

COLUMBIA SPORTSWEAR CO  
Form 10-Q  
November 07, 2013

UNITED STATES  
SECURITIES AND EXCHANGE COMMISSION  
Washington, DC 20549

FORM 10-Q

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

For the quarterly period ended September 30, 2013

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

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

Commission file number 0-23939

COLUMBIA SPORTSWEAR COMPANY  
(Exact name of registrant as specified in its charter)

Oregon	93-0498284
(State or other jurisdiction of incorporation or organization)	(IRS Employer Identification Number)
14375 Northwest Science Park Drive	97229
Portland, Oregon	(Zip Code)
(Address of principal executive offices)	
(503) 985-4000	
(Registrant's telephone number, including area code)	

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

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

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

Large accelerated filer	<input checked="" type="checkbox"/>	Accelerated filer	<input type="checkbox"/>
Non-accelerated filer	<input type="checkbox"/>	Smaller reporting company	<input type="checkbox"/>

Indicate by check mark whether the registrant is a shell company (as defined in Rule 12b-2 of the Exchange Act). Yes  No

The number of shares of Common Stock outstanding on October 25, 2013 was 34,499,355.

COLUMBIA SPORTSWEAR COMPANY  
SEPTEMBER 30, 2013  
INDEX TO FORM 10-Q

	PAGE NO.
<u>PART I. FINANCIAL INFORMATION</u>	
<u>Item 1 – Financial Statements – Columbia Sportswear Company (Unaudited)</u>	<u>2</u>
<u>Condensed Consolidated Balance Sheets</u>	<u>2</u>
<u>Condensed Consolidated Statements of Operations</u>	<u>3</u>
<u>Condensed Consolidated Statements of Comprehensive Income</u>	<u>4</u>
<u>Condensed Consolidated Statements of Cash Flows</u>	<u>5</u>
<u>Notes to Condensed Consolidated Financial Statements</u>	<u>6</u>
<u>Item 2 – Management’s Discussion and Analysis of Financial Condition and Results of Operations</u>	<u>18</u>
<u>Item 3 – Quantitative and Qualitative Disclosures About Market Risk</u>	<u>28</u>
<u>Item 4 – Controls and Procedures</u>	<u>28</u>
<u>PART II. OTHER INFORMATION</u>	
<u>Item 1 – Legal Proceedings</u>	<u>29</u>
<u>Item 1A – Risk Factors</u>	<u>29</u>
<u>Item 2 – Unregistered Sales of Equity Securities and Use of Proceeds</u>	<u>39</u>
<u>Item 6 – Exhibits</u>	<u>39</u>
<u>Signatures</u>	<u>40</u>

## PART I. FINANCIAL INFORMATION

## Item 1 – FINANCIAL STATEMENTS

## COLUMBIA SPORTSWEAR COMPANY

## CONDENSED CONSOLIDATED BALANCE SHEETS

(In thousands)

(Unaudited)

	September 30, 2013	December 31, 2012	September 30, 2012
<b>ASSETS</b>			
Current Assets:			
Cash and cash equivalents	\$274,160	\$290,781	\$94,164
Short-term investments	29,049	44,661	2,128
Accounts receivable, net of allowance of \$8,731, \$7,377 and \$7,543, respectively	378,032	334,324	422,756
Inventories, net (Note 4)	410,111	363,325	475,733
Deferred income taxes	50,342	50,929	53,905
Prepaid expenses and other current assets	38,514	38,583	38,334
Total current assets	1,180,208	1,122,603	1,087,020
Property, plant and equipment, at cost, net of accumulated depreciation of \$322,161, \$303,043 and \$297,036, respectively	280,682	260,524	260,423
Intangible assets, net (Note 5)	36,620	37,618	37,968
Goodwill	14,438	14,438	14,438
Other non-current assets	22,354	23,659	27,997
Total assets	\$1,534,302	\$1,458,842	\$1,427,846
<b>LIABILITIES AND EQUITY</b>			
Current Liabilities:			
Notes payable	\$—	\$156	\$10,206
Accounts payable	141,755	142,240	109,879
Accrued liabilities (Note 6)	119,654	105,190	122,501
Income taxes payable	9,257	4,406	13,802
Deferred income taxes	67	67	954
Total current liabilities	270,733	252,059	257,342
Income taxes payable	14,355	11,638	14,841
Deferred income taxes	1,849	1,807	1,745
Other long-term liabilities	27,643	27,171	26,215
Total liabilities	314,580	292,675	300,143
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; 34,478, 34,075 and 33,941 issued and outstanding, respectively (Note 9)	44,371	24,814	17,482
Retained earnings	1,129,636	1,094,690	1,062,674
Accumulated other comprehensive income (Note 8)	37,905	46,663	47,547
Total Columbia Sportswear Company shareholders' equity	1,211,912	1,166,167	1,127,703
Non-controlling interest (Note 3)	7,810	—	—
Total equity	1,219,722	1,166,167	1,127,703
Total liabilities and equity	\$1,534,302	\$1,458,842	\$1,427,846

