COLUMBIA SPORTSWEAR CO
Form 10-Q
May 03, 2018

UNITED STATES
SECURITIES AND EXCHANGE COMMISSION
Washington, D.C. 20549

FORM 10-Q

x QUARTERLY REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934
For the quarterly period ended March 31, 2018
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 | 93-0498284 |
| (State or other jurisdiction of incorporation or organization) | (IRS Employer Identification Number) |
| 14375 Northwest Science Park Drive Portland, Oregon | 97229 |
| (Address of principal executive offices) | (Zip Code) |

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

Indicate by check mark whether registrant (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days. Yes x 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 x No ¨
Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, a non-accelerated filer, smaller reporting company, or an emerging growth company. See the definitions of "large accelerated filer," "accelerated filer," "smaller reporting company," and "emerging growth company" in Rule 12b-2 of the Exchange Act.

| | | | |
|---|---|---|---|
| Large accelerated filer | x | Accelerated filer | ¨ |
| Non-accelerated filer | ¨ (Do not check if a smaller reporting company) | Smaller reporting company | ¨ |
| Emerging growth company | ¨ | | |

If an emerging growth company, indicate by check mark if the registrant has elected not to use the extended transition period for complying with any new or revised financial accounting standards provided pursuant to Section 13(a) of the Exchange Act ¨
Indicate by check mark whether the registrant is a shell company (as defined in Rule 12b-2 of the Exchange Act).
Yes ¨ No x

The number of shares of Common Stock outstanding on April 20, 2018 was 70,005,333.

COLUMBIA SPORTSWEAR COMPANY
MARCH 31, 2018
INDEX TO FORM 10-Q

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

| | March 31, 2018 | December 31, 2017 | March 31, 2017 |
|---|---|---|---|
| ASSETS | | | |
| Current Assets: | | | |
| Cash and cash equivalents | $717,216 | $673,166 | $556,006 |
| Short-term investments | 90,978 | 94,983 | 34,470 |
| Accounts receivable, net of allowance of $7,696, $9,043, $7,726 and respectively | 316,415 | 364,862 | 260,456 |
| Inventories | 405,971 | 457,927 | 398,842 |
| Prepaid expenses and other current assets | 72,788 | 58,559 | 40,863 |
| Total current assets | 1,603,368 | 1,649,497 | 1,290,637 |
| Property, plant and equipment, at cost, net of accumulated depreciation of $467,047, $455,811 and $421,809, respectively | 281,213 | 281,394 | 279,730 |
| Intangible assets, net (Note 5) | 128,810 | 129,555 | 132,151 |
| Goodwill | 68,594 | 68,594 | 68,594 |
| Deferred income taxes | 77,043 | 56,804 | 90,109 |
| Other non-current assets | 29,656 | 27,058 | 26,853 |
| Total assets | $2,188,684 | $2,212,902 | $1,888,074 |
| LIABILITIES AND EQUITY | | | |
| Current Liabilities: | | | |
| Accounts payable | 167,328 | 252,301 | 95,253 |
| Accrued liabilities (Note 6) | 206,145 | 182,228 | 126,866 |
| Income taxes payable | 10,261 | 19,107 | 5,798 |
| Total current liabilities | 383,734 | 453,636 | 227,917 |
| Note payable to related party (Note 14) | — | — | 14,171 |
| Other long-term liabilities | 51,888 | 48,735 | 42,872 |
| Income taxes payable | 61,538 | 58,104 | 10,948 |
| Deferred income taxes | 171 | 168 | 149 |
| Total liabilities | 497,331 | 560,643 | 296,057 |
| Commitments and contingencies (Note 12) | | | |
| Columbia Sportswear Company Shareholders' Equity: | | | |
| Preferred stock; 10,000 shares authorized; none issued and outstanding | — | — | — |
| Common stock (no par value); 125,000 shares authorized; 70,113, 69,995, and 69,634, issued and outstanding, respectively (Note 9) | 36,190 | 45,829 | 28,020 |
| Retained earnings | 1,629,279 | 1,585,009 | 1,553,143 |
| Accumulated other comprehensive loss (Note 8) | (8,949) | (8,887) | (12,892) |
| Total Columbia Sportswear Company shareholders' equity | 1,656,520 | 1,621,951 | 1,568,271 |
| Non-controlling interest (Note 4) | 34,833 | 30,308 | 23,746 |
| Total equity | 1,691,353 | 1,652,259 | 1,592,017 |
| Total liabilities and equity | $2,188,684 | $2,212,902 | $1,888,074 |

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, | |
|---|---|---|
| | 2018 | 2017 |
| Net sales | $607,308 | $543,793 |
| Cost of sales | 307,870 | 285,326 |
| Gross profit | 299,438 | 258,467 |
| Selling, general and administrative expenses | 243,368 | 212,815 |
| Net licensing income | 3,251 | 2,353 |
| Income from operations | 59,321 | 48,005 |
| Interest income, net | 2,296 | 955 |
| Interest expense on note payable to related party (Note 14) | — | (249) |
| Other non-operating expense, net | (268) | (53) |
| Income before income tax | 61,349 | 48,658 |
| Income tax expense | (12,620) | (9,773) |
| Net income | 48,729 | 38,885 |
| Net income attributable to non-controlling interest | 3,622 | 2,879 |
| Net income attributable to Columbia Sportswear Company | $45,107 | $36,006 |
| Earnings per share attributable to Columbia Sportswear Company (Note 9): | | |
| Basic | $0.64 | $0.52 |
| Diluted | $0.64 | $0.51 |
| Cash dividends per share | $0.22 | $0.18 |
| Weighted average shares outstanding (Note 9): | | |
| Basic | 70,080 | 69,606 |
| Diluted | 70,843 | 70,414 |

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, | |
|---|---|---|
| | 2018 | 2017 |
| Net income | 48,729 | $38,885 |
| Other comprehensive income: | | |
| Unrealized holding gains on available-for-sale securities | 4 | 4 |
| Unrealized losses on derivative transactions (net of tax effects of $1,385 and $880, respectively) | (4,907) | (1,605) |
| Foreign currency translation adjustments (net of tax effects of ($1,544) and ($91), respectively) | 6,259 | 11,502 |
| Other comprehensive income | 1,356 | 9,901 |
| Comprehensive income | 50,085 | 48,786 |
| Comprehensive income attributable to non-controlling interest | 4,525 | 3,055 |
| Comprehensive income attributable to Columbia Sportswear Company | $45,560 | $45,731 |

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, | | | | | |
|---|---|---|---|---|---|---|
| | 2018 | | | 2017 | | |
| Cash flows from operating activities: | | | | | | |
| Net income | $ | 48,729 | | $ | 38,885 | |
| Adjustments to reconcile net income to net cash provided by operating activities: | | | | | | |
| Depreciation and amortization | 14,536 | | | 14,940 | | |
| Loss on disposal and impairment of property, plant, and equipment | 20 | | | 160 | | |
| Deferred income taxes | 3,252 | | | 4,426 | | |
| Stock-based compensation | 3,113 | | | 2,941 | | |
| Changes in operating assets and liabilities: | | | | | | |
| Accounts receivable | 115,414 | | | 76,619 | | |
| Inventories | 32,133 | | | 94,487 | | |
| Prepaid expenses and other current assets | (1,912 | | ) | (2,139 | | ) |
| Other assets | (2,340 | | ) | 1,336 | | |
| Accounts payable | (87,492 | | ) | (122,824 | | ) |
| Accrued liabilities | (45,000 | | ) | (18,961 | | ) |
| Income taxes payable | (6,038 | | ) | (1,738 | | ) |
| Other liabilities | 2,937 | | | 97 | | |
| Net cash provided by operating activities | 77,352 | | | 88,229 | | |
| Cash flows from investing activities: | | | | | | |
| Purchases of short-term investments | (33,178 | | ) | (33,813 | | ) |
| Sales of short-term investments | 37,121 | | | — | | |
| Capital expenditures | (12,290 | | ) | (11,275 | | ) |
| Proceeds from sale of property, plant, and equipment | 19 | | | 27 | | |
| Net cash used in investing activities | (8,328 | | ) | (45,061 | | ) |
| Cash flows from financing activities: | | | | | | |
| | — | | | 400 | | |

| | | | | | | |
|---|---|---|---|---|---|---|
| Proceeds from credit facilities | | | | | | |
| Repayments on credit facilities | — | | | (400 | | ) |
| Proceeds from issuance of common stock under employee stock plans | 9,380 | | | 7,791 | | |
| Tax payments related to restricted stock unit issuances | (4,033 | | ) | (3,513 | | ) |
| Repurchase of common stock | (18,099 | | ) | (33,000 | | ) |
| Cash dividends paid | (15,452 | | ) | (12,499 | | ) |
| Net cash used in financing activities | (28,204 | | ) | (41,221 | | ) |
| Net effect of exchange rate changes on cash | 3,230 | | | 2,670 | | |
| Net increase in cash and cash equivalents | 44,050 | | | 4,617 | | |
| Cash and cash equivalents, beginning of period | 673,166 | | | 551,389 | | |
| Cash and cash equivalents, end of period | $ | 717,216 | | $ | 556,006 | |
| Supplemental disclosures of cash flow information: | | | | | | |
| Cash paid during the period for income taxes | $ | 24,510 | | $ | 12,951 | |
| Cash paid during the period for interest on note payable to related party | — | | | 253 | | |
| Supplemental disclosures of non-cash investing and financing activities: | | | | | | |
| Capital expenditures incurred but not yet paid | $ | 4,000 | | $ | 4,206 | |

See accompanying notes to condensed consolidated financial statements.

5

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 (together with its wholly owned subsidiaries and entities in which it maintains a controlling financial interest, 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, 2018 and 2017, and the results of operations and cash flows for the three months ended March 31, 2018 and 2017. The December 31, 2017 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, 2017. A significant part of the Company's business is of a seasonal nature; therefore, results of operations for the three months ended March 31, 2018 are not necessarily indicative of results to be expected for other quarterly periods or 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 ("GAAP") 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, 2017.

Principles of Consolidation

The condensed consolidated financial statements include the accounts of Columbia Sportswear Company, its wholly owned subsidiaries and entities in which it maintains a controlling financial interest. All significant intercompany balances and transactions have been eliminated in consolidation.

Estimates and Assumptions

The preparation of financial statements in conformity with GAAP 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 condensed 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 miscellaneous claims from customers, allowance for doubtful accounts, excess, slow-moving and closeout inventories, product warranty, long-lived and intangible assets, goodwill, income taxes, and stock-based compensation.

NOTE 2—SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Except as disclosed below and in Note 3, pertaining to our adoption of new accounting pronouncements, 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, 2017.

Recently Adopted Accounting Pronouncements:

On January 1, 2018, the Company adopted Accounting Standards Update ("ASU") No. 2014-09, Revenue from Contracts with Customers, which outlines a single comprehensive model for entities to use in accounting for revenue arising from contracts with customers that supersedes most current revenue recognition guidance. The updated guidance, and subsequent clarifications, collectively referred to as ASC 606, require an entity to recognize revenue when it transfers control of promised goods or services to customers in an amount that reflects the consideration to which the entity expects to be entitled in exchange for those goods or services. In addition, the guidance requires disclosure of the nature, amount, timing and uncertainty of revenue and cash flows arising from contracts with customers. The Company adopted this standard, utilizing the modified retrospective approach, with the cumulative effect of initially applying the new standard recognized in retained earnings. Accordingly, comparative prior period information has not been restated and continues to be reported under the accounting standards in effect for those

periods.
In addition, the adoption of ASC 606 had the following effects: (1) fees paid to or retained by third parties in conjunction with certain concession-based retail arrangements in our Latin America and Asia Pacific ("LAAP") region, historically comprising approximately 2% of net sales, are now recognized as a component of selling, general and administrative ("SG&A") expenses; (2) wholesale sales returns reserves, estimated chargebacks and markdowns, and other provisions for customer refunds are now presented as accrued liabilities rather than netted within accounts receivable; and (3) the estimated cost of inventory associated with sales returns reserves are now presented within other current assets rather than inventories. The Company expects the timing of revenue recognition for its significant revenue streams to remain substantially unchanged, with no material effect on net sales. See the table below for the effect of the adoption of the standard on our Condensed Consolidated Balance Sheets as of January 1, 2018.

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

On January 1, 2018, the Company adopted ASU No. 2016-16, Income Taxes (Topic 740): Intra-Entity Transfer of Assets Other than Inventory, which requires the recognition of the income tax effects of an intra-entity transfer of an asset, other than inventory, when the transfer occurs, eliminating an exception under previous GAAP in which the tax effects of intra-entity asset transfers were deferred until the transferred asset is sold to a third party or otherwise recovered through use. Income tax effects of intra-entity transfers of inventory will continue to be deferred until the inventory has been sold to a third party. The Company adopted this standard effective January 1, 2018 by applying the required modified retrospective approach with a cumulative-effect adjustment to retained earnings of certain previously deferred tax benefits. The Company anticipates the adoption of this standard will result in increased volatility in its future effective income tax rate. See the table below for the effect of the adoption of the standard on our Condensed Consolidated Balance Sheets as of January 1, 2018.

