 2012. In addition, we had short-term investments of \$71.0 million at March 31, 2013, compared to \$44.7 million at December 31, 2012 and \$12.0 million at March 31, 2012. At March 31, 2013, approximately 34% of our cash and short-term investments were held by some of our foreign subsidiaries where a repatriation of those funds to the United States would likely result in a significant tax expense for us. However, based on the capital and liquidity needs of our foreign operations, as well as the status of current tax law, it is our intent to indefinitely reinvest these funds outside the United States. In addition, our United States operations do not require the repatriation of these funds to meet our currently projected liquidity needs.

Net cash provided by operating activities was \$65.8 million for the three months ended March 31, 2013, compared to \$22.2 million for the same period in 2012. The increase in cash provided by operating activities was primarily due to lower inventory levels and increased net income during the period.

Net cash used in investing activities was \$41.0 million for the three months ended March 31, 2013, compared to \$21.2 million for the comparable period in 2012. For the 2013 period, net cash used in investing activities primarily consisted of \$26.3 million for net purchases of short-term investments and \$14.8 million for capital expenditures. For the 2012 period, net cash used in investing activities primarily consisted of \$12.0 million for capital expenditures and \$9.2 million for net purchases of short-term investments.

Net cash used in financing activities was \$3.0 million for the three months ended March 31, 2013, compared to \$4.8 million for the comparable period in 2012. For the 2013 period, net cash used in financing activities primarily consisted of dividend payments of \$7.5 million, partially offset by net proceeds from stock plan activity of \$4.1 million. For the 2012 period, net cash used in financing activities primarily consisted of dividend payments of \$7.4 million, partially offset by net proceeds from stock plan activity of \$2.4 million.

#### Short-term borrowings and credit lines

We have an unsecured, committed \$125.0 million revolving line of credit available to fund our domestic working capital requirements. At March 31, 2013, no balance was outstanding under this line of credit and we were in compliance with all associated covenants. Internationally, our subsidiaries have operating lines in place guaranteed by the parent company with a combined limit of approximately \$107.2 million at March 31, 2013, of which \$3.6 million is designated as a European customs guarantee. At March 31, 2013, no balance was outstanding under these subsidiary lines of credit.

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

Our operations are affected by seasonal trends typical in the outdoor apparel industry and have historically resulted in higher sales and profits in the third and fourth calendar quarters. This pattern has resulted primarily from the timing of shipments of fall season products to wholesale customers and proportionally higher sales from our direct-to-consumer operations in the fourth quarter, combined with an expense base that is more consistent throughout the year. We believe that our liquidity requirements for at least the next 12 months will be adequately covered by existing cash, cash provided by operations and existing short-term borrowing arrangements.

#### Off-Balance Sheet Arrangements

We have arrangements in place to facilitate the import and purchase of inventory through import letters of credit. We maintain unsecured and uncommitted import lines of credit with a combined limit of \$5.0 million at March 31, 2013, available for issuing documentary letters of credit. At March 31, 2013, no balance was outstanding under these letters of credit.

#### Critical Accounting Policies and Estimates

Management's discussion and analysis of our financial condition and results of operations are based on our consolidated financial statements, which have been prepared in accordance with accounting principles generally accepted in the United States. The preparation of these financial statements requires us to make various estimates and judgments that affect reported amounts of assets, liabilities, sales, cost of sales and expenses and related disclosure of contingent assets and liabilities. We believe that the estimates, assumptions and judgments involved in the accounting policies referred to in our Annual Report on Form 10-K for the year ended December 31, 2012 have the greatest potential impact on our financial statements, so we consider these to be our critical accounting policies and estimates. Because of the uncertainty inherent in these matters, actual results could differ from the estimates we use in applying the critical accounting policies. We base our ongoing estimates on historical experience and other various assumptions that we believe to be reasonable in the circumstances. Many of these critical accounting policies affect working capital account balances, including the policy for revenue recognition, the allowance for doubtful accounts, the provision for potential excess, close-out and slow moving inventory, product warranty, income taxes and stock-based compensation.