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 September		Nine Months Ended September	
	30,		30,	
	2013	2012	2013	2012
Net sales	\$523,084	\$545,005	\$1,151,886	\$1,168,503
Cost of sales	290,735	301,320	645,949	659,014
Gross profit	232,349	243,685	505,937	509,489
Selling, general and administrative expenses	162,951	160,154	437,789	437,881
Net licensing income	7,501	4,287	11,482	10,817
Income from operations	76,899	87,818	79,630	82,425
Interest income (expense), net	56	(17	) 403	421
Other non-operating income (expense)	417	—	(686	) —
Income before income tax	77,372	87,801	79,347	82,846
Income tax expense	(22,822	) (23,426	) (22,025	) (22,474
Net income	54,550	64,375	57,322	60,372
Net loss attributable to non-controlling interest	(36	) —	(289	) —
Net income attributable to Columbia Sportswear Company	\$54,586	\$64,375	\$57,611	\$60,372
Earnings per share attributable to Columbia Sportswear Company (Note 9):				
Basic	\$1.58	\$1.90	\$1.68	\$1.79
Diluted	1.57	1.88	1.66	1.77
Cash dividends per share	\$0.22	\$0.22	\$0.66	\$0.66
Weighted average shares outstanding (Note 9):				
Basic	34,452	33,872	34,325	33,761
Diluted	34,753	34,155	34,640	34,035

See accompanying notes to condensed consolidated financial statements.

COLUMBIA SPORTSWEAR COMPANY  
CONDENSED CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME

(In thousands)

(Unaudited)

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2013	2012	2013	2012
Net income	\$54,550	\$64,375	\$57,322	\$60,372
Other comprehensive income (loss):				
Unrealized holding gains (losses) on available-for-sale securities (net of tax expense of \$0, \$4, \$4 and \$0, respectively)	(9	) 32	7	—
Unrealized losses on derivative transactions (net of tax benefit of \$1,372, \$825, \$223 and \$577, respectively)	(3,204	) (3,369	) (1,606	) (3,952
Foreign currency translation adjustments (net of tax (expense) benefit of (\$308), (\$149), (\$210) and \$111, respectively)	11,114	8,306	(7,060	) 4,602
Other comprehensive income (loss)	7,901	4,969	(8,659	) 650
Comprehensive income	62,451	69,344	48,663	61,022
Comprehensive loss attributable to non-controlling interest	(15	) —	(190	) —
Comprehensive income attributable to Columbia Sportswear Company	\$62,466	\$69,344	\$48,853	\$61,022

See accompanying notes to condensed consolidated financial statements.