On January 1, 2018, the Company early-adopted ASU No. 2017-12, Derivatives and Hedging (Topic 815): Targeted Improvements to Accounting for Hedging Activities, which simplifies the application of hedge accounting guidance to better portray the economic results of risk management activities in the financial statements. The guidance aligns the recognition and presentation of the effects of hedging instruments and hedged items in the financial statements, and includes certain targeted improvements to ease the application of the assessment of hedge effectiveness. The Company utilized the required modified retrospective transition method with the cumulative effect of initially applying the new standard recognized in retained earnings. See the table below for the effect of the adoption of the standard on our Condensed Consolidated Balance Sheets as of January 1, 2018.

On January 1, 2018, the Company adopted ASU No. 2016-01, Financial Instruments - Overall (Subtopic 825-10): Recognition and Measurement of Financial Assets and Financial Liabilities, which requires equity investments that are not accounted for under the equity method of accounting to be measured at fair value with changes recognized in net income and also updates certain presentation and disclosure requirements. The Company does not anticipate a material effect on the Company's financial position, results of operations or cash flows due to the adoption of this standard.

The following table presents the effect of the adoption of ASC 606, ASU 2016-16 and ASU 2017-12 on our Condensed Consolidated Balance Sheets as of January 1, 2018 (in thousands):

| | January 1, 2018 | | | | |
|---|---|---|---|---|---|
| | December 31, 2017 | Adjustments due to ASC 606 | Adjustments due to ASU 2016-16 | Adjustments due to ASU 2017-12 | January 1, 2018 |
| Accounts receivable, net | $364,862 | $ 64,519 | $ — | $ — | $429,381 |
| Inventories | 457,927 | (24,037) | — | — | 433,890 |
| Prepaid expenses and other current assets | 58,559 | 24,037 | (11,814) | — | 70,782 |
| Total current assets | 1,649,497 | 64,519 | (11,814) | — | 1,702,202 |
| Deferred income taxes | 56,804 | (519) | 23,484 | — | 79,769 |
| Total assets | 2,212,902 | 64,000 | 11,670 | — | 2,288,572 |
| Accrued liabilities | 182,228 | 61,340 | — | — | 243,568 |
| Income taxes payable | 19,107 | 230 | — | — | 19,337 |
| Total current liabilities | 453,636 | 61,570 | — | — | 515,206 |
| Total liabilities | 560,643 | 61,570 | — | — | 622,213 |
| Retained earnings | 1,585,009 | 2,430 | 11,670 | 515 | 1,599,624 |
| Accumulated other comprehensive loss | (8,887) | — | — | (515) | (9,402) |
| Total liabilities and equity | $2,212,902 | $ 64,000 | $ 11,670 | $ — | $2,288,572 |

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

In accordance with the requirements of ASC 606, the effects of adoption of this standard on our Condensed Consolidated Balance Sheets and Condensed Consolidated Statements of Operations were as follows (in thousands):

| | March 31, 2018 | | |
|---|---|---|---|
| | As Reported | Effect of Standard | Balances Without Adoption of ASC 606 |
| Accounts receivable, net | $316,415 | $56,768 | $259,647 |
| Inventories | 405,971 | (18,175 ) | 424,146 |
| Prepaid expenses and other current assets | 72,788 | 18,175 | 54,613 |
| Total current assets | 1,603,368 | 56,768 | 1,546,600 |
| Total assets | 2,188,684 | 56,768 | 2,131,916 |
| Accrued liabilities | 206,145 | 56,768 | 149,377 |
| Total current liabilities | 383,734 | 56,768 | 326,966 |
| Total liabilities | 497,331 | 56,768 | 440,563 |
| Total liabilities and equity | $2,188,684 | $56,768 | $2,131,916 |

| | Three Months Ended March 31, 2018 | | |
|---|---|---|---|
| | As Reported | Effect of Standard | Balances Without Adoption of ASC 606 |
| Net sales | $607,308 | $ 8,257 | $599,051 |
| Gross profit | 299,438 | 8,257 | 291,181 |
| Selling, general and administrative expenses | $243,368 | $ 8,257 | $235,111 |

Recent Accounting Pronouncements Not Yet Adopted
In February 2016, the FASB issued ASU No. 2016-02, Leases (Topic 842), in order to increase transparency and comparability among organizations by recognizing lease assets and lease liabilities on the balance sheet for most leases previously classified as operating leases. The Company will adopt the new standard on January 1, 2019. The ASU is required to be applied using a modified retrospective approach at the beginning of the earliest period presented, with optional practical expedients. However, the FASB recently proposed an optional transition alternative, currently subject to approval, which would allow for application of the guidance at the beginning of the period in which it is adopted, rather than at the beginning of the earliest comparative period presented.
The Company is currently evaluating the impact of this guidance, including reviewing the standard's provisions and gathering and analyzing data to support further evaluation of real estate and non-real estate leases and identifying arrangements that may contain embedded leases. The Company is also evaluating the impact of the new accounting standard on the Company's financial statement disclosures, systems, processes and controls. Based on these efforts, the Company expects the adoption will result in a material increase in the assets and liabilities on its Consolidated Balance Sheets and is not expected to have a material effect on the results of operations or cash flows.
In June 2016, the FASB issued ASU No. 2016-13, Financial Instruments - Credit Losses (Topic 326): Measurement of Credit Losses on Financial Instruments. The pronouncement changes the impairment model for most financial assets and will require the use of an "expected loss" model for instruments measured at amortized cost. Under this model,

entities will be required to estimate the lifetime expected credit loss on such instruments and record an allowance to offset the amortized cost basis of the financial asset, resulting in a net presentation of the amount expected to be collected on the financial asset. This standard is effective beginning in the first quarter of 2020. The adoption of ASU 2016-13 is not expected to have a material effect on the Company's financial position, results of operations or cash flows.
In January 2017, the FASB issued ASU No. 2017-04, Intangibles-Goodwill and Other (Topic 350): Simplifying the Test for Goodwill Impairment, which simplifies the accounting for goodwill impairments by eliminating step two from the goodwill impairment test. Under this guidance, if the carrying amount of a reporting unit exceeds its estimated fair value, an impairment charge shall be recognized in an amount equal to that excess, limited to the total amount of goodwill allocated to that reporting unit. This standard is effective beginning in the first quarter of 2019, with early adoption permitted. The Company is evaluating the impact and expects the adoption of ASU 2017-04 to affect the amount and timing of future goodwill impairment charges, if any.

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

NOTE 3—REVENUES

Disaggregated Revenue

The following tables disaggregate our operating segment revenue by product category and sales channel (in thousands), which we believe provides a meaningful depiction how the nature, timing, and uncertainty of revenues are affected by economic factors:

| | Three Months Ended March 31, 2018 | | | | |
|---|---|---|---|---|---|
| | United States | LAAP | EMEA | Canada | Total |
| Product category revenues | | | | | |
| Apparel, Accessories and Equipment | $313,326 | $96,380 | $47,475 | $32,778 | $489,959 |
| Footwear | 49,518 | 35,189 | 24,300 | 8,342 | 117,349 |
| Total | $362,844 | $131,569 | $71,775 | $41,120 | $607,308 |
| | | | | | |
| Sales channel revenues | | | | | |
| Wholesale | $186,840 | $68,187 | $57,581 | $31,331 | $343,939 |
| Direct-to-consumer | 176,004 | 63,382 | 14,194 | 9,789 | 263,369 |
| Total | $362,844 | $131,569 | $71,775 | $41,120 | $607,308 |

| | Three Months Ended March 31, 2017 | | | | |
|---|---|---|---|---|---|
| | United States | LAAP | EMEA | Canada | Total |
| Product category revenues | | | | | |
| Apparel, Accessories and Equipment | $286,743 | $86,769 | $36,829 | $29,738 | $440,079 |
| Footwear | 46,441 | 31,575 | 18,505 | 7,193 | 103,714 |
| Total | $333,184 | $118,344 | $55,334 | $36,931 | $543,793 |
| | | | | | |
| Sales channel revenues | | | | | |
| Wholesale | $182,996 | $69,220 | $46,485 | $30,149 | $328,850 |
| Direct-to-consumer | 150,188 | 49,124 | 8,849 | 6,782 | 214,943 |
| Total | $333,184 | $118,344 | $55,334 | $36,931 | $543,793 |

Accounting Policies

Revenues are recognized when our performance obligations are satisfied as evidenced by transfer of control of promised goods to our customers, in an amount that reflects the consideration we expect to be entitled to in exchange for those goods or services. Within our wholesale channel, control generally transfers to the customer upon shipment to, or upon receipt by, the customer depending on the terms of sale with the customer. Within our direct-to-consumer ("DTC") channel, control generally transfers to the customer at the time of sale within our retail stores and concession-based arrangements and upon shipment to the customer with respect to e-commerce transactions.

The amount of consideration we receive and revenue we recognize across both wholesale and DTC channels varies with changes in sales returns and other accommodations and incentives we offer to our customers. When we give our customers the right to return products or provide other accommodations such as chargebacks and markdowns, we estimate the expected returns and claims based on historical rates as well as events and circumstances that indicate changes to historical rates of product returns and claims. We adjust our estimates of revenue at the earlier of when the most likely amount of consideration we expect to receive changes or when the amount of consideration becomes fixed.

Licensing income, which is presented separately on the Condensed Consolidated Statements of Operations and represents less than 1% of total revenue, is recognized over time based on the greater of contractual minimum royalty guarantees and actual, or estimated, sales of licensed products by our licensees.

We expense sales commissions when incurred, which is generally at the time of sale, because the amortization period would have been one year or less. These costs are recorded within SG&A expenses.

We treat all shipping and handling activities as fulfillment costs, and as such recognize the costs for these activities within SG&A expenses at the time related revenue is recognized. Shipping and handling fees billed to customers are recorded as revenue.

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

Revenue recognized from contracts with customers is recorded net of sales taxes, value added taxes, or similar taxes that are collected on behalf of local taxing authorities.

Performance Obligations

For the three months ended March 31, 2018, revenue recognized from performance obligations related to prior periods was not material. Revenue expected to be recognized in any future period related to remaining performance obligations is not material.

Contract Balances

As of March 31, 2018, contract liabilities recorded on the Condensed Consolidated Balance Sheets, which were comprised of obligations associated with our gift card and customer loyalty programs, were not material.

NOTE 4—NON-CONTROLLING INTEREST

The Company owns a 60% controlling interest in a joint venture formed with Swire Resources Limited ("Swire") to support the development and operation of the Company's business in China. The accounts of the joint venture are included in the condensed consolidated financial statements. Swire's share of net income from the joint venture is included in net income attributable to non-controlling interest in the Condensed Consolidated Statements of Operations for the three months ended March 31, 2018 and 2017. The 40% non-controlling equity interest in this entity is included in total equity as non-controlling interest in the Condensed Consolidated Balance Sheets as of March 31, 2018 and 2017, and December 31, 2017.

The following table presents the changes in Columbia Sportswear Company shareholders' equity and non-controlling interest for the three months ended March 31, 2018 (in thousands, except per share amounts):

| | Columbia Sportswear Company | Non-Controlling Interest | Total |
|---|---|---|---|
| Balance at December 31, 2017 | $1,621,951 | $ 30,308 | $1,652,259 |
| Net income | 45,107 | 3,622 | 48,729 |
| Other comprehensive income (loss), net of tax: | | | |
| Unrealized holding gains on available-for-sale securities | 4 | — | 4 |
| Derivative holding losses | (4,570) | (337) | (4,907) |
| Foreign currency translation adjustments | 5,019 | 1,240 | 6,259 |
| Cash dividends ($0.22 per share) | (15,452) | — | (15,452) |
| Issuance of common stock under employee stock plans, net | 5,347 | — | 5,347 |
| Adoption of new accounting pronouncements (Note 2) | 14,100 | — | 14,100 |
| Stock-based compensation expense | 3,113 | — | 3,113 |
| Repurchase of common stock | (18,099) | — | (18,099) |
| Balance at March 31, 2018 | $1,656,520 | $ 34,833 | $1,691,353 |

The following table presents the changes in Columbia Sportswear Company shareholders' equity and non-controlling interest for the three months ended March 31, 2017 (in thousands, except per share amounts):

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

| | Columbia Sportswear Company | Non-Controlling Interest | Total |
|---|---|---|---|
| Balance at December 31, 2016 | $1,560,820 | $ 20,691 | $1,581,511 |
| Net income | 36,006 | 2,879 | 38,885 |
| Other comprehensive income (loss), net of tax: | | | |
| Unrealized holding gains on available-for-sale securities | 4 | — | 4 |
| Derivative holding losses | (1,527) | (78) | (1,605) |
| Foreign currency translation adjustments | 11,248 | 254 | 11,502 |
| Cash dividends ($0.18 per share) | (12,499) | — | (12,499) |
| Issuance of common stock under employee stock plans, net | 4,278 | — | 4,278 |
| Stock-based compensation expense | 2,941 | — | 2,941 |
| Repurchase of common stock | (33,000) | — | (33,000) |
| Balance at March 31, 2017 | $1,568,271 | $ 23,746 | $1,592,017 |

NOTE 5—INTANGIBLE ASSETS, NET

Intangible assets that are determined to have finite lives include patents, purchased technology and customer relationships and are amortized over their estimated useful lives, which range from approximately 3 to 10 years, and are measured for impairment only when events or circumstances indicate the carrying value may be impaired. Goodwill and intangible assets with indefinite useful lives, including trademarks and trade names, are not amortized but are evaluated for impairment on an annual basis during the fourth quarter of our fiscal year or earlier if events or circumstances indicate the carrying value may be impaired.