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

There have been no significant changes to our critical accounting policies as described in our Annual Report on Form 10-K for the year ended December 31, 2012.

#### Recent Accounting Pronouncements

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

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

There has not been any material change in the market risk disclosure contained in our Annual Report on Form 10-K for the year ended December 31, 2012.

**Item 4 – CONTROLS AND PROCEDURES**

**Disclosure Controls and Procedures**

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

**Changes in Internal Control over Financial Reporting**

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

There were no other changes in internal controls over financial reporting that occurred during the quarter ended March 31, 2013 that have materially affected, or are reasonably likely to materially affect, our internal controls over financial reporting.

## PART II. OTHER INFORMATION

### Item 1. LEGAL PROCEEDINGS

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

### Item 1A. RISK FACTORS

In addition to the other information contained in this Form 10-Q, the following risk factors should be considered carefully in evaluating our business. Our business, financial condition, results of operations or cash flows may be materially adversely affected by any of these risks. Please note that additional risks not presently known to us or that we currently deem immaterial may also impair our business and operations. The following risk factors include changes to and supersede the description of the risk factors associated with our business previously disclosed in Part I, Item 1A of our Annual Report on Form 10-K for the fiscal year ended December 31, 2012.

#### We Face Many Challenges Executing Growth Strategies

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

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

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

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

We regularly implement business process improvement initiatives to optimize our performance. Our current business process initiatives include plans to improve business results through standardization of business processes and technology that support our supply chain and go-to-market strategies through implementation of an integrated ERP software solution and other complementary information technology systems over the next several years. We may experience difficulties as we transition to these new or upgraded systems and processes, including loss of data,

decreases in productivity as our personnel become familiar with new systems and lost revenues. In addition, transitioning to these new or upgraded systems requires significant capital investments and personnel resources. Difficulties in implementing new or upgraded information systems or significant system failures could disrupt our operations and have a material adverse effect on our capital resources, financial condition, results of operations or cash flows.

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

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

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

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

#### System Security Risks, Data Protection Breaches and Cyber Attacks Could Disrupt Our Operations

We manage and store various proprietary information and sensitive or confidential data relating to our business, including sensitive and personally identifiable information. Breaches of our security measures or the accidental loss, inadvertent disclosure or unapproved dissemination of proprietary information or sensitive or confidential data about us, or our customers, including the potential loss or disclosure of such information or data as a result of fraud, trickery or other forms of deception, could expose us, our customers or the individuals affected to a risk of loss or misuse of this information, result in litigation and potential liability for us, damage our brand and reputation or otherwise harm our business. In addition, the cost and operational consequences of implementing further data protection measures could be significant.

Experienced computer programmers and hackers may be able to penetrate our network security and misappropriate or compromise our confidential information or that of third parties, create system disruptions or cause shutdowns. Computer programmers and hackers also may be able to develop and deploy viruses, worms and other malicious software programs that attack or otherwise exploit any security vulnerabilities of our systems. In addition, sophisticated hardware and operating system software and applications that we procure from third parties may contain defects in design or manufacture, including "bugs" and other problems that could unexpectedly interfere with the operation of the system. The costs to us to eliminate or alleviate cyber or other security problems, bugs, viruses, worms, malicious software programs and security vulnerabilities could be significant, and our efforts to address these problems may not be successful and could result in interruptions, delays, cessation of service and loss of existing or potential customers that may impede our sales, manufacturing, distribution or other critical functions.

#### We Depend on Independent Factories



Our products are manufactured by independent factories worldwide. Although we enter into purchase order commitments with these independent factories each season, we generally do not maintain long-term manufacturing commitments with them. Without long-term or reserve commitments, there is no assurance that we will be able to secure adequate or timely production capacity or favorable pricing if growth or product demand differs from our forecasts. Independent factories may fail to perform as expected or our competitors may obtain production capacities that effectively limit or eliminate the availability of these resources to us. If an independent manufacturer fails to ship orders in a timely manner or to meet our standards or if we are unable to obtain

necessary capacities, we may miss delivery deadlines or incur additional costs, which may cause our wholesale customers to cancel their orders, refuse to accept deliveries, or demand a reduction in purchase prices, any of which could have a material adverse effect on our financial condition, results of operations or cash flows.