COLUMBIA SPORTSWEAR COMPANY  
CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS

(In thousands)

(Unaudited)

	Nine Months Ended September 30,	
	2013	2012
Cash flows from operating activities:		
Net income	\$57,322	\$60,372
Adjustments to reconcile net income to net cash provided by (used in) operating activities:		
Depreciation and amortization	30,337	30,763
Loss on disposal or impairment of property, plant, and equipment	370	505
Deferred income taxes	2,173	974
Stock-based compensation	6,532	5,707
Excess tax benefit from employee stock plans	(1,083)	(604)
Changes in operating assets and liabilities:		
Accounts receivable	(43,712)	(68,605)
Inventories	(46,795)	(108,027)
Prepaid expenses and other current assets	114	(1,784)
Other assets	330	(266)
Accounts payable	(1,521)	(45,660)
Accrued liabilities	11,654	12,926
Income taxes payable	7,530	825
Other liabilities	472	2,298
Net cash provided by (used in) operating activities	23,723	(110,576)
Cash flows from investing activities:		
Purchases of short-term investments	(61,286)	(39,274)
Sales of short-term investments	77,166	40,153
Capital expenditures	(49,157)	(32,431)
Proceeds from sale of property, plant, and equipment	49	6
Net cash used in investing activities	(33,228)	(31,546)
Cash flows from financing activities:		
Proceeds from credit facilities	36,896	74,846
Repayments on credit facilities	(37,052)	(64,640)
Proceeds from issuance of common stock under employee stock plans	14,199	9,607
Tax payments related to restricted stock unit issuances	(2,144)	(1,261)
Excess tax benefit from employee stock plans	1,083	604
Repurchase of common stock	—	(206)
Capital contribution from non-controlling interest	8,000	—
Cash dividends paid	(22,665)	(22,309)
Net cash used in financing activities	(1,683)	(3,359)
Net effect of exchange rate changes on cash	(5,433)	(1,389)
Net decrease in cash and cash equivalents	(16,621)	(146,870)
Cash and cash equivalents, beginning of period	290,781	241,034
Cash and cash equivalents, end of period	\$274,160	\$94,164
Supplemental disclosures of cash flow information:		
Cash paid during the period for income taxes	\$7,867	\$15,891
Supplemental disclosures of non-cash investing activities:		
Capital expenditures incurred but not yet paid	\$1,259	\$5,967
See accompanying notes to condensed consolidated financial statements.		





COLUMBIA SPORTSWEAR COMPANY

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

(Unaudited)

NOTE 1—BASIS OF PRESENTATION AND ORGANIZATION

The accompanying unaudited condensed consolidated financial statements have been prepared by the management of Columbia Sportswear Company (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 September 30, 2013 and 2012, the results of operations for the three and nine months ended September 30, 2013 and 2012 and cash flows for the nine months ended September 30, 2013 and 2012. The December 31, 2012 financial information was derived from the Company's audited financial statements included in the Company's Annual Report on Form 10-K for the year ended December 31, 2012. A significant part of the Company's business is of a seasonal nature; therefore, results of operations for the three and nine months ended September 30, 2013 are not necessarily indicative of results to be expected for the full year.

Certain information and footnote disclosures normally included in financial statements prepared in accordance with accounting principles generally accepted in the United States of America ("generally accepted accounting principles") have been condensed or omitted pursuant to the rules and regulations of the Securities and Exchange Commission. The Company, however, believes that the disclosures contained in this report comply with the requirements of Section 13(a) of the Securities Exchange Act of 1934 for a Quarterly Report on Form 10-Q and are adequate to make the information presented not misleading. These unaudited condensed consolidated financial statements should be read in conjunction with the consolidated financial statements and notes thereto included in the Company's Annual Report on Form 10-K for the year ended December 31, 2012.

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

Principles of Consolidation:

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

NOTE 2—SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

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

Recent Accounting Pronouncements:

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

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

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

6

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

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

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

NOTE 3—NON-CONTROLLING INTEREST

The Company owns a 60% controlling interest in a joint venture formed with Swire Resources, Ltd. ("Swire") to support the development of the Company's business in China. The joint venture is expected to begin operations on January 1, 2014. During the three months ended June 30, 2013, Swire made an initial capital contribution of \$8,000,000 in cash and the Company made an initial capital contribution of \$12,000,000 in cash. The accounts of the joint venture are included in the Condensed Consolidated Balance Sheets as of September 30, 2013. Swire's share of net income (loss) of the joint venture is included in net loss attributable to non-controlling interest in the Condensed Consolidated Statements of Operations for the three and nine months ended September 30, 2013. The non-controlling equity interest in this entity is included in total equity as non-controlling interest on the Condensed Consolidated Balance Sheets as of September 30, 2013.