Intangible Assets

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

| | March 31, 2018 | December 31, 2017 | March 31, 2017 |
|---|---|---|---|
| Intangible assets subject to amortization: | | | |
| Patents and purchased technology | $14,198 | $ 14,198 | $14,198 |
| Customer relationships | 23,000 | 23,000 | 23,000 |
| Gross carrying amount | 37,198 | 37,198 | 37,198 |
| Accumulated amortization: | | | |
| Patents and purchased technology | (10,984) | (10,651) | (9,654) |
| Customer relationships | (12,825) | (12,413) | (10,814) |
| Total accumulated amortization | (23,809) | (23,064) | (20,468) |
| Net carrying amount | 13,389 | 14,134 | 16,730 |
| Intangible assets not subject to amortization | 115,421 | 115,421 | 115,421 |
| Intangible assets, net | $128,810 | $ 129,555 | $132,151 |

Amortization expense for intangible assets subject to amortization was $745,000 and $1,287,000 for the three months ended March 31, 2018 and 2017, respectively.

Annual amortization expense is estimated to be as follows for the years 2018 through 2022 (in thousands):

| | |
|---|---|
| 2018 | $2,980 |
| 2019 | 2,980 |
| 2020 | 2,537 |
| 2021 | 1,650 |
| 2022 | 1,650 |

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

NOTE 6—PRODUCT WARRANTY

Some of the Company's products carry assurance-type 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, replacements and refunds 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, | |
|---|---|---|
| | 2018 | 2017 |
| Balance at beginning of period | $12,339 | $11,455 |
| Provision for warranty claims | 1,248 | 1,200 |
| Warranty claims | (1,589 ) | (1,299 ) |
| Other | 68 | 147 |
| Balance at end of period | $12,066 | $11,503 |

NOTE 7—STOCK-BASED COMPENSATION

The Company's Stock Incentive Plan (the "Plan") allows for grants of incentive stock options, non-statutory stock options, restricted stock awards, restricted stock units and other stock-based or cash-based awards. The majority of all stock options and restricted stock unit grants outstanding under the Plan were granted in the first quarter of each fiscal year. Stock compensation is recognized based on an estimated number of awards that are expected to vest.

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

| | Three Months Ended March 31, | |
|---|---|---|
| | 2018 | 2017 |
| Stock options | $1,072 | $1,004 |
| Restricted stock units | 2,041 | 1,937 |
| Total | $3,113 | $2,941 |

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 stock price volatility of the Company's stock over the option's expected term, the risk-free interest rate over the option's expected term and the Company's expected annual dividend yield.

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

| | Three Months Ended March 31, | |
|---|---|---|
| | 2018 | 2017 |
| Expected option term | 4.31 years | 4.34 years |
| Expected stock price volatility | 28.48% | 28.95% |
| Risk-free interest rate | 2.43% | 1.70% |
| Expected annual dividend yield | 1.17% | 1.30% |
| Weighted average grant date fair value | $18.10 | $12.73 |

During the three months ended March 31, 2018 and 2017, the Company granted a total of 361,135 and 455,342 stock options, respectively. At March 31, 2018, unrecognized costs related to outstanding stock options totaled approximately $11,624,000, before any related tax benefit. The unrecognized costs related to stock options are amortized over the related vesting period using the straight-line attribution method. Unrecognized costs related to stock options at March 31, 2018 are expected to be recognized over a weighted average period of 2.93 years.

Restricted Stock Units

12

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

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, expected annual 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 periods:

| | Three Months Ended March 31, | |
|---|---|---|
| | 2018 | 2017 |
| Vesting period | 4.00 years | 3.91 years |
| Expected annual dividend yield | 1.16% | 1.31% |
| Estimated average grant date fair value per restricted stock unit | $71.99 | $52.40 |

During the three months ended March 31, 2018 and 2017, the Company granted 165,235 and 233,175 restricted stock units, respectively. At March 31, 2018, unrecognized costs related to outstanding restricted stock units totaled approximately $21,960,000, 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, 2018 are expected to be recognized over a weighted average period of 2.93 years.

NOTE 8—ACCUMULATED OTHER COMPREHENSIVE LOSS

Accumulated other comprehensive loss, 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 loss attributable to Columbia Sportswear Company, net of tax, for the three months ended March 31, 2018 (in thousands):

| | Unrealized losses on available-for-sale securities | Unrealized holding losses on derivative transactions | Foreign currency translation adjustments | Total |
|---|---|---|---|---|
| Balance at December 31, 2017 | $ (4) | $ (10,716) | $ 1,833 | $ (8,887) |
| Other comprehensive income (loss) before reclassifications | 4 | (4,582) | 5,019 | 441 |
| Amounts reclassified from other comprehensive income | — | 12 | — | 12 |
| Net other comprehensive income (loss) during the period | 4 | (4,570) | 5,019 | 453 |
| Adoption of ASU 2017-12 (Note 2) | — | (515) | — | (515) |
| Balance at March 31, 2018 | $ — | $ (15,801) | $ 6,852 | $ (8,949) |

The following table sets forth the changes in accumulated other comprehensive loss attributable to Columbia Sportswear Company, net of tax, for the three months ended March 31, 2017 (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, 2016 | $ (4) | $ 6,773 | $ (29,386) | $ (22,617) |
| Other comprehensive income (loss) before reclassifications | 4 | (1,438) | 11,248 | 9,814 |
| Amounts reclassified from other comprehensive income | — | (89) | — | (89) |
| Net other comprehensive income (loss) during the period | 4 | (1,527) | 11,248 | 9,725 |
| Balance at March 31, 2017 | $ — | $ 5,246 | $ (18,138) | $ (12,892) |

NOTE 9—EARNINGS PER SHARE

Earnings per share ("EPS") is presented on both a basic and diluted basis. Basic EPS is based on the weighted average number of common shares outstanding. Diluted EPS reflects the potential dilution that could occur if outstanding securities or other contracts to issue common stock were exercised or converted into common stock.

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

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

| | Three Months Ended March 31, | |
|---|---|---|
| | 2018 | 2017 |
| Weighted average shares of common stock outstanding, used in computing basic earnings per share | 70,080 | 69,606 |
| Effect of dilutive stock options and restricted stock units | 763 | 808 |
| Weighted average shares of common stock outstanding, used in computing diluted earnings per share | 70,843 | 70,414 |
| Earnings per share of common stock attributable to Columbia Sportswear Company: | | |
| Basic | $0.64 | $0.52 |
| Diluted | $0.64 | $0.51 |

Stock options and service-based restricted stock units representing 205,991 and 760,003 shares of common stock for the three months ended March 31, 2018 and 2017, 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 21,164 and 42,524 shares of common stock for the three months ended March 31, 2018 and 2017, 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.

Common Stock Repurchase Plan
Since the inception of the Company's stock repurchase plan in 2004 through March 31, 2018, the Company's Board of Directors has authorized the repurchase of $700,000,000 of the Company's common stock. Shares of the Company's common stock may be purchased in the open market or through privately negotiated transactions, subject to market conditions. The repurchase program does not obligate the Company to acquire any specific number of shares or to acquire shares over any specified period of time. As of March 31, 2018, the Company had repurchased 21,893,532 shares under this program at an aggregate purchase price of approximately $580,163,000. During the three months ended March 31, 2018, the Company repurchased 235,497 shares of the Company's common stock at an aggregate purchase price of $18,099,000. During the three months ended March 31, 2017, the Company repurchased 616,152 shares of the Company's common stock at an aggregate purchase price of $33,000,000.

NOTE 10—SEGMENT INFORMATION
The Company has aggregated its operating segments into four geographic segments: (1) United States, (2) 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 outdoor and active lifestyle apparel, footwear, accessories, and equipment. Intersegment net sales and intersegment profits, which are recorded at a negotiated mark-up and eliminated in consolidation, are not material. Unallocated corporate expenses consist of expenses incurred by centrally-managed departments, including global information systems, finance and legal, executive compensation, unallocated benefit program expense, and other miscellaneous costs.

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

The geographic distribution of the Company's net sales and income from operations are summarized in the following table (in thousands) for the three months ended March 31, 2018 and 2017.

| | Three Months Ended March 31, | |
|---|---|---|
| | 2018 | 2017 |
| Net sales to unrelated entities: | | |
| United States | $362,844 | $333,184 |
| LAAP | 131,569 | 118,344 |
| EMEA | 71,775 | 55,334 |
| Canada | 41,120 | 36,931 |
| | $607,308 | $543,793 |
| Segment income from operations: | | |
| United States | $74,387 | $62,642 |
| LAAP | 21,739 | 19,808 |
| EMEA | 7,142 | 1,324 |
| Canada | 6,543 | 5,827 |
| Total segment income from operations | 109,811 | 89,601 |
| Unallocated corporate expenses | (50,490) | (41,596) |
| Interest income, net | 2,296 | 955 |
| Interest expense on note payable to related party | — | (249) |
| Other non-operating expense | (268) | (53) |
| Income before income taxes | $61,349 | $48,658 |

## NOTE 11—FINANCIAL INSTRUMENTS AND RISK MANAGEMENT

In the normal course of business, the Company's financial position, results of operations and cash flows 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 non-functional currency denominated purchases and sales. Subsidiaries that use European euros, Canadian dollars, Japanese yen, Chinese renminbi, or Korean won as their functional currency are primarily exposed to changes in functional currency equivalent cash flows from anticipated U.S. dollar inventory purchases. The Company's prAna subsidiary uses U.S. dollars as its functional currency and is exposed to anticipated Canadian dollar denominated sales. The Company manages these risks by using currency forward and option contracts formally designated and effective as cash flow hedges. Hedge effectiveness is generally 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, forward points are excluded from the determination of hedge effectiveness and are included in current period cost of sales for hedges of anticipated U.S. dollar inventory purchases and in net sales for hedges of anticipated Canadian dollar sales on a straight line basis over the life of the contract. In each accounting period any difference between the change in fair value of the forward points and the amount recognized in earnings on a straight line basis is recognized in other comprehensive income. For option contracts, the change in fair value attributable to changes in time value are excluded from the assessment of hedge effectiveness and included in current period cost of sales. Hedge ineffectiveness was not material during the three months ended March 31, 2018 and 2017.

The Company also uses currency forward contracts not formally designated as hedges to manage the consolidated currency exchange rate risk associated with the remeasurement of non-functional currency denominated monetary assets and liabilities by subsidiaries that use U.S. dollars, euros, Canadian dollars, yen, won, or renminbi as their functional currency. Non-functional currency denominated monetary assets and liabilities consist primarily of cash and cash equivalents, short-term investments, receivables, 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 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):

| | March 31, 2018 | December 31, 2017 | March 31, 2017 |
|---|---|---|---|
| Derivative instruments designated as cash flow hedges: | | | |
| Currency forward contracts | $584,107 | $ 448,448 | $233,500 |
| Derivative instruments not designated as cash flow hedges: | | | |
| Currency forward contracts | 234,579 | 231,161 | 168,361 |

At March 31, 2018, approximately $12,381,000 of deferred net losses 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 euro, renminbi, Canadian dollar, and yen when outstanding derivative contracts mature.