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

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

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

Our product costs are subject to substantial fluctuation based on:

• Availability and quality of raw materials;

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

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

• Interest rates and currency exchange rates;

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

• General economic conditions.

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

In addition, since the majority of our products are manufactured outside of our principal sales markets, our products must be transported by third parties over large geographical distances. Shortages in ocean freight capacity, airfreight capacity and volatile fuel costs can result in rapidly changing transportation costs. For example, during 2010, shortages of sourcing and transportation capacity, combined with later-than-optimal production of advance orders, caused us to rely more heavily on airfreight to achieve timely delivery to our customers, resulting in significantly higher freight costs. Because we price our products in advance and changes in transportation and other costs may be difficult to predict, we may not be able to pass all or any portion of these higher costs on to our customers or adjust our pricing structure in a timely manner in order to remain competitive, either of which could have a material adverse effect on our financial condition, results of operations or cash flows.

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

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

fluctuation in consumer demand may have a material adverse effect on our financial condition, results of operations or cash flows.

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In the EMEA region, our business includes direct-to-consumer, wholesale and distributor sales. Continued economic weakness in Europe generally and pronounced weakness in particular European markets such as Spain and Greece have hampered our ongoing efforts to revitalize sales of our brands in key European markets, and continued erosion of business in European markets could result in further deleveraging of our business.

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

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

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

- Unseasonable weather conditions;

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

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

- Unanticipated changes in general market conditions or other factors, which may result in lower advance orders from wholesale customers and independent distributors, cancellations of advance orders or a reduction or increase in the rate of reorders placed by retailers; and

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

In some cases, we may produce quantities of product that exceed actual demand, which could result in higher inventory levels that we need to liquidate at discount prices. During periods of weak economic conditions we may experience a significant increase in the volume of order cancellations by our customers, including cancellations resulting from the bankruptcy, liquidation or contraction of certain customers' operations. We may not be able to sell all of the products we have ordered from independent factories or that we have in our inventory. Inventory levels in excess of customer demand may result in inventory write-downs and the sale of excess inventory at discounted prices through our owned outlet stores or third-party liquidation channels, which could have a material adverse effect on our brand image, financial condition, results of operations or cash flows.

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

#### We May be Adversely Affected by Weather Conditions, Including Global Climate Change Trends

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

A significant portion of our business is highly dependent on cold-weather seasons and patterns to generate consumer demand for our cold-weather apparel and footwear. Consumer demand for our cold-weather apparel and footwear may be negatively affected to the extent global weather patterns trend warmer, reducing typical patterns of cold-weather events, or increasing weather volatility, which could have a material adverse effect on our financial condition, results of operations or cash flow.

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

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

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

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

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

Although we believe we have achieved a leading market position in China, many of our competitors who are significantly larger than we are and have substantially greater financial, distribution, marketing and other resources, more stable manufacturing resources and greater brand strength are also concentrating on growing their businesses in China. Increased investment by our competitors in this market could decrease our market share and competitive position in China.

#### Our International Operations Involve Many Risks

We are subject to risks generally associated with doing business internationally. These risks include the effects of foreign laws and regulations, foreign government fiscal crises, changes in consumer preferences, foreign currency fluctuations, managing a diverse and widespread workforce, political unrest, terrorist acts, military operations, disruptions or delays in shipments, disease outbreaks, natural disasters and changes in economic conditions in countries in which we manufacture or sell products. These factors, among others, may affect our ability to sell products in international markets, our ability to collect accounts receivable, our ability to manufacture products or procure materials, and our cost of doing business. For example, unseasonably warm winter weather and a challenging macroeconomic environment in our EMEA region have hampered our ongoing efforts to elevate the Columbia brand in key European markets, where we have significant infrastructure investments. If any of these or other factors make the conduct of business in a particular country undesirable or impractical, our business may be materially and adversely affected. As we expand our operations in geographic scope and product categories, we anticipate intellectual property disputes will increase, making it more expensive and challenging to establish and protect our intellectual property rights and to defend against claims of infringement by others.