The following table presents the changes in equity for the nine months ended September 30, 2013 (in thousands):

	Columbia Sportswear Company	Non-Controlling Interest	Total
BALANCE, DECEMBER 31, 2012	\$ 1,166,167	\$—	\$ 1,166,167
Net income (loss)	57,611	(289	) 57,322
Other comprehensive income (loss):			
Unrealized holding gains on available for sale securities	7	—	7
Derivative holding losses	(1,606	) —	(1,606
Foreign currency translation adjustments	(7,159	) 99	(7,060
Cash dividends (\$0.66 per share)	(22,665	) —	(22,665
Issuance of common stock under employee stock plans, net	12,055	—	12,055
Capital contribution from non-controlling interest	—	8,000	8,000
Tax adjustment from stock plans	970	—	970
Stock-based compensation expense	6,532	—	6,532
BALANCE, SEPTEMBER 30, 2013	\$ 1,211,912	\$ 7,810	\$ 1,219,722

NOTE 4—INVENTORIES, NET

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

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

7

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

	September 30, 2013	December 31, 2012	September 30, 2012
Raw materials	\$941	\$1,633	\$726
Work in process	1,271	1,969	2,055
Finished goods	407,899	359,723	472,952
	\$410,111	\$363,325	\$475,733

NOTE 5—INTANGIBLE ASSETS, NET

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

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

	September 30, 2013	December 31, 2012	September 30, 2012
Intangible assets subject to amortization			
Gross carrying amount	\$14,198	\$14,198	\$14,198
Accumulated amortization	(4,999)	(4,001)	(3,651)
Net carrying amount	9,199	10,197	10,547
Intangible assets not subject to amortization	27,421	27,421	27,421
Intangible assets, net	\$36,620	\$37,618	\$37,968

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

NOTE 6—PRODUCT WARRANTY

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

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

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2013	2012	2013	2012
Balance at beginning of period	\$9,665	\$9,453	\$10,209	\$10,452
Charged to costs and expenses	1,154	1,218	3,938	3,183
Claims settled	(806)	(960)	(3,976)	(3,917)
Other	126	83	(32)	76
Balance at end of period	\$10,139	\$9,794	\$10,139	\$9,794

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 awards. The majority of all stock option and restricted stock unit grants outstanding under the Plan were granted in the first quarter of each fiscal year.

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

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

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2013	2012	2013	2012
Stock options	\$873	\$607	\$2,583	\$2,384
Restricted stock units	1,377	797	3,949	3,323
Total	\$2,250	\$1,404	\$6,532	\$5,707

#### Stock Options

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

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

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2013	2012	2013	2012
Expected term	4.49 years	4.51 years	4.71 years	4.78 years
Expected stock price volatility	26.87%	31.95%	30.63%	32.20%
Risk-free interest rate	1.01%	0.47%	0.70%	0.88%
Expected dividend yield	1.38%	1.63%	1.62%	1.80%
Weighted average grant date fair value	\$13.04	\$12.37	\$12.34	\$11.57

During the nine months ended September 30, 2013 and 2012, the Company granted a total of 342,358 and 358,169 stock options, respectively. At September 30, 2013, unrecognized costs related to outstanding stock options totaled approximately \$6,414,000, before any related tax benefit. The unrecognized costs related to stock options are amortized over the related vesting period using the straight-line attribution method. Unrecognized costs related to stock options at September 30, 2013 are expected to be recognized over a weighted average period of 2.45 years.