At March 31, 2018, the Company's derivative contracts had a remaining maturity of less than three years. 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, 2018. All of the Company's derivative counterparties have investment grade credit ratings. The Company is a party to master netting arrangements that contain features that allow counterparties to net settle amounts arising from multiple separate derivative transactions or net settle in the case of certain triggering events such as a bankruptcy or major default of one of the counterparties to the transaction. 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, 2018 | December 31, 2017 | March 31, 2017 |
|---|---|---|---|---|
| Derivative instruments designated as cash flow hedges: | | | | |
| Derivative instruments in asset positions: | | | | |
| Currency forward contracts | Prepaid expenses and other current assets | $ 998 | $ 1,648 | $ 6,347 |
| Currency forward contracts | Other non-current assets | 2,492 | 335 | 1,619 |
| Derivative instruments in liability positions: | | | | |
| Currency forward contracts | Accrued liabilities | 11,017 | 9,336 | 134 |
| Currency forward contracts | Other long-term liabilities | 7,294 | 3,820 | — |
| Derivative instruments not designated as cash flow hedges: | | | | |
| Derivative instruments in asset positions: | | | | |
| Currency forward contracts | Prepaid expenses and other current assets | 1,121 | 683 | 292 |
| Derivative instruments in liability positions: | | | | |
| Currency forward contracts | Accrued liabilities | 355 | 1,229 | 220 |

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

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

| | Statement of Operations Classification | Three Months Ended March 31, 2018 | 2017 |
|---|---|---|---|
| Currency Forward and Option Contracts: | | | |
| Derivative instruments designated as cash flow hedges: | | | |
| Loss recognized in other comprehensive income or loss, net of tax | — | $(5,232) | $(1,438) |
| Gain reclassified from accumulated other comprehensive income or loss to income for the effective portion | Net sales | 5 | 144 |
| Gain (loss) reclassified from accumulated other comprehensive income or loss to income for the effective portion | Cost of sales | (2,206) | 54 |
| Gain recognized in income for amount excluded from effectiveness testing and for the ineffective portion | Net sales | 6 | 3 |
| Gain recognized in income for amount excluded from effectiveness testing and for the ineffective portion | Cost of sales | 1,925 | 794 |
| Derivative instruments not designated as cash flow hedges: | | | |
| Loss recognized in income | Other non-operating expense | (602) | (1,688) |

NOTE 12—COMMITMENTS AND CONTINGENCIES

Inventory Purchase Obligations

Inventory purchase obligations consist of open production purchase orders and other commitments for raw materials and sourced apparel, footwear, accessories, and equipment. At March 31, 2018, inventory purchase obligations were $614,918,000.

Litigation

The Company is a party to various legal claims, actions and complaints from time to time. Although the ultimate resolution of legal proceedings cannot be predicted with certainty, management believes that disposition of these matters will not have a material adverse effect on the Company's consolidated financial statements.

NOTE 13—FAIR VALUE MEASURES

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

Level 1 — observable inputs such as quoted prices for identical assets or liabilities in active liquid markets;

Level 2 — inputs, other than the quoted market prices in active markets, that are observable, either directly or indirectly; or observable market prices in markets with insufficient volume 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.

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

Assets and liabilities measured at fair value on a recurring basis as of March 31, 2018 are as follows (in thousands):

| | Level 1 | Level 2 | Level 3 | Total |
|---|---|---|---|---|
| Assets: | | | | |
| Cash equivalents: | | | | |
| Money market funds | $380,136 | $— | $ — | $380,136 |
| Time deposits | 55,825 | — | — | 55,825 |
| U.S. Government treasury bills | — | 34,983 | — | 34,983 |
| U.S. Government-backed municipal bonds | — | 4,879 | — | 4,879 |
| Available-for-sale short-term investments [1]: | | | | |
| U.S. Government-backed municipal bonds | — | 89,567 | — | 89,567 |
| Other short-term investments: | | | | |
| Mutual fund shares | 1,411 | — | — | 1,411 |
| Other current assets: | | | | |
| Derivative financial instruments (Note 11) | — | 2,119 | — | 2,119 |
| Other non-current assets: | | | | |
| Derivative financial instruments (Note 11) | — | 2,492 | — | 2,492 |
| Mutual fund shares | 8,679 | — | — | 8,679 |
| Total assets measured at fair value | $446,051 | $134,040 | $ — | $580,091 |
| Liabilities: | | | | |
| Accrued liabilities: | | | | |
| Derivative financial instruments (Note 11) | $— | $11,372 | $ — | $11,372 |
| Other long-term liabilities: | | | | |
| Derivative financial instruments (Note 11) | — | 7,294 | — | 7,294 |
| Total liabilities measured at fair value | $— | $18,666 | $ — | $18,666 |

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

Assets and liabilities measured at fair value on a recurring basis as of December 31, 2017 are as follows (in thousands):

| | Level 1 | Level 2 | Level 3 | Total |
|---|---|---|---|---|
| Assets: | | | | |
| Cash equivalents: | | | | |
| Money market funds | $282,860 | $— | $ — | $282,860 |
| Time deposits | 52,808 | — | — | 52,808 |
| Other short-term investments: | | | | |
| U.S. Government treasury bills | — | 4,995 | — | 4,995 |
| U.S. Government-backed municipal bonds | — | 25,338 | — | 25,338 |
| Available-for-sale short-term investments [1] | | | | |
| U.S. Government treasury bills | — | 19,963 | — | 19,963 |
| U.S. Government-backed municipal bonds | — | 73,582 | — | 73,582 |
| Other short-term investments: | | | | |
| Mutual fund shares | 1,438 | — | — | 1,438 |
| Other current assets: | | | | |
| Derivative financial instruments (Note 11) | — | 2,331 | — | 2,331 |
| Other non-current assets: | | | | |
| Derivative financial instruments (Note 11) | — | 335 | — | 335 |
| Mutual fund shares | 9,319 | — | — | 9,319 |
| Total assets measured at fair value | $346,425 | $126,544 | $ — | $472,969 |
| Liabilities: | | | | |
| Accrued liabilities: | | | | |
| Derivative financial instruments (Note 11) | $— | $10,565 | $ — | $10,565 |
| Other long-term liabilities | | | | |
| Derivative financial instruments (Note 11) | — | 3,820 | — | 3,820 |
| Total liabilities measured at fair value | $— | $14,385 | $ — | $14,385 |

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

Assets and liabilities measured at fair value on a recurring basis as of March 31, 2017 are as follows (in thousands):

| | Level 1 | Level 2 | Level 3 | Total |
|---|---|---|---|---|
| Assets: | | | | |
| Cash equivalents: | | | | |
| Money market funds | $246,245 | $— | $ — | $246,245 |
| Time deposits | 90,927 | — | — | 90,927 |
| U.S. Government-backed municipal bonds | — | 64,189 | — | 64,189 |
| Available-for-sale short-term investments [1]: | | | | |
| U.S. Government-backed municipal bonds | — | 33,817 | — | 33,817 |
| Other short-term investments: | | | | |
| Mutual funds shares | 653 | — | — | 653 |
| Other current assets: | | | | |
| Derivative financial instruments (Note 11) | — | 6,639 | — | 6,639 |
| Other non-current assets: | | | | |
| Derivative financial instruments (Note 11) | — | 1,619 | — | 1,619 |
| Mutual fund shares | 8,443 | — | — | 8,443 |
| Total assets measured at fair value | $346,268 | $106,264 | $ — | $452,532 |
| Liabilities: | | | | |
| Accrued liabilities: | | | | |
| Derivative financial instruments (Note 11) | $— | $354 | $ — | $354 |
| Other long-term liabilities | | | | |
| Derivative financial instruments (Note 11) | — | — | — | — |
| Total liabilities measured at fair value | $— | $354 | $ — | $354 |

[1] Investments have remaining maturities of less than one year.

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, which are directly or indirectly observable in the marketplace and quoted prices in markets with limited volume or infrequent transactions.

Non-recurring Fair Value Measurements

There were no material assets and liabilities measured at fair value on a nonrecurring basis as of March 31, 2018, December 31, 2017 or March 31, 2017.

NOTE 14—RELATED PARTY TRANSACTIONS

The Company owns a 60% controlling interest in a joint venture formed with Swire, which is a related party. The joint venture arrangement involves Transition Services Agreements ("TSAs") with Swire, under which Swire provides administrative and information technology services to the joint venture. The Company continues to reduce its costs under the TSAs as it internalizes the back-office functions and related personnel, including the transition of the joint venture's systems to the Company's platform in the second quarter of 2017. The joint venture incurred service fees, valued under the TSAs at Swire's cost, of $71,000 and $516,000 during the three months ended March 31, 2018 and 2017, respectively. These fees are included in SG&A expenses in the Condensed Consolidated Statements of Operations.

In 2014, both the Company and Swire funded long-term loans to the joint venture. The Company's loan has been eliminated in consolidation, while the Swire loan is reflected as a Note payable to related party in the Condensed Consolidated Balance Sheets as of March 31, 2017. In June 2017, the Company repaid these loans, including the note with Swire in the principal amount of RMB 97,600,000 (USD 14,171,000), and as such, the balance on the Condensed Consolidated Balance Sheets is zero at March 31, 2018. The Company did not incur interest expense related to this note for the three months ended March 31, 2018. Interest expense related to this note was $249,000 for the three months ended March 31, 2017.

As of March 31, 2018 and 2017, and December 31, 2017, net payables to Swire for service fees, interest expense and miscellaneous expenses totaled $156,000, $1,139,000 and $89,000, respectively, and were included in accounts payable in the Condensed Consolidated Balance Sheets.

In addition to the transactions described above, Swire is also a third-party distributor of the Company's brands in certain regions outside of mainland China and purchases products from the Company under the Company's standard third-party distributor terms and pricing.

In April 2018, the Company announced its intent to buy out the remaining 40% non-controlling interest in the joint venture under the terms of the initial agreement. The buy out is subject to various terms and conditions, including regulatory approval in China, and is expected to be complete in early 2019.

## 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, profitability and the effect of specified factors on profitability for 2018, expenses, sourcing costs, effects of unseasonable weather on our results of operations, inventory levels, investments in our business, investments in and implementation of our information technology systems, our operating model assessment referred to as Project CONNECT, intellectual property disputes, our DTC channels and other capital expenditures, including planned store additions, access to raw materials and factory capacity, financing and working capital requirements and resources, effects of the Tax Cuts and Jobs Act ("TCJA"), income tax rates and pre-tax income, our intended buyout of the remaining 40% non-controlling interest in our China joint venture, 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 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 and active lifestyle apparel and footwear companies in the world, we design, source, market and distribute outdoor and active lifestyle apparel, footwear, accessories and equipment primarily under the Columbia, SOREL, prAna, and Mountain Hardwear brands. Our products are sold through a mix of wholesale distribution channels, our own DTC channels and independent international distributors. In addition, we license some of our trademarks across a range of apparel, footwear, accessories, equipment, and home products.

The popularity of outdoor activities and active lifestyles, changes in consumer buying patterns and behaviors, changing design trends, consumer adoption of innovative performance technologies, variations in seasonal weather, 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 developing new products with innovative performance features and designs, creating persuasive and memorable marketing communications to generate consumer awareness, demand and retention, and adjusting the mix, price points and selling channels of available product offerings. 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 industry, including seasonal weather and discretionary consumer shopping and 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. In 2017, approximately 60% of our net sales and approximately 90% of our operating income 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. The expansion of our DTC channels has increased the proportion of sales, profits and cash flows that we generate in the second half of the year.

We generally solicit orders from wholesale customers and independent international distributors for the fall and spring seasons based on seasonal ordering deadlines that we establish to aid our efforts to plan manufacturing volumes to meet demand. We typically ship the majority of our advance spring season orders to customers beginning in January and continuing through June. Similarly, we typically ship the majority of our advance fall season orders to customers beginning in July and continuing through December. 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 global economic and geopolitical conditions and volatility of foreign currency exchange rates which, when combined with seasonal weather patterns and inflationary or volatile sourcing costs, reduce the predictability of our business.

### Business Outlook

The global business climate presents us with a great deal of uncertainty, making it difficult to predict future results. Consistent with the historical seasonality of the business, we anticipate 2018 profitability to be heavily concentrated in the second half of the year. Factors that could significantly affect our full year 2018 financial results include:

- Continued growth, performance and profitability of our global DTC operations;
- Unseasonable weather conditions or other unforeseen factors affecting consumer demand and the resulting effect on cancellations of advance wholesale orders, sales returns, wholesale customer accommodations, replenishment orders and reorders, DTC sales, changes in mix and volume of full price sales in relation to promotional and closeout product sales, and suppressed wholesale and end-consumer demand in subsequent seasons;

- Industry trends affecting consumer traffic and spending in brick and mortar retail channels, which are creating uncertainty regarding the long-term financial health of several of our U.S. wholesale customers;
- The effects of changes in foreign currency exchange rates on sales, gross margin, operating income, and net income;
- Difficult economic and competitive environments in certain key markets within the LAAP region, in particular, Korea;
- Continued sales growth and profitability contributed by our EMEA region;
- Performance of our Mountain Hardwear business as we work to re-invigorate that brand in the marketplace;
- The financial impact of activities associated with and resulting from Project CONNECT;
- Further refinement of our 2017 TCJA provisional income tax estimates;
- Changes in tariffs or international trade policy;
- Accelerated investment and execution of demand creation, DTC systems infrastructure and other strategic priorities; and
- The implementation of our global DTC and enterprise resource planning ("ERP") platforms.

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.