In addition, many of our imported products are subject to duties, tariffs or other import limitations that affect the cost and quantity of various types of goods imported into the United States and other markets. Any country in which our products are produced or sold may eliminate, adjust or impose new import limitations, duties, anti-dumping penalties or other charges or restrictions, any of which could have a material adverse effect on our financial condition, results of

operations or cash flows.

**We May Have Additional Tax Liabilities**

As a global company, we determine our income tax liability in various competing tax jurisdictions based on an analysis and interpretation of local tax laws and regulations. This analysis requires a significant amount of judgment and estimation and is often based on various assumptions about the future actions of the local tax authorities. These determinations are the subject of periodic

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domestic and foreign tax audits. Although we accrue for uncertain tax positions, our accrual may be insufficient to satisfy unfavorable findings. Unfavorable audit findings and tax rulings may result in payment of taxes, fines and penalties for prior periods and higher tax rates in future periods, which may have a material adverse effect on our financial condition, results of operations or cash flows. Changes in tax law or our interpretation of tax laws and the resolution of current and future tax audits could significantly affect the amounts provided for income taxes in our consolidated financial statements.

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

#### We Operate in Very Competitive Markets

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

Retailers who are our customers often pose our most significant competitive threat by designing and marketing apparel, footwear, equipment and accessories under their own private labels. For example, in the United States, several of our largest customers have developed significant private label brands during the past decade that compete directly with our products. These retailers have assumed an increasing degree of inventory risk in their private label products and, as a result, may first cancel advance orders with us in order to manage their own inventory levels downward during periods of unseasonable weather or weak economic cycles.

We also compete with other companies for the production capacity of independent factories that manufacture our products and for import capacity. Many of our competitors are significantly larger than we are and have substantially greater financial, distribution, marketing and other resources, more stable manufacturing resources and greater brand strength than we have. In addition, when our competitors combine operations through mergers, acquisitions or other transactions, their competitive strength may increase.

Increased competition may result in reduced access to production capacity, reductions in display areas in retail locations, reductions in sales, or reductions in our profit margins, any of which may have a material adverse effect on our financial condition, results of operations or cash flows.

#### We May be Adversely Affected by the Financial Health of our Customers

Sluggish economies and consumer uncertainty regarding future economic prospects in our key markets have had an adverse effect on the financial health of our customers, some of whom have filed or may file for protection under bankruptcy laws, which may in turn have a material adverse effect on our results of operations and financial condition.

We extend credit to our customers based on an assessment of the customer's financial condition, generally without requiring collateral. To assist in the scheduling of production and the shipping of seasonal products, we offer customers discounts for placing advance orders and extended payment terms for taking delivery before the peak shipping season. These extended payment terms increase our exposure to the risk of uncollectable receivables. In addition, we face increased risk of order reduction or cancellation or reduced availability of credit insurance coverage when dealing with financially ailing retailers or retailers struggling with economic uncertainty. Some of our significant wholesale customers and distributors have liquidated or reorganized, while others have had financial difficulties in the past and have recently experienced tightened credit markets and sales declines and reduced profitability, which in turn has an adverse effect on our business. We may reduce our level of business with customers and distributors experiencing financial difficulties and may not be able to replace that business with other customers, which could have a material adverse effect on our financial condition, results of operations or cash flows.

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



Economic downturns and economic uncertainty generally affect global credit markets. Our vendors, customers and other participants in our supply chain may require access to credit markets in order to do business. Credit market conditions may slow our collection efforts as customers find it more difficult to obtain necessary financing, leading to higher than normal accounts receivable. This could result in greater expense associated with collection efforts and increased bad debt expense. Credit conditions

may impair our vendors' ability to finance the purchase of raw materials or general working capital needs to support our production requirements, resulting in a delay or non-receipt of inventory shipments during key seasons.