#### Restricted Stock Units

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

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

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2013	2012	2013	2012
Vesting period	4.01 years	4.00 years	3.93 years	3.86 years
Expected dividend yield	1.38%	1.63%	1.59%	1.77%
Estimated average grant date fair value per restricted stock unit	\$60.27	\$50.46	\$51.97	\$46.57

During the nine months ended September 30, 2013 and 2012, the Company granted 147,590 and 183,816 restricted stock units, respectively. At September 30, 2013, unrecognized costs related to outstanding restricted stock units totaled approximately \$11,331,000, 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 September 30, 2013 are expected to be recognized over a weighted average period of 2.50 years.

#### NOTE 8—ACCUMULATED OTHER COMPREHENSIVE INCOME



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

Accumulated other comprehensive income, net of applicable taxes, reported on the Company's Condensed Consolidated Balance Sheets consists of unrealized holding gains and losses on available-for-sale securities, unrealized gains and losses on certain derivative transactions and foreign currency translation adjustments. The following table sets forth the changes in accumulated other comprehensive income attributable to Columbia Sportswear Company, net of tax, for the three months ended September 30, 2013 (in thousands):

	Unrealized gains (losses) on available for sale securities	Unrealized holding gains on derivative transactions	Foreign currency translation adjustments	Total
Balance at June 30, 2013	\$7	\$4,103	\$25,915	\$30,025
Other comprehensive income (loss) before reclassifications	(9	) (951	) 11,093	10,133
Amounts reclassified from other comprehensive income	—	(2,253	) —	(2,253
Net other comprehensive income (loss) during the period	(9	) (3,204	) 11,093	7,880
Balance at September 30, 2013	\$(2	) \$899	\$37,008	\$37,905

The following table sets forth the changes in accumulated other comprehensive income attributable to Columbia Sportswear Company, net of tax, for the three months ended September 30, 2012 (in thousands):

	Unrealized losses on available for sale securities	Unrealized holding gains on derivative transactions	Foreign currency translation adjustments	Total
Balance at June 30, 2012	\$(34	) \$6,667	\$35,945	\$42,578
Other comprehensive income (loss) before reclassifications	32	(736	) 8,306	7,602
Amounts reclassified from other comprehensive income	—	(2,633	) —	(2,633
Net other comprehensive income (loss) during the period	32	(3,369	) 8,306	4,969
Balance at September 30, 2012	\$(2	) \$3,298	\$44,251	\$47,547

The following table sets forth the changes in accumulated other comprehensive income attributable to Columbia Sportswear Company, net of tax, for the nine months ended September 30, 2013 (in thousands):

	Unrealized losses on available for sale securities	Unrealized holding gains on derivative transactions	Foreign currency translation adjustments	Total
Balance at December 31, 2012	\$(9	) \$2,505	\$44,167	\$46,663
Other comprehensive income (loss) before reclassifications	7	1,929	(7,159	) (5,223
Amounts reclassified from other comprehensive income	—	(3,535	) —	(3,535
Net other comprehensive income (loss) during the period	7	(1,606	) (7,159	) (8,758
Balance at September 30, 2013	\$(2	) \$899	\$37,008	\$37,905

The following table sets forth the changes in accumulated other comprehensive income attributable to Columbia Sportswear Company, net of tax, for the nine months ended September 30, 2012 (in thousands):





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

	Unrealized losses on available for sale securities	Unrealized holding gains on derivative transactions	Foreign currency translation adjustments	Total
Balance at December 31, 2011	\$(2 )	\$7,250	\$39,649	\$46,897
Other comprehensive income (loss) before reclassifications	—	(143 )	4,602	4,459
Amounts reclassified from other comprehensive income	—	(3,809 )	—	(3,809 )
Net other comprehensive income (loss) during the period	—	(3,952 )	4,602	650
Balance at September 30, 2012	\$(2 )	\$3,298	\$44,251	\$47,547

All reclassification adjustments related to derivative transactions are recorded in cost of sales on the Condensed Consolidated Statements of Operations. See Note 11 for further information regarding derivative instrument reclassification adjustments.