Strategic Priorities

As part of our commitment to driving sustainable and profitable growth and relentless improvement, we remain focused on investment in our strategic priorities, including:

- Driving brand awareness and sales growth through increased, focused demand creation investments;
- Enhancing consumer experience and digital capabilities in all of our channels and geographies;
- Expanding and improving global DTC operations with supporting processes and systems; and
- Investing in our people and optimizing our organization across our portfolio of brands.

Ultimately, we expect our investments to accelerate market share capture across all brands, expand gross margin, improve SG&A expense efficiency, and drive improved operating margin.

Consumer-First Platform ("C1")

During the second quarter of 2017, we commenced investment in our C1 initiative, which encompasses the global retail platform and IT systems infrastructure to support the growth and continued development of our omnichannel capabilities. The objective of this initiative is consistent with our strategic priorities to deliver an enhanced consumer experience, and to modernize and standardize our processes and systems to enable us to better anticipate and deliver against the needs of our consumers. This multi-year global initiative is currently in the build phase, targeting regional implementations beginning in the first half of 2019.

Ongoing Global ERP Implementation

We are continuing to invest in our multi-year global ERP implementation, which has been executed in the majority of our operations to date. We plan to transition our Europe-direct business onto the system in mid-2018, at which point we will have completed the major phases of our global rollout.

Experience First ("X1")

We have also made the decision to launch a new initiative, X1. This initiative within our DTC operations is designed to enhance our e-commerce systems to take advantage of the changes in consumer browsing and purchasing behavior towards mobile devices. It encompasses an upgrade of our e-commerce platforms to offer improved search, browsing, checkout, loyalty, and customer care experiences for mobile shoppers, and is expected to be implemented in the first half of 2019. The project will be fully integrated with our C1 initiative, and will be implemented across all of our brands.

Project CONNECT

Project CONNECT is a comprehensive assessment of the company's operating model aimed at aligning our resources to accelerate execution on our strategic priorities. Project CONNECT includes initiatives to drive revenue, capture cost of sales efficiencies, generate SG&A expense savings, and improve our marketing effectiveness. During the second half of 2017, the company began implementation of operational improvements throughout the business.

A few of the first initiatives to be implemented include e-commerce optimization, indirect procurement, marketing effectiveness, and refining the promotional cadence in DTC. We will continue to implement other initiatives as implementation plans are more fully developed, particularly those pertaining to product creation, such as assortment optimization and intensifying our emphasis on designing products with the features and functions that consumers value most.

As these improvements begin to be realized, we intend to reallocate resources to our strategic priorities, including incremental demand creation spending and other investments to drive growth across our brands and distribution channels.

We are beginning to see financial benefits from these initiatives and recent progress gives us increasing confidence that we can generate more meaningful financial value capture in 2019.

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 in Part I, Item 1 - Financial Statements of this quarterly report. All references to quarters relate to the quarter ended March 31 of the particular year.

To supplement financial information reported in accordance with accounting principles generally accepted in the United States ("GAAP"), we disclose constant-currency net sales information, which is a non-GAAP financial measure, to provide a framework to assess how the business performed excluding the effects of changes in the exchange rates used to translate net sales generated in foreign currencies into U.S. dollars. Management believes that this non-GAAP financial measure reflects an additional and useful way of viewing an aspect of our operations that, when viewed in conjunction with our GAAP results, provides a more comprehensive understanding of our business and operations. In particular, investors may find the non-GAAP measures useful by reviewing our net sales results without the volatility in foreign currency exchange rates. This non-GAAP financial measure also facilitates management's internal comparisons to our historical net sales results and comparisons to competitors' net sales results. Constant-currency financial measures should be viewed in addition to, and not in lieu of or superior to, our financial measures calculated in accordance with GAAP. The following discussion includes references to constant-currency net sales, and we provide a reconciliation of this non-GAAP measure to the most directly comparable financial measure calculated in accordance with GAAP below.

Additionally, we reference other non-GAAP financial measures in our first quarter 2018 financial results and updated 2018 financial outlook earnings release, located in the investor relations section of our website at http://investor.columbia.com/results.cfm. A reconciliation of these non-GAAP financial measures to comparable measures reported under GAAP can be found in the supplemental financial tables that accompany our earnings release, along with an explanation of management’s rationale for referencing these non-GAAP financial measures.

Highlights of the First Quarter of 2018

- Net sales increased $63.5 million, or 12%, to $607.3 million from $543.8 million in the first quarter of 2017. With the adoption of ASC 606, certain concession fees within the LAAP region that were previously netted against net sales are now reported as SG&A expense beginning January 1, 2018. The increases in first quarter 2018 net sales and SG&A expenses include $8.3 million of incremental net sales and corresponding expenses resulting from this change in classification.
- Net income attributable to Columbia Sportswear Company increased $9.1 million, or 25%, to $45.1 million, or $0.64 per diluted share, including Project CONNECT program expenses and discrete costs of approximately $8.4 million, net of tax, or $0.12 per diluted share, and incremental tax expense related to the TCJA of $1.0 million, or $0.01 per diluted share, compared to net income of $36.0 million, or $0.51 per diluted share, in the first quarter of 2017, which included Project CONNECT program expenses and discrete costs of approximately $0.9 million, net of tax, or $0.01 per diluted share.
- We paid a quarterly cash dividend of $0.22 per share, or $15.5 million, in the first quarter of 2018.

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, | |
|---|---|---|
| | 2018 | 2017 |
| Net sales | 100.0 | 100.0 |
| Cost of sales | 50.7 | 52.5 |
| Gross profit | 49.3 | 47.5 |
| Selling, general and administrative expenses | 40.1 | 39.1 |
| Net licensing income | 0.6 | 0.4 |
| Income from operations | 9.8 | 8.8 |
| Interest income, net | 0.3 | 0.1 |
| Income before income tax | 10.1 | 8.9 |
| Income tax expense | (2.1 ) | (1.8 ) |
| Net income | 8.0 | 7.1 |
| Net income attributable to non-controlling interest | 0.6 | 0.5 |
| Net income attributable to Columbia Sportswear Company | 7.4 % | 6.6 % |

Quarter Ended March 31, 2018 Compared to Quarter Ended March 31, 2017

Net Sales: Consolidated net sales increased $63.5 million, or 12% (8% constant-currency), to $607.3 million for the first quarter of 2018, from $543.8 million for the comparable period in 2017. With the adoption of ASC 606, certain concession fees within the LAAP region that were previously netted against net sales are now reported as SG&A expense beginning January 1, 2018. The increases in first quarter 2018 net sales and SG&A expenses include $8.3 million of incremental net sales and corresponding expenses resulting from this change in classification.

Sales by Geographic Region

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

| | Three Months Ended March 31, | | | | | |
|---|---|---|---|---|---|---|
| | Reported Net Sales 2018 | Adjust for Foreign Currency Translation | Constant-currency Net Sales 2018[1] | Reported Net Sales 2017 | Reported Net Sales % Change | Constant-currency Net Sales % Change[1] |
| | (In millions, except for percentage changes) | | | | | |
| United States | $362.8 | $ — | $ 362.8 | $ 333.2 | 9% | 9% |
| LAAP | 131.6 | (7.5 ) | 124.1 | 118.3 | 11% | 5% |
| EMEA | 71.8 | (8.2 ) | 63.6 | 55.4 | 30% | 15% |
| Canada | 41.1 | (2.0 ) | 39.1 | 36.9 | 11% | 6% |
| | $607.3 | $ (17.7 ) | $ 589.6 | $ 543.8 | 12% | 8% |

[1] Constant-currency net sales information is a non-GAAP financial measure, which excludes the effect of changes in foreign currency exchange rates against the U.S. dollar between comparable reporting periods. We calculate constant-currency net sales by translating net sales in foreign currencies for the current period into U.S. dollars at the average exchange rates that were in effect during the comparable period of the prior year.

Net sales in the United States increased $29.6 million, or 9%, to $362.8 million for the first quarter of 2018 from $333.2 million for the comparable period in 2017. The U.S. net sales increase was led by our DTC business, followed by our wholesale business. The net sales increase in our DTC business was led by increased net sales from our retail stores, followed by increased net sales from our e-commerce business. At March 31, 2018, we operated 130 retail stores, compared with 120 retail stores at March 31, 2017. The net sales increase in our wholesale business was led by the Columbia and prAna brands and reflected increased Spring 2018 advanced orders.

Net sales in the LAAP region increased $13.3 million, or 11% (5% constant-currency), to $131.6 million for the first quarter of 2018, from $118.3 million for the comparable period in 2017. Excluding the $8.3 million net sales increase, associated with the adoption of ASC 606, as described above, the net sales increase in the LAAP region was driven by the positive effect of changes in foreign currency exchange rates and increases in Japan DTC and China e-commerce net sales, partially offset by net sales decreases in our LAAP distributor business and China wholesale. The net sales decrease in our LAAP distributor business reflected a shift in timing of decreased Spring 2018 advance wholesale orders from the first quarter of 2018 into the fourth quarter of 2017. The decrease in China wholesale net sales was attributed to a timing shift of accelerated Spring 2017 product shipments into the first quarter of 2017 in advance of the ERP go-live that occurred in the second quarter of 2017.

Net sales in the EMEA region increased $16.4 million, or 30% (15% constant-currency), to $71.8 million for the first quarter of 2018 from $55.4 million for the comparable period in 2017. The net sales increase in the EMEA region was led by our Europe-direct business, followed by a slight net sales increase in our EMEA distributor business. The net sales increase in our Europe-direct business was driven by increased wholesale net sales, including Spring 2018 advance orders, followed by increased DTC net sales.

Net sales in Canada increased $4.2 million, or 11% (6% constant-currency), to $41.1 million for the first quarter of 2018 from $36.9 million for the comparable period in 2017. The net sales increase in Canada was led by a net sales increase in our DTC business, followed by a net sales increase in our wholesale business.

Sales by Brand

Net sales by brand are summarized in the following table:

| | Three Months Ended March 31, | | | | | |
|---|---|---|---|---|---|---|
| | Reported Net Sales 2018 | Adjust for Foreign Currency Translation | Constant-currency Net Sales 2018 | Reported Net Sales 2017 | Reported Net Sales % Change | Constant-currency Net Sales % Change |
| | (In millions, except for percentage changes) | | | | | |
| Columbia | $508.8 | $ (16.1) | $ 492.7 | $ 449.1 | 13% | 10% |
| SOREL | 30.8 | (0.9) | 29.9 | 27.2 | 13% | 10% |
| prAna | 42.3 | — | 42.3 | 38.7 | 9% | 9% |
| Mountain Hardwear | 24.4 | (0.7) | 23.7 | 27.7 | (12)% | (14)% |
| Other | 1.0 | — | 1.0 | 1.1 | (9)% | (9)% |
| | $607.3 | $ (17.7) | $ 589.6 | $ 543.8 | 12% | 8% |

Columbia brand net sales increased $59.7 million, or 13% (10% constant-currency), to $508.8 million for the first quarter of 2018 from $449.1 million for the comparable period in 2017, driven by net sales increases in all major markets, except net sales within the LAAP distributor business, which declined due to a shift in the timing of decreased Spring 2018 advance order shipments from the first quarter of 2018 into the fourth quarter of 2017. The net sales increase was led by the U.S. DTC business, followed by Europe-direct, Korea and U.S. wholesale. Results were supported by favorable weather in several major global markets, strength in outerwear and footwear, and demand for Spring 2018 product.

SOREL brand net sales increased $3.6 million, or 13% (10% constant-currency), to $30.8 million for the first quarter of 2018 from $27.2 million for the comparable period in 2017, driven by net sales increases in our Europe-direct business, the U.S. DTC business and Japan, supported by favorable demand for cold weather product and Spring 2018 styles, partially offset by a net sales decrease within the U.S. wholesale business attributable to reduced closeout sales compared to the first quarter of 2017.

prAna brand net sales increased $3.6 million, or 9%, to $42.3 million for the first quarter of 2018 from $38.7 million for the comparable period in 2017, driven by increased net sales in the U.S. wholesale business, followed by a net sales increase in the U.S. DTC business.

Mountain Hardwear brand net sales decreased $3.3 million, or 12% (14% constant-currency), to $24.4 million for the first quarter of 2018 from $27.7 million for the comparable period in 2017, driven by decreased net sales in the U.S. wholesale business and Korea, partially offset by a net sales increase in the U.S. DTC business and Europe-direct.