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

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

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

#### We Rely on Innovation to Compete in the Market for our Products

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

As we strive to achieve product innovations, we face a greater risk of inadvertent infringements of third party rights or compliance issues with regulations applicable to products with technical innovations such as electrical heating components. In addition, technical innovations often involve more complex manufacturing processes, which may lead to higher instances of quality issues, and if we experience problems with the quality of our products, we may incur substantial expense to address the problems and any associated product risks. For example, in recent years we incurred costs in connection with recalls of some of our battery-powered electrically heated apparel. Failure to successfully bring to market innovations in our product lines could have a material adverse effect on our financial condition, results of operations or cash flows.

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

Changes in consumer preferences or consumer interest in outdoor activities may have a material adverse effect on our business. In addition, changes in fashion trends may have a greater impact than in the past as we expand our offerings to include more product categories in more geographic areas, particularly with the Sorel brand, a product generally more sensitive to fashion trends. We also face risks because our business requires us and our customers to anticipate consumer preferences. Our decisions about product designs often are made far in advance of consumer acceptance. Although we try to manage our inventory risk by soliciting advance order commitments by retailers, we must generally place a significant portion of our seasonal production orders with our independent factories before we have received all of a season's advance orders from customers, and orders may be cancelled by customers before shipment. If we or our customers fail to anticipate and respond to consumer preferences, we may have lower sales, excess inventories and lower profit margins, any of which could have a material adverse effect on our financial condition, results of operations or cash flows.

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

Our registered and common law trademarks and our patented or patent-pending designs and technologies have significant value and are important to our ability to differentiate our products from those of our competitors and to create and sustain demand for our products. We also place significant value on our trade dress, the overall appearance and image of our products. We regularly discover products that are counterfeit reproductions of our products or that otherwise infringe on our proprietary rights. Counterfeiting activities typically increase as brand recognition increases, especially in markets outside the United States. Increased instances of counterfeit manufacture and sales may

adversely affect our sales and our brand and result in a shift of consumer preference away from our products. The actions we take to establish and protect trademarks and other proprietary rights may not be adequate to prevent imitation of our products by others or to prevent others from seeking to block sales of our products as violations of proprietary rights. In markets outside of the United States, it may be more difficult for us to establish our proprietary rights and to successfully challenge use of those rights by other parties. We also license our proprietary rights to third parties.

Failure to choose appropriate licensees and licensed product categories may dilute or harm our brands. In addition to our own intellectual property rights, many of the intellectual property rights in the technology, fabrics and processes used to manufacture our products are generally owned or controlled by our suppliers and are generally not unique to us. In those cases, we may not be able to adequately protect our products or differentiate their performance characteristics and fabrications from those of our competitors. Actions or decisions in the management of our intellectual property portfolio may affect the strength of our brands, which may in turn have a material adverse effect on our financial condition, results of operations or cash flows.

Although we have not been materially inhibited from selling products in connection with patent, trademark and trade dress disputes, as we focus on innovation in our product lines, extend our brands into new product categories and expand the geographic scope of our marketing, we may become subject to litigation based on allegations of infringement or other improper use of intellectual property rights of third parties, including third party trademark, copyright and patent rights. An increasing number of our products include technologies and/or designs for which we have obtained or applied for patent protection. Failure to successfully obtain and maintain patents on these innovations could negatively affect our ability to market and sell our products. Future litigation also may be necessary to defend against claims of infringement or to enforce and protect our intellectual property rights. As we utilize e-commerce and social media to a greater degree in our sales and marketing efforts, we face an increasing risk of patent infringement claims from non-practicing entities and others covering broad functional aspects of internet operations. Intellectual property litigation may be costly and may divert management's attention from the operation of our business. Adverse determinations in any litigation may result in the loss of our proprietary rights, subject us to significant liabilities or require us to seek licenses from third parties, which may not be available on commercially reasonable terms, if at all. Any of these outcomes may have a material adverse effect on our financial condition, results of operations or cash flows.