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. For the calculation of diluted EPS, the basic weighted average number of shares is increased by the dilutive effect of stock options and restricted stock units determined using the treasury stock method.

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

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2013	2012	2013	2012
Weighted average shares of common stock outstanding, used in computing basic earnings per share	34,452	33,872	34,325	33,761
Effect of dilutive stock options and restricted stock units	301	283	315	274
Weighted average shares of common stock outstanding, used in computing diluted earnings per share	34,753	34,155	34,640	34,035
Earnings per share of common stock attributable to Columbia Sportswear Company:				
Basic	\$1.58	\$1.90	\$1.68	\$1.79
Diluted	1.57	1.88	1.66	1.77

Stock options and service-based restricted stock units representing 393,993 and 923,275 shares of common stock for the three months ended September 30, 2013 and 2012, respectively, and 586,220 and 932,362 shares of common stock for the nine months ended September 30, 2013 and 2012, respectively, were outstanding but were excluded from the computation of diluted EPS because their effect would be anti-dilutive as a result of applying the treasury stock method. In addition, performance-based restricted stock units representing 10,560 and 40,304 shares of common stock for the three months ended September 30, 2013 and 2012, respectively, and 10,560 and 38,259 shares of common stock for the nine months ended September 30, 2013 and 2012, respectively, were outstanding but were excluded from the computation of diluted EPS because these shares were subject to performance conditions that had not been met. Since the inception of the Company’s stock repurchase plan in 2004 through September 30, 2013, the Company’s Board of Directors has authorized the repurchase of \$500,000,000 of the Company’s common stock. As of September 30,

2013, the Company had repurchased 9,593,278 shares under this program at an aggregate purchase price of approximately \$441,443,000. During the nine months ended September 30, 2013, the Company did not repurchase any shares of the Company's common stock. During the nine months ended September 30, 2012, the Company repurchased an aggregate of \$206,000 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.

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

## NOTE 10—SEGMENT INFORMATION

The Company operates in four geographic segments: (1) United States, (2) Latin America and Asia Pacific ("LAAP"), (3) Europe, Middle East and Africa ("EMEA") and (4) Canada, which are reflective of the Company's internal organization, management, and oversight structure. Each geographic segment operates predominantly in one industry: the design, development, marketing and distribution of active outdoor apparel, footwear, accessories and equipment. The geographic distribution of the Company's net sales and income from operations are summarized in the following tables (in thousands). Inter-segment net sales, which are recorded at a negotiated mark-up and eliminated in consolidation, are not material.

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2013	2012	2013	2012
Net sales to unrelated entities:				
United States	\$323,120	\$347,757	\$663,407	\$672,879
LAAP	71,968	84,614	236,297	245,560
EMEA	78,102	60,583	172,056	168,655
Canada	49,894	52,051	80,126	81,409
	\$523,084	\$545,005	\$1,151,886	\$1,168,503
Segment income from operations:				
United States	\$50,260	\$62,475	\$47,113	\$50,039
LAAP	9,199	7,128	23,964	24,797
EMEA	11,188	7,862	4,913	2,295
Canada	6,252	10,353	3,640	5,294
Total income from operations	76,899	87,818	79,630	82,425
Interest	56	(17	) 403	421
Other non-operating income (expense)	417	—	(686	) —
Income before income taxes	\$77,372	\$87,801	\$79,347	\$82,846

## NOTE 11—FINANCIAL INSTRUMENTS AND RISK MANAGEMENT

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

The Company actively manages the risk of changes in functional currency equivalent cash flows resulting from anticipated U.S. dollar denominated inventory purchases by subsidiaries that use European euros, Canadian dollars or Japanese yen as their functional currency. The Company manages this risk by using currency forward contracts formally designated and effective as cash flow hedges. Hedge effectiveness is determined by evaluating the ability of a hedging instrument's cumulative change in fair value to offset the cumulative change in the present value of expected cash flows on the underlying exposures. For forward contracts, the change in fair value attributable to changes in forward points are excluded from the determination of hedge effectiveness and included in current cost of sales. Hedge ineffectiveness was not material during the three and nine months ended September 30, 2013 and 2012.