Sales by Product Category

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

| Three Months Ended March 31, | | | | | |
|---|---|---|---|---|---|
| Reported Net Sales 2018 | Adjust for Foreign Currency Translation | Constant-currency Net Sales 2018 | Reported Net Sales 2017 | Reported Net Sales % Change | Constant-currency Net Sales % Change |
| (In millions, except for percentage changes) | | | | | |

| | | | | | | |
|---|---|---|---|---|---|---|
| Apparel, Accessories and Equipment | $490.0 | $ (12.3 | ) | $ 477.7 | $ 440.0 | 11% | 9% |
| Footwear | 117.3 | (5.4 | ) | 111.9 | 103.8 | 13% | 8% |
| | $607.3 | $ (17.7 | ) | $ 589.6 | $ 543.8 | 12% | 8% |

Net sales of apparel, accessories and equipment increased $50.0 million, or 11% (9% constant-currency), to $490.0 million for the first quarter of 2018 from $440.0 million for the comparable period in 2017. The apparel, accessories and equipment net sales increase was led by the Columbia and prAna brands, partially offset by a net sales decrease in the Mountain Hardwear brand.
Net sales of footwear increased $13.5 million, or 13% (8% constant-currency), to $117.3 million for the first quarter of 2018 from $103.8 million for the comparable period in 2017, and was driven by net sales increases in the Columbia and SOREL brands.
Sales by Channel

| | Three Months Ended March 31, | | | | | |
|---|---|---|---|---|---|---|
| | Reported Net Sales 2018 | Adjust for Foreign Currency Translation | Constant-currency Net Sales 2018 | Reported Net Sales 2017 | Reported Net Sales % Change | Constant-currency Net Sales % Change |
| | (In millions, except for percentage changes) | | | | | |
| Wholesale | $343.9 | $ (11.5 ) | $ 332.4 | $ 328.9 | 5% | 1% |
| DTC | 263.4 | (6.2 ) | 257.2 | 214.9 | 23% | 20% |
| | $607.3 | $ (17.7 ) | $ 589.6 | $ 543.8 | 12% | 8% |

Net sales within the wholesale channel increased $15.0 million, or 5% (1% constant-currency), to $343.9 million for the first quarter of 2018 from $328.9 million for the comparable period in 2017, primarily driven by growth in Europe-direct and the U.S. wholesale business.

Net sales within the DTC channel increased $48.5 million, or 23% (20% constant-currency), to $263.4 million for the first quarter of 2018 from $214.9 million for the comparable period in 2017. The net sales increase in the DTC channel was primarily driven by net sales increases in the United States, Korea, Europe-direct and Japan.
Gross Profit: Gross profit, as a percentage of net sales, increased to 49.3% for the first quarter of 2018, from 47.5% for the comparable period in 2017. Gross profit expansion was primarily due to:

- An increase in net sales associated with the adoption of ASC 606, where certain concession fees within the LAAP region that were previously netted against net sales are now reported as SG&A expense;
- Decreased promotional activity in our DTC channel;
- The favorable effects from foreign currency hedge rates; and
- A higher proportion of higher-margin DTC and wholesale net sales and a lower proportion of net sales to independent international distributors, which generally carry lower gross margin.

Our gross profit and SG&A expenses as a percentage of sales may not be comparable to that 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, store occupancy, and corporate functions, including related depreciation and amortization.

SG&A expense increased $30.6 million, or 14%, to $243.4 million, or 40.1% of net sales, for the first quarter of 2018, including program expenses and discrete costs of approximately $11.0 million related to Project CONNECT and $8.3 million related to the adoption of ASC 606, from $212.8 million, or 39.1% of net sales, for the comparable period in 2017, which included program expenses and discrete costs of approximately $1.3 million related to Project CONNECT. The SG&A expense increase was primarily due to:

- Program expenses and discrete costs related to Project CONNECT;
- An increase in expenses associated with the adoption of ASC 606, where certain concession fees within the LAAP region that were previously netted against net sales are now reported as SG&A expense;
- Increased costs to support our expanding global DTC operations; and
- The unfavorable impact of strengthening foreign currencies relative to the U.S. dollar.

Depreciation and amortization included in SG&A expense totaled $14.3 million for the first quarter of 2018, compared to $14.7 million for the same period in 2017.

Income Tax Expense: Income tax expense increased to $12.6 million for the first quarter of 2018 from $9.8 million for the comparable period in 2017. Our effective income tax rate was 20.6% for the first quarter of 2018, compared to 20.1% for the same period in 2017. This increase was due to approximately $1.0 million of incremental TCJA related income tax expense recorded during the first quarter of 2018, resulting from the issuance of additional clarifying guidance which drove further refinement of our provisional estimates that were recorded in the fourth quarter of 2017, as well as a non-recurring tax benefit recorded in the first quarter of 2017 primarily due to the resolution of tax audits in certain jurisdictions.

Net Income Attributable to Columbia Sportswear Company: Net income increased $9.1 million, or 25%, to $45.1 million, or $0.64 per diluted share, for the first quarter of 2018, including Project CONNECT program expenses and discrete costs of approximately $8.4 million, net of tax, or $0.12 per diluted share, and incremental tax expense related to the TCJA of $1.0 million, or $0.01 per diluted share, compared with $36.0 million, or $0.51 per diluted share, for the comparable period in 2017, which included Project CONNECT program expenses and discrete costs of approximately $0.9 million, net of tax, or $0.01 per diluted share.

Liquidity and Capital Resources

Our primary ongoing funding requirements are for working capital, investing activities associated with expansion of our global DTC capabilities and ongoing ERP and information technology systems implementations, including complementary systems, general corporate needs, strategic business initiatives, and the expansion of our global operations. At March 31, 2018, we had total cash and cash equivalents of $717.2 million, compared to $673.2 million at December 31, 2017 and $556.0 million at March 31, 2017. In addition, we had short-term investments of $91.0 million at March 31, 2018, compared to $95.0 million at December 31, 2017 and $34.5 million at March 31, 2017. As a result of the enactment of the TCJA and the resulting change to a territorial system of taxation, a repatriation of the cash and cash equivalents held by our foreign subsidiaries will no longer result in a significant tax cost.

Net cash provided by operating activities was $77.4 million for the three months ended March 31, 2018, compared to $88.2 million for the same period in 2017. The decrease in cash provided by operating activities was primarily driven by changes in inventory and accounts payable balances reflecting earlier receipt of Spring 2018 inventory and changes in accrued liabilities, partially offset by a greater decrease in accounts receivable and higher net income during the three months ended March 31, 2018 compared to the same period in 2017.

Net cash used in investing activities was $8.3 million for the three months ended March 31, 2018, compared to $45.1 million for the comparable period in 2017. For the 2018 period, cash used in investing activities primarily consisted of $12.3 million for capital expenditures, offset by $3.9 million of net sales of short-term investments. For the same period in 2017, net cash used in investing activities primarily consisted of $11.3 million for capital expenditures and $33.8 million of net purchases of short-term investments.

Net cash used in financing activities was $28.2 million for the three months ended March 31, 2018, compared to $41.2 million for the comparable period in 2017. For the 2018 period, net cash used in financing activities primarily consisted of dividend payments of $15.5 million and repurchases of common stock of $18.1 million, partially offset by net proceeds from stock plan activity of $5.3 million. For the same period in 2017, net cash used in financing activities primarily consisted of dividend payments of $12.5 million and repurchases of common stock of $33.0 million, partially offset by net proceeds from stock plan activity of $4.3 million.

Short-term borrowings and credit lines

We have an unsecured, committed revolving line of credit available to fund our domestic working capital requirements. Monthly variable commitments available for funding average $100.0 million over the course of a calendar year. At March 31, 2018, no balance was outstanding under this line of credit. At March 31, 2018, we were in compliance with all associated covenants. Internationally, our subsidiaries have operating lines of credit in place guaranteed by the parent company with a combined credit limit of approximately $91.0 million at March 31, 2018. At March 31, 2018, no amount 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 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 DTC 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. We plan to fund future cash dividends and share repurchases with cash generated from operating activities. Furthermore, we may choose to fund the future buyout of the non-controlling interest of our joint venture partnership with cash generated from operating cash flows or through a credit facility, among other sources.

## Critical Accounting Policies and Estimates

Management's discussion and analysis of our financial condition and results of operations are based on our consolidated financial statements, which have been prepared in accordance with GAAP. The preparation of these financial statements requires us to make various estimates and judgments that affect reported amounts of assets, liabilities, sales, cost of sales, and expenses and related disclosure of contingent assets and liabilities. We believe that the estimates, assumptions and judgments involved in the accounting policies referred to in our Annual Report on Form 10-K for the year ended December 31, 2017 have the greatest potential effect 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 may differ from the estimates we use in applying these critical accounting policies. We base our ongoing estimates on historical experience and other assumptions that we believe to be reasonable in the circumstances. Some of these critical accounting policies affect working capital account balances, including the policy for revenue recognition, including sales returns and claims from customers, the allowance for doubtful accounts, the provision for potential excess, slow-moving and closeout inventories, 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.

Except as disclosed in Note 2 and Note 3 of the Condensed Consolidated Financial Statements, pertaining to our adoption of new accounting pronouncements, 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, 2017.

## Recent Accounting Pronouncements

See "Recent Accounting Pronouncements" in Note 2 of 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, 2017.

## 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 ERP system and complementary systems that support our operations and financial reporting. This implementation is occurring in phases globally over several years and has been executed in the majority of our operations to date. Each implementation phase involves changes to the processes that constitute our internal control over financial reporting. We are taking steps to monitor and maintain appropriate internal control over financial reporting and will continue to evaluate these controls for effectiveness.

There were no other changes in our internal control over financial reporting that occurred during the quarter ended March 31, 2018 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 these and other 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, 2017.

#### We Face Many Challenges Executing Growth Strategies

Our business strategies aim to achieve sustainable, profitable growth by creating innovative products at competitive prices, focusing on product design, utilizing innovations to differentiate our brands 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, expanding our presence in key markets around the world, and continuing to build brand-enhancing DTC businesses. We intend to pursue these strategies across our portfolio of brands, product categories and geographic markets. Our failure to successfully implement our business strategies, including those identified in connection with the Company's operating model assessment, referred to as Project CONNECT, could have a material adverse effect on our financial condition, results of operations or cash flows.

To implement our business strategies and initiatives, including those that may result from Project CONNECT, we must continue to modify and fund various aspects of our business, to maintain and enhance our information systems and supply chain operations to improve efficiencies and to attract, retain and manage qualified personnel. These efforts, coupled with cost containment measures, place increasing strain on management, information technology, 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 business strategies, we are making significant investments in our business processes and information technology infrastructure that require significant management attention and corporate resources. These changes may make it increasingly difficult to pursue acquisitions or to adapt our information technology systems and business processes to integrate an acquired business. These integration challenges may also be present as we continue to fully integrate operations of prAna, which we acquired in May 2014. Our business strategies 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 initiatives and increased expenditures could also cause our operating margin to decline if we are unable to offset our increased spending with increased sales or gross profit or comparable reductions in other operating costs. If our sales or gross profit 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 business strategies and 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 and information technology initiatives intended to optimize our operational and financial performance. Our current initiatives include investment in our information technology systems infrastructure to support the growth and expansion of our DTC businesses, as well as continued implementation of and upgrades to our integrated ERP software solutions and other complementary information technology systems, which support our supply chain, go-to-market strategies and DTC strategies and operations.

Implementation of and upgrades to these solutions and systems are highly dependent on coordination of numerous employees, contractors and software and system providers. The interdependence of these solutions and systems is a significant risk to the successful completion of these initiatives, and the failure of any one contractor or system could have a material adverse effect on the implementation of our overall information technology infrastructure. We may experience difficulties as we transition to these new or upgraded systems and processes, including loss or corruption of data, delayed shipments, interruptions of DTC operations, decreases in productivity as our personnel implement and become familiar with new systems, increased costs, 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, including system outages and loss of system availability, could disrupt our operations and have a material adverse effect on our financial condition, results of operations or cash flows.

These implementations have a pervasive effect on our business processes and information systems across a significant portion of our operations. As a result, we are undergoing significant changes in our operational processes and internal controls as our implementations progress, which in turn require significant change management, including training of and testing by our personnel. If we are unable to successfully manage these changes as we implement these systems, including harmonizing our systems, data, processes and reporting analytics, our ability to conduct, manage and control routine business functions could be negatively affected 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 or divert management's attention from key strategic initiatives and have a material adverse effect on our financial condition, results of operations or cash flows.

We Rely on Our Highly Customized Information Management Systems

Our business is increasingly reliant on information technology. Information systems are used across our supply chain and retail operations, from design to distribution and sales, and are used as a method of communication among employees, with our subsidiaries and liaison offices overseas and with our customers, vendors and retail stores. We also rely on our information systems to allocate resources, pay vendors, collect from customers, manage product data, develop demand and supply plans, forecast and report operating results, and meet regulatory requirements.