#### Our Success Depends on Our Distribution Facilities

Our ability to meet customer expectations, manage inventory, complete sales and achieve objectives for operating efficiencies depends on the proper operation of our existing distribution facilities, the development or expansion of additional distribution capabilities and services, such as the transition of the value added services function from independent factories to our distribution centers, and the timely performance of services by third parties, including those involved in shipping product to and from our distribution facilities. In the United States, we rely primarily on our distribution centers in Portland, Oregon and Robards, Kentucky; in Canada, we have primarily relied on two distribution facilities in Strathroy, Ontario, one of which was transitioned to a facility in London, Ontario in late 2012 and the other of which is expected to be transitioned to this same London, Ontario facility in 2013; in Europe, we rely primarily on our distribution center in Cambrai, France; in Japan, we rely primarily on a third-party logistics distribution provider in Tokyo; and in Korea, we rely primarily on leased distribution facilities near Seoul that we manage and operate.

Our distribution facilities in the United States and France are highly automated, which means that their operations are complicated and may be subject to a number of risks related to computer viruses, the proper operation of software and hardware, electronic or power interruptions, and other system failures. We plan to upgrade our warehouse management system and add automation at our distribution facility in Canada in 2013. Risks associated with upgrading or expanding these facilities may significantly disrupt or increase the cost of our operations. For example, in addition to supporting our traditional wholesale business, our existing distribution facilities have been modified to enable them to also support our e-commerce business in the United States. Failure to successfully maintain and update these modifications could disrupt our wholesale and e-commerce shipments and may have a material adverse effect on our financial condition, results of operations or cash flows.

The fixed costs associated with owning, operating and maintaining these large, highly automated distribution centers during a period of economic weakness or declining sales can result in lower operating efficiencies and financial deleverage. This has occurred in recent years in Europe, where our distribution center is underutilized. This fixed cost structure globally may make it difficult for us to achieve or maintain profitability if sales volumes decline for an extended period of time and could have a material adverse effect on our financial condition, results of operations or cash flows.

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

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

Although the majority of our product purchases are denominated in U.S. dollars, the cost of these products may be affected by relative changes in the value of the local currencies of our subsidiaries and our manufacturers. Price increases caused by currency exchange rate fluctuations may make our products less competitive or have an adverse effect on our margins. Our international revenues and expenses generally are derived from sales and operations in currencies other than the U.S. dollar. Because the functional currency of many of our subsidiaries is not the U.S. dollar, we are exposed to the potential of material gains or losses

from the remeasurement of U.S. dollar monetary transactions into the respective functional currencies. Currency exchange rate fluctuations may also disrupt the business of the independent factories that produce our products by making their purchases of raw materials more expensive and more difficult to finance. As a result, currency fluctuations may have a material adverse effect on our financial condition, results of operations or cash flows.

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

Our investment portfolio is subject to a number of risks and uncertainties. Changes in market conditions, such as those that accompany an economic downturn or economic uncertainty, may negatively affect the value and liquidity of our investment portfolio, perhaps significantly. Our ability to find diversified investments that are both safe and liquid and that provide a reasonable return may be impaired, potentially resulting in lower interest income, less diversification, longer investment maturities and/or other-than-temporary impairments.

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

Our business depends on our ability to source and distribute products in a timely manner. While a majority of our own operations are not subject to organized labor agreements, our relationship with our Cambrai distribution center employees is governed by French law, including a formal representation of employees by a Works' Council and the application of a collective bargaining agreement. Labor disputes at independent factories where our goods are produced, shipping ports, transportation carriers, retail stores or distribution centers create significant risks for our business, particularly if these disputes result in work slowdowns, lockouts, strikes or other disruptions during our peak manufacturing, shipping and selling seasons, and may have a material adverse effect on our business, potentially resulting in cancelled orders by customers, unanticipated inventory accumulation, and reduced revenues and earnings.