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 European euros, Canadian dollars, Japanese yen, Korean won or Chinese

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

12

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

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

	September 30, 2013	December 31, 2012	September 30, 2012
Derivative instruments designated as cash flow hedges:			
Currency forward contracts	\$84,500	\$70,000	\$97,925
Derivative instruments not designated as cash flow hedges:			
Currency forward contracts	65,900	121,934	89,462

At September 30, 2013, approximately \$1,903,000 of deferred net gains on both outstanding and matured derivatives accumulated in other comprehensive income are expected to be reclassified to net income during the next twelve months as a result of underlying hedged transactions also being recorded in net income. Actual amounts ultimately reclassified to net income are dependent on U.S. dollar exchange rates in effect against the European euro, Canadian dollar and Japanese yen when outstanding derivative contracts mature.

At September 30, 2013, the Company's derivative contracts had a remaining maturity of approximately two years or less. All the counterparties to these transactions had both long-term and short-term investment grade credit ratings and as a result, the Company does not require collateral to facilitate transactions. The maximum net exposure to any single counterparty, which is generally limited to the aggregate unrealized gain of all contracts with that counterparty, was approximately \$1,000,000 at September 30, 2013. The Company does not hold derivatives featuring credit-related contingent terms. In addition, the Company is not a party to any derivative master agreement featuring credit-related contingent terms. Finally, the Company has not pledged assets or posted collateral as a requirement for entering into or maintaining derivative positions.

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

	Balance Sheet Classification	September 30, 2013	December 31, 2012	September 30, 2012
Derivative instruments designated as cash flow hedges:				
Derivative instruments in asset positions:				
Currency forward contracts	Prepaid expenses and other current assets	\$ 1,526	\$ 2,147	\$ 2,170
Currency forward contracts	Other non-current assets	—	489	—
Derivative instruments in liability positions:				
Currency forward contracts	Accrued liabilities	573	579	580
Derivative instruments not designated as cash flow hedges:				
Derivative instruments in asset positions:				
Currency forward contracts	Prepaid expenses and other current assets	403	4,072	582
Derivative instruments in liability positions:				
Currency forward contracts	Accrued liabilities	26	743	1,640

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

13

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

	Statement of Operations Classification	Three Months Ended September 30,		Nine Months Ended September 30,	
		2013	2012	2013	2012
Currency Forward Contracts:					
Derivative instruments designated as cash flow hedges:					
Gain (loss) recognized in other comprehensive income or loss	—	\$(951 )	\$(736 )	\$1,929	\$(143 )
Gain reclassified from accumulated other comprehensive income or loss to income for the effective portion	Cost of sales	3,217	3,219	4,843	4,011
Gain reclassified from accumulated other comprehensive income or loss to income as a result of cash flow hedge discontinuance	Cost of sales	—	—	—	441
Gain (loss) recognized in income for amount excluded from effectiveness testing and for the ineffective portion	Cost of sales	8	(12 )	(37 )	(16 )
Derivative instruments not designated as cash flow hedges:					
Gain recognized in income	Other non-operating income (expense)	137	—	6,149	—
Loss recognized in income	Selling, general and administrative expense	—	(881 )	—	(7,134 )

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 September 30, 2013, inventory purchase obligations were \$240,165,000.

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





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

Assets and liabilities measured at fair value on a recurring basis at September 30, 2013 are as follows (in thousands):

	Level 1	Level 2	Level 3	Total
Assets:				
Cash equivalents				
Money market funds	\$153,382	\$—	\$—	\$153,382
Time deposits	25,092	—	—	25,092
Reverse repurchase agreements	—	25,000	—	25,000
U.S. Government-backed municipal bonds	—	3,218	—	3,218
Available-for-sale short-term investments <sup>(1)</sup>				
Certificates of deposit	—	1,470	—	1,470
Variable-rate demand notes	—	27,320	—	27,320
Other short-term investments				
Mutual fund shares	259	—	—	259
Other current assets				
Derivative financial instruments (Note 11)	—	1,929	—	1,929
Other non-current assets				
Mutual fund shares	4,560	—	—	4,560
Total assets measured at fair value	\$183,293	\$58,937	\$—	\$242,230
Liabilities:				
Accrued liabilities				
Derivative financial instruments (Note 11)	\$—	\$599	\$—	\$599
Total liabilities measured at fair value	\$—	\$599	\$—	\$599

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

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

	Level 1	Level 2	Level 3	Total
Assets:				
Cash equivalents				
Money market funds	\$70,857	\$—	\$—	\$70,857
Time deposits	25,035	—	—	25,035
Certificates of deposit	—	2,450	—	2,450
U.S. Government-backed repurchase agreements	—	25,000	—	25,000
U.S. Government-backed municipal bonds	—	5,348	—	5,348
Available-for-sale short-term investments <sup>(1)</sup>				
Certificates of deposit	—	7,596	—	7,596
Variable-rate demand notes	—	22,640	—	22,640
U.S. Government-backed municipal bonds	—	14,425	—	14,425
Other current assets				
Derivative financial instruments (Note 11)	—	6,219	—	6,219
Other non-current assets				
Derivative financial instruments (Note 11)	—	489	—	489
Mutual fund shares	4,080	—	—	4,080
Total assets measured at fair value	\$99,972	\$84,167	\$—	\$184,139
Liabilities:				
Accrued liabilities				
Derivative financial instruments (Note 11)	\$—	\$1,322	\$—	\$1,322
Total liabilities measured at fair value	\$—	\$1,322	\$—	\$1,322

Assets and liabilities measured at fair value on a recurring basis at September 30, 2012 are as follows (in thousands):

	Level 1	Level 2	Level 3	Total
Assets:				
Cash equivalents				
Money market funds	\$13,700	\$—	\$—	\$13,700
Time deposits	10,016	—	—	10,016
Available-for-sale short-term investments <sup>(1)</sup>				
Time deposits	—	2,128	—	2,128
Other current assets				
Derivative financial instruments (Note 11)	—	2,752	—	2,752
Other non-current assets				
Mutual fund shares	3,879	—	—	3,879
Total assets measured at fair value	\$27,595	\$4,880	\$—	\$32,475
Liabilities:				
Accrued liabilities				
Derivative financial instruments (Note 11)	\$—	\$2,220	\$—	\$2,220
Total liabilities measured at fair value	\$—	\$2,220	\$—	\$2,220

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



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

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

There were no material assets and liabilities measured at fair value on a nonrecurring basis as of September 30, 2013, December 31, 2012, or September 30, 2012.

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

This quarterly report contains forward-looking statements. Forward-looking statements include any statements related to our expectations regarding future performance or market position, including any statements regarding anticipated sales, gross margins and operating margins across markets, distribution channels and product categories, licensing income, expenses, input costs and cost containment measures, effects of unseasonable weather on our results of operations, inventory levels, investments in our business, including commencement, further funding and operation of our China joint venture, investments in and implementation of our information technology systems, our direct-to-consumer channels and other capital expenditures, access to raw materials and factory capacity, financing and working capital requirements and resources, tax rates and pre-tax income, and our exposure to market risk associated with interest rates and foreign currency exchange rates.

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

### Our Business

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

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

### Seasonality and Variability of Business

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

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

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

**Business Outlook**

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

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

18

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Changes in mix and volume of full price sales relative to closeout product sales and promotional sales activity;  
Costs and business interruption risks related to our supply chain and information technology infrastructure investments and projects, including our multi-year global enterprise resource planning ("ERP") system implementation;  
Our ability to implement and maintain effective cost containment measures in order to limit the growth of selling, general and administrative ("SG&A") expenses;  
Continued economic uncertainty, which is creating headwinds in key global markets, particularly Europe as it relates to our EMEA