Our legacy ERP, product development, retail point-of-sale and other systems, on which we continue to manage a substantial portion of our business activities, are highly customized. As a result, the availability of internal and external resources with the expertise to maintain these systems is limited. Our legacy systems may not support desired functionality for our operations and may inhibit our ability to operate efficiently, which could have an adverse effect on our financial condition, results of operations or cash flows. As we continue to transition from our legacy ERP and supporting systems to our new ERP and supporting systems and as we initiate our global retail platform initiative, certain functionality and information from our legacy systems, including that of third party systems that interface with our legacy systems, may not be fully compatible with the new systems. As a result, temporary processes or solutions may be required, including manual operations, which could significantly increase the risk of loss or corruption of data and information used by the business or result in business disruptions, which could have a material adverse effect on our financial condition, results of operations or cash flows.

A Breach in the Security of Our Systems, Exposure of Personal or Confidential Information or Increased Government Regulation Relating to Handling of Personal Data, Could, Among Other Things, Disrupt Our Operations or Cause Us to Incur Substantial Costs

We manage and store various types of proprietary information and sensitive and confidential data relating to our business, including personally identifiable information. Our information systems, or those of certain key partners whose information systems we may rely on, are subject to an increasing threat of continually evolving cybersecurity risks. Unauthorized parties may attempt to gain access to our systems or information through fraud or other means of deceiving our employees or third-party service providers. Hardware, software or applications we develop or obtain from third parties may contain defects in design or manufacture or other problems that could unexpectedly compromise information security. The methods used to obtain unauthorized access, disable or degrade service or sabotage systems are constantly changing and evolving, and may be difficult to anticipate or detect for long periods of time. We have implemented and regularly review and update processes and procedures to protect against unauthorized access to or use of secured data and to prevent data loss. However, the ever-evolving threats mean we must continually evaluate and adapt our systems and processes, and there is no guarantee that they will be adequate to safeguard against all data security breaches or misuses of data. For example, in February 2017, we reported the discovery of a cybersecurity incident involving our prAna.com e-commerce website, for which a number of responsive actions were taken, including notification of potentially affected prAna customers.

In addition, any future breaches of our security measures, or the accidental loss, inadvertent disclosure or unapproved or non-compliant dissemination of proprietary information or sensitive and confidential data about us, our customers, our suppliers, or our employees, could expose us, our customers, our suppliers, our employees, or other individuals that may be affected to a risk of loss or misuse of this information, result in litigation and potential liability for us, damage our reputation, or otherwise harm our business and could have a material adverse effect on our financial condition, results of operations or cash flows. In addition, as the regulatory environment related to information security, data collection and use and privacy becomes increasingly rigorous, with new and constantly changing requirements applicable to our business, compliance with those requirements could also result in additional costs. For example, the European Union adopted a new regulation that becomes effective May 25, 2018, called the General Data Protection Regulation ("GDPR"), which requires companies to meet additional requirements regarding the handling of personal data, including its use, protection and the ability of persons whose data is stored to exercise certain individual rights with respect to their personal data. The GDPR calls for privacy and process enhancements, accompanied by a commitment of resources and other expenditures in support of compliance. Violations of the GDPR could result in significant penalties.

We Depend on Contract Manufacturers

Our products are manufactured by contract manufacturers worldwide. Although we enter into purchase order commitments with these contract manufacturers 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. Contract manufacturers 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 a contract manufacturer fails to ship orders in a timely manner or to meet our standards or if we are unable to obtain necessary capacities, we could experience supply disruptions that would hinder our ability to satisfy demand through our DTC businesses and we may miss delivery deadlines or incur additional costs, which may cause our wholesale or distributor 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 contract manufacturers also creates quality control risks. Contract manufacturers 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, or a failure of our contract manufacturers or their contractors to meet our quality control standards, may result in diminished product quality, which in turn could result in increased order cancellations, price concessions and returns, decreased consumer demand for our products, non-compliance with our product standards or regulatory requirements, or product recalls (or other regulatory actions), any of which may 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 contract manufacturers 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 contract manufacturers and licensees to impose these practices, standards and laws on their contractors. If a contract manufacturer, licensee or subcontractor violates labor or other laws or engages in practices that are not generally accepted as safe or ethical, the manufacturer, licensee or subcontractor or its respective employees may suffer serious injury due to industrial accidents, the manufacturer may suffer disruptions to its operations due to work stoppages or employee protests and we may experience production disruptions, lost sales or significant negative publicity that could result in long-term damage to our reputation. In some circumstances, parties may assert that we are liable for our independent manufacturers', licensees' or subcontractors' labor and operational practices, which could have a material adverse effect on our brand image and our financial condition, results of operations or cash flows, in particular if such assertions are successful.

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, leather, natural down, 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, for example in China and Vietnam;
- Disruption to shipping and transportation channels utilized to bring our products to market;
- Interest rates and currency exchange rates;
- Availability of skilled labor and production capacity at contract manufacturers; 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, many of our products are manufactured outside of our principal sales markets, which requires these products to be transported by third parties, sometimes over large geographical distances. Shortages in ocean or air freight capacity and volatile fuel costs can result in rapidly changing transportation costs. Similarly, disruption to shipping and transportation channels due to labor disputes could cause us to rely more heavily on alternative modes of transportation 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 and retail traffic patterns. Purchasing patterns of our wholesale customers can vary year to year as they attempt to forecast and match their seasonal advance orders, in-season replenishment and at-once orders to eventual seasonal consumer demand. In addition, as we have expanded our DTC businesses, we have increased our direct 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. Our sensitivity to economic cycles and any related fluctuation in consumer demand may have a material adverse effect on our financial condition, results of operations or cash flows.

We May Be Adversely Affected by the Financial Health of Our Customers

In recent periods, 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 reduced their store fleet, filed or may file for protection under bankruptcy laws, restructured, or ceased operations. 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. We face increased risk of order reduction and cancellation and 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 international independent distributors have liquidated or reorganized, while others have had financial difficulties in the past or have experienced tightened credit markets, sales declines and reduced profitability, which have had an adverse effect on our business. Future customer liquidations or reorganizations could have a material adverse effect on our financial condition, results of operations or cash flows. In addition, we may choose to limit our credit risk by reducing our level of business with customers experiencing financial difficulties and may not be able to replace those revenues with other customers or through our DTC businesses within a reasonable period, which could have a material adverse effect on our financial condition, results of operations or cash flows.

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 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 Currency Exchange Rate Fluctuations

We derive a significant portion of our net sales from markets outside the United States, comprised of sales to wholesale customers and directly to consumers by our consolidated subsidiaries in Europe, Korea, Japan, and Canada, our China joint venture, and sales to independent international distributors who operate within the EMEA and LAAP regions. Sales and related operational expenses of our foreign subsidiaries and China joint venture, as well as their respective assets and liabilities, are denominated in currencies other than the U.S. dollar and translated into U.S. dollars for periodic reporting purposes using the exchange rates in effect during each period. If the U.S. dollar strengthens against the foreign subsidiary's functional currency, translated revenues and expenses will decline on a relative basis.

The majority of our purchases of finished goods inventory from contract manufacturers are denominated in U.S. dollars, including purchases by our foreign subsidiaries and China joint venture. The cost of these products may be affected by relative changes in the value of the local currencies of these subsidiaries and the joint venture in relation to the U.S. dollar and in relation to the local currencies of our manufacturing vendors. In order to facilitate solicitation of advance orders from wholesale customers and distributors for the spring and fall seasons, we establish local-currency-denominated wholesale and retail price lists in each of our foreign subsidiaries approximately six to nine months prior to U.S. dollar-denominated seasonal inventory purchases. As a result, our consolidated results are directly exposed to transactional foreign currency exchange risk to the extent that the U.S. dollar strengthens during the six to nine months between when we establish seasonal local-currency prices and when we purchase inventory. We employ several tactics in an effort to mitigate this transactional currency risk, including the use of currency forward and option contracts. We may also implement local-currency wholesale and retail price increases in our subsidiary and joint venture markets in an effort to mitigate the effects of currency exchange rate fluctuations on inventory costs. There is no assurance that our use of currency forward and option contracts and implementation of price increases, in combination with other tactics, will succeed in fully mitigating the negative effects of adverse foreign currency exchange rate fluctuations on the cost of our finished goods in a given period or that price increases will be accepted by our wholesale customers, distributors or consumers. Our gross margins are adversely affected whenever we are not able to offset the full extent of finished goods cost increases caused by adverse fluctuations in foreign currency exchange rates.

We enter into foreign currency forward exchange contracts to manage currency exposures for monetary assets and liabilities denominated in a currency other than an entity’s functional currency. As a result, any foreign currency remeasurement gains and losses recorded in other income (expense) are generally offset with gains and losses on the foreign currency forward exchange contracts in the same reporting period.

In addition to the direct currency exchange rate exposures described above, our business is indirectly exposed to currency exchange rate risks. For example, all of the EMEA and LAAP distributors to whom we sell purchase their inventory from us in U.S. dollars. Weakening of a distributor's functional currency relative to the U.S. dollar makes it more expensive for it to purchase finished goods inventory from us. In order to make those purchases and pay us on a timely basis, our distributors must exchange sufficient quantities of their functional currency for U.S. dollars through the financial markets. Some of our distributors have experienced periods during which they have been unable to obtain U.S. dollars in sufficient amounts to complete their purchase of finished goods inventory or to pay amounts owed for past purchases. Although each distributor bears the full risk of fluctuations in the value of its currency against the U.S. dollar, our business can be indirectly affected when adverse fluctuations cause a distributor to cancel portions of prior advance orders or significantly reduce its future purchases or both. In addition, price increases that our distributors implement in an effort to offset higher product costs may make our products less price-competitive in those markets and reduce consumer demand for our products.

Currency exchange rate fluctuations may also create indirect risk to our business by disrupting the business of independent finished goods manufacturers from which we purchase our products. When their functional currencies weaken in relation to other currencies, the raw materials they purchase on global commodities markets become more expensive and more difficult to finance. Although each manufacturer bears the full risk of fluctuations in the value of its currency against other currencies, our business can be indirectly affected when adverse fluctuations cause a manufacturer to raise the prices of goods it produces for us, disrupt the manufacturer's ability to purchase the necessary raw materials on a timely basis or disrupt the manufacturer's ability to function as an ongoing business.

Primarily for each of the reasons described above, currency fluctuations and disruptions in currency exchange markets may have a material adverse effect on our financial condition, results of operations or cash flows.

Our Orders from Customers Are Subject to Cancellation

We do not have long-term contracts with any of our wholesale customers. We do have contracts with our independent international distributors; however, although these contracts may have annual purchase minimums which must be met in order to retain distribution rights, the distributors are not otherwise obligated to purchase product. Sales to our wholesale customers and distributors are generally on an order-by-order basis and are subject to rights of cancellation and rescheduling. We consider the timing of delivery dates in our wholesale customer orders when we forecast our sales and earnings for future periods. If any of our major customers, including distributors, experience a significant downturn in business or fail to remain committed to our products or brands, these customers could postpone, reduce, cancel, or discontinue purchases from us. As a result, we could experience a decline in sales or gross profit, write-downs of excess inventory, increased discounts, extended credit terms to our customers, or uncollectable accounts receivable, which could have a material adverse effect on our financial condition, results of operations or cash flows.

We May Not Realize Returns on Our Investments in Our DTC Businesses

In recent years, our DTC businesses have grown substantially, and we anticipate continued growth in the future. Accordingly, we continue to make significant investments in our online platforms and physical retail locations, including the investment in our global retail platform, system upgrades, entering into long-term store leases, constructing leasehold improvements, purchasing fixtures and equipment, and investing in inventory and personnel. Since many of the costs of our DTC businesses are fixed, we may be unable to reduce expenses in order to avoid losses or negative cash flows if we have insufficient sales. Our DTC businesses are dependent upon our ability to operate in an increasingly complex and evolving marketplace and the results of these businesses are highly dependent on retail traffic patterns in our physical locations and our on-line platforms where our products are sold, as well as the spending patterns of our consumers. If we are unable to effectively navigate the DTC marketplace or anticipate consumer buying patterns, our ability to generate sales through our DTC businesses may be adversely affected, which in turn could have a material adverse effect on our financial condition, results of operations or cash flows.

Labor costs and labor-related benefits are primary components in the cost of our retail operations and are affected by various federal, state and foreign laws governing matters such as minimum wage rates, overtime compensation and other requirements. For example, we have seen significant political pressure and legislative actions to increase the minimum wage rate in many of the jurisdictions within which our stores are located. If we are unable to operate profitable stores or if we close stores, we may experience significant reductions in sales and income or incur significant write-downs of inventory, severance costs, lease termination costs, impairment losses on long-lived assets, or loss of working capital, which could have a material adverse effect on our financial condition, results of operations or cash flows.

In addition, from time to time we license the right to operate retail stores for our brands to third parties, primarily to our independent international distributors. We provide training to support these stores and set operational standards. However, these third parties may not operate the stores in a manner consistent with our standards, which could cause reputational damage to our brands or harm these third parties' sales and as a result harm our financial condition, results of operations or cash flows.