#### We Depend on Key Suppliers

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

#### We Depend on Key Personnel

Our future success will depend in part on the continued service of key personnel and our ability to attract, retain and develop key managers, designers, sales and information technology professionals and others. We face intense competition for these individuals worldwide, and there is a significant concentration of well-funded apparel and footwear competitors in and around our headquarters in Portland, Oregon. We may not be able to attract qualified new employees or retain existing employees, which may have a material adverse effect on our financial condition, results of operations or cash flows.

#### Our Business Is Affected by Seasonality

Our business is affected by the general seasonal trends common to the outdoor industry. Our products are marketed on a seasonal basis and our annual net sales are weighted heavily toward the fall/winter season, while our operating expenses are more equally distributed throughout the year. As a result, the majority, and sometimes all, of our operating profits are generated in the second half of the year. The expansion of our direct-to-consumer operations and sales growth in our winter footwear business (both Sorel and Columbia brands) has increased the proportion of sales and profits that we generate in the fourth calendar quarter. This seasonality, along with other factors that are beyond our control and that are discussed elsewhere in this section, may adversely affect our business and cause our results of operations to fluctuate. As a result, our profitability may be materially affected if management is not able to timely adjust expenses in reaction to adverse events such as unfavorable weather, weak consumer spending patterns or unanticipated levels of order cancellations. Results of operations in any period should not be considered indicative of the results to be expected for any future period.

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

Our products are subject to increasingly stringent and complex domestic and foreign product labeling and performance and safety standards, laws and other regulations. These requirements could result in greater expense associated with compliance efforts, and failure to comply with these regulations could result in a delay, non-delivery or recall or destruction of inventory shipments during key seasons or in other financial penalties. Significant or continuing noncompliance with these standards and laws could

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disrupt our business and harm our reputation and, as a result, could have a material adverse effect on our financial condition, results of operations or cash flows.

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

**Our Common Stock Price May Be Volatile**

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

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

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



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

The Board of Directors has authorized the repurchase of \$500,000,000 of the Company’s common stock. As of March 31, 2013, the Company had repurchased 9,593,278 shares under this program at an aggregate purchase price of approximately \$441,443,000. Shares of the Company’s common stock may be purchased in the open market or through privately negotiated transactions, subject to market conditions. The repurchase program does not obligate the Company to acquire any specific number of shares or to acquire shares over any specified period of time. The Company did not repurchase any equity securities during the three months ended March 31, 2013.

Item 6 – EXHIBITS

(a) Exhibits

- †10.1 Columbia Sportswear Company Change in Control Severance Plan
- 31.1 Rule 13a-14(a) Certification of Timothy P. Boyle, President and Chief Executive Officer
- 31.2 Rule 13a-14(a) Certification of Thomas B. Cusick, Senior Vice President of Finance and Chief Financial Officer
- 32.1 Section 1350 Certification of Timothy P. Boyle, President and Chief Executive Officer
- 32.2 Section 1350 Certification of Thomas B. Cusick, Senior Vice President of Finance and Chief Financial Officer
- 101 INS XBRL Instance Document \*
- 101 SCH XBRL Taxonomy Extension Schema Document \*
- 101 CAL XBRL Taxonomy Extension Calculation Linkbase Document \*
- 101 DEF XBRL Taxonomy Extension Definition Linkbase Document\*
- 101 LAB XBRL Taxonomy Extension Label Linkbase Document \*
- 101 PRE XBRL Taxonomy Extension Presentation Linkbase Document \*

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

† Management contract or compensatory plan.

**SIGNATURES**

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

Date: May 8, 2013

COLUMBIA SPORTSWEAR COMPANY

/s/ THOMAS B. CUSICK

Thomas B. Cusick

Senior Vice President of Finance and Chief Financial Officer

(Duly Authorized Officer and Principal Financial and Accounting Officer)