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

Many factors may significantly affect demand for our products, including, among other things, economic conditions, fashion trends, the financial condition of our independent international 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 contract manufacturers 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 judgments that are subject to human error;
- Consumer acceptance of our products or changes in consumer demand for products of our competitors, which could increase pressure on our product development cycle;
- Unanticipated changes in general market conditions or other factors, which may result in lower advance orders from wholesale customers and 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 discounted prices. During periods of unseasonable weather conditions, weak economic conditions, unfavorable currency fluctuations, or unfavorable geopolitical conditions in key markets, 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 some customers' operations. We may not be able to sell all of the products we have ordered from contract manufacturers 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 contract manufacturers 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, transportation or port disruption 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 Face Risks Associated with Consumer Preferences and Fashion Trends

Changes in consumer preferences, consumer purchasing behavior or consumer interest in outdoor activities may have a material adverse effect on our business and changes in fashion trends may have a greater effect than in the past as we expand our offerings to include more product categories in more geographic areas that are generally more sensitive to fashion trends. We also face risks because our success depends on our and our customers' abilities to anticipate consumer preferences and buying patterns, including the growth of e-commerce off-price retailing, and respond to changes in a timely manner. Lead times for many of our products may make it more difficult for us to respond rapidly to new or changing product trends or consumer preferences. In addition, 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 from customers, we generally place a significant portion of our seasonal production orders with our contract manufacturers before we have received all of a season's advance orders from customers, and orders may be canceled by customers before shipment. If we or our customers fail to anticipate and respond to consumer preferences or fail to respond in a timely manner or if we or our customers are unable to effectively navigate a transforming retail marketplace, we could suffer reputational damage to our brands and we may experience lower sales, excess inventories and lower profit margins in current and future periods, any of which could have a material adverse effect on our financial condition, results of operations or cash flows.

We May Be Adversely Affected by 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 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 products 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 flows.

Acquisitions Are Subject to Many Risks

From time to time, we may pursue growth through strategic acquisitions of assets or companies. Acquisitions, such as our acquisition of prAna in May 2014, are subject to many risks, including potential loss of significant customers or key personnel of the acquired business as a result of the change in ownership, difficulty integrating the operations of the acquired business or achieving targeted efficiencies, the incurrence of substantial costs and expenses related to the acquisition effort, and diversion of management's attention from other aspects of our business operations.

Acquisitions may also cause us to incur debt or result in dilutive issuances of our equity securities. Our acquisitions may cause large one-time expenses or create goodwill or other intangible assets that could result in significant impairment charges in the future. We also make various estimates and assumptions in order to determine purchase price allocation and estimate the fair value of assets acquired and liabilities assumed. If our estimates or assumptions used to value these assets and liabilities vary from actual or future projected results, we may be exposed to losses, including impairment losses, that could be material.

We do not provide any assurance that we will be able to successfully integrate the operations of any acquired businesses into our operations or achieve the expected benefits of any acquisitions. The failure to successfully integrate newly acquired businesses or achieve the expected benefits of strategic acquisitions in the future could have an adverse effect on our financial condition, results of operations or cash flows. We may not complete a potential acquisition for a variety of reasons, but we may nonetheless incur material costs in the preliminary stages of evaluating and pursuing such an acquisition that we cannot recover.

We May Not Realize All of the Anticipated Benefits of Our China Joint Venture or Complete the Buyout of the Remaining 40% Non-Controlling Interest

Effective January 2014, our joint venture in China with Swire, in which we hold a 60% interest, began operations. In April 2018, we announced our intention to buyout the remaining 40% interest in the joint venture from Swire. The joint venture and completion of this buyout is subject to a number of risks and uncertainties. For example, while our joint venture partner continues to hold a 40% interest, it has protective voting rights with respect to specified major business decisions of the joint venture, and we may experience difficulty reaching agreement as to implementation of various changes to the joint venture's business. In addition, the buyout is subject to various conditions, including regulatory approval in China. For these reasons, or as a result of other factors, we may not realize all of the anticipated benefits of the joint venture or complete the buyout, and our results of operations could be adversely affected.

Global Regulation and Economic and Political Conditions, as well as Potential Changes in Regulations, Legislation and Government Policy, May Negatively Affect Our Business

We are subject to risks generally associated with doing business internationally. These risks include the effects of foreign and domestic laws and regulations, foreign or domestic government fiscal and political crises, political and economic disputes and sanctions, changes in diverse consumer preferences, foreign currency exchange rate 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 certain markets, our ability to collect accounts receivable, our ability to manufacture products or procure

materials, and our cost of doing business.
For example, in the past, political and economic turmoil in certain South American distributor markets have resulted in currency and import restrictions, limiting our ability to sell products in some countries in this region. Also, Russia constitutes a significant portion of our non-U.S. sales and operating income and a significant change in conditions in that market has had an adverse effect on our results of operations in the past. The United Kingdom's June 23, 2016 referendum, in which voters approved its exit from the European Union (commonly referred to as "Brexit"), has created economic uncertainty and volatility in currency exchange rates, and the potential adverse effects of changes to the legal and regulatory framework that apply to the United Kingdom and its relationship with the European Union, and the associated effects on our

European operations, are unknown. If any of these or other factors make the conduct of business in a particular country, or region, undesirable or impractical, our business may be materially and adversely affected.

In the U.S., the current administration has publicly supported potential trade proposals, including import tariffs, modifications to international trade policy, and other changes that may affect U.S. trade relations with other countries, any of which may require us to significantly modify our current business practices or may otherwise materially and adversely affect our business.

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 or Experience Increased Volatility in Our Effective Tax Rate

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

On December 22, 2017, the U.S. government enacted comprehensive tax legislation, commonly referred to as the Tax Cuts and Jobs Act (the "TCJA"). The TCJA makes broad and complex changes to the U.S. tax code. Implementation of the TCJA legislation required us to record incremental provisional tax expense in 2017, which significantly increased our 2017 effective tax rate. In addition, the TCJA may also materially affect our 2018 effective tax rate and our financial condition, results of operations or cash flows. The actual amounts may differ from our provisional estimates due to, among other factors, a change in interpretation of the applicable revisions to the U.S. tax code and related tax accounting guidance, changes in assumptions made in developing these estimates, and regulatory guidance that may be issued with respect to the applicable revisions to the U.S. tax code, and state tax implications.

Other changes in the tax laws of the jurisdictions where we do business, including an increase in tax rates or an adverse change in the treatment of an item of income or expense, could result in a material increase in our tax expense. For example, changes in the tax laws of foreign jurisdictions could arise as a result of the Base Erosion and Profit Shifting (BEPS) project undertaken by the Organization for Economic Co-operation and Development (OECD). The OECD, which represents a coalition of member countries, has recommended changes to numerous long-standing tax principles. As these changes are adopted by countries, tax uncertainty could increase and may adversely affect our provision for income taxes.

We Operate in Highly 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, including competition from companies with significantly greater resources than ours.

Retailers who are our customers often pose our most significant competitive threat by designing and marketing apparel, footwear, accessories, and equipment under their own private labels. For example, in the United States and Europe, several of our largest customers have developed significant private label brands 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. As our DTC businesses grow, we also experience direct competition from retailers that are our customers, some of which primarily operate e-commerce operations and employ aggressive pricing strategies. We also compete with other companies for the production capacity of contract manufacturers from which we source 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 strengths may increase.
Increased competition may result in reduced access to production capacity, challenges in obtaining favorable locations for our retail stores, 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 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. 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, we could suffer reputational damage to our brands and 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 features or 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. 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.

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, and 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 the reputation of our brands 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. We could suffer reputational damage to our brands if we fail to choose appropriate licensees and licensed product categories. 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. 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 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. Litigation is often 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-operating 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.

In addition, as we continue to operate globally, expand the geographic scope of our business, and adopt new technologies and product categories, intellectual property disputes may increase, making it more expensive and challenging to establish and protect our intellectual property rights and to defend against claims of infringement by others, which could 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, as well as the facilities of our third-party logistics companies, the development or expansion of additional distribution capabilities and services, such as the transition of value-added services functions from contract manufacturers 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 rely primarily on our distribution facility in London, Ontario; in Europe, we rely primarily on our distribution center in Cambrai, France; in Japan, Korea, and China, we rely primarily on third-party logistics companies near Tokyo, Seoul, and Shanghai, respectively.

Our primary distribution facilities in the United States, France and Canada are highly automated, which means that their operations are complicated and may be subject to a number of risks related to computer viruses, the proper operation of software and hardware, electronic or power interruptions, and other system failures. Risks associated with upgrading or expanding these facilities may significantly disrupt or increase the cost of our operations. For example, in addition to supporting our traditional wholesale business, our existing distribution facilities have been modified to enable them to also support our DTC businesses in the United States, Canada and Europe. 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, financial deleverage and potential impairment in the recorded value of distribution assets. This has occurred in recent years in Europe, where our distribution center is underutilized. This fixed cost structure 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 natural disasters, such as earthquakes, floods, damaging winds, or fires. We maintain business interruption insurance, but it may not adequately protect us from the adverse effect that may be caused by significant disruptions in our distribution facilities.

Our Investment Securities 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, or other-than-temporary impairments.

We May Be Adversely Affected by Labor Disruptions, Changes in Labor Laws and Other Labor Issues

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, which includes a formal representation of employees by a Works Council and the application of a collective bargaining agreement. Labor disputes at contract manufacturers 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. For example, work slowdowns and stoppages at ports on the west coast of the United States have, in the past, resulted in product delays and increased costs. Labor disruptions may have a material adverse effect on our business, potentially resulting in canceled orders by customers, unanticipated inventory accumulation and reduced revenues and earnings.

Our ability to meet our labor needs at our distribution centers, retail stores, corporate headquarters, and regional subsidiaries, including our ability to find qualified employees while controlling wage and related labor costs, is generally subject to numerous external factors, including the availability of a sufficient number of qualified persons in the work force of the markets in which our operations are located, unemployment levels within those markets, prevailing and minimum wage rates, changing demographics, health and other insurance costs, and adoption of new or revised employment and labor laws and regulations. If we are unable to locate, attract or retain qualified employees, our ability to source, distribute and sell products in a timely and cost-effective manner may be negatively affected, which could have a material adverse effect on our financial condition, results of operations or cash flows.

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 contract manufacturers to produce these materials as necessary, there are no guarantees that additional contract manufacturers 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 near 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

DTC businesses and sales growth in our winter footwear business 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, recall, or destruction of inventory shipments during key seasons or in other financial penalties. Significant or continuing noncompliance with these standards and laws could disrupt our business and harm our reputation and, as a result, could have a material adverse effect on our financial condition, results of operations or cash flows.

Our products are used in outdoor activities, sometimes in severe conditions. Product recalls or product liability claims resulting from the failure, or alleged failure, of our products could have a material adverse effect on the reputation of our brands, 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 estimated 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, actions by institutional investors to rapidly accumulate or divest of a substantial number of our shares, 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

Five related shareholders, Gertrude Boyle, Sarah Bany, Timothy Boyle, Joseph Boyle, and Molly Boyle, 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 five shareholders 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

| Period | Total Number of Shares Purchased | Average Price Paid per Share | Total Number of Shares Purchased as Part of Publicly Announced Plans or Programs [1] | Approximate Dollar Value of Shares that May Yet Be Purchased Under the Plans or Programs |
|---|---|---|---|---|
| January 1, 2018 through January 31, 2018 | — | $ — | — | $ 137,936,000 |
| February 1, 2018 through February 28, 2018 | 65,826 | 75.57 | 65,826 | 132,962,000 |
| March 1, 2018 through March 31, 2018 | 169,671 | 77.34 | 169,671 | 119,837,000 |
| Total | 235,497 | $ 76.86 | 235,497 | $ 119,837,000 |

[1] Our Board of Directors has authorized the repurchase of $700,000,000 of our common stock. As of March 31, 2018, we had repurchased 21,893,532 shares under this program at an aggregate purchase price of approximately $580,163,000. Shares of our common stock may be purchased in the open market or through privately negotiated transactions, subject to market conditions. The repurchase program does not obligate us to acquire any specific number of shares or to acquire shares over any specified period of time.

Item 6. EXHIBITS

(a) Exhibits

| | |
|---|---|
| 31.1 | Rule 13a-14(a) Certification of Timothy P. Boyle, President and Chief Executive Officer |
| 31.2 | Rule 13a-14(a) Certification of Jim A. Swanson, Senior Vice President, Chief Financial Officer |
| 32.1 | Section 1350 Certification of Timothy P. Boyle, President and Chief Executive Officer |
| 32.2 | Section 1350 Certification of Jim A. Swanson, Senior Vice President, 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 |

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.

| | |
|---|---|
| | COLUMBIA SPORTSWEAR COMPANY |
| Date: May 3, 2018 | /s/ JIM A. SWANSON |
| | Jim A. Swanson |
| | Senior Vice President, Chief Financial Officer |
| | (Duly Authorized Officer and |
| | Principal Financial and Accounting Officer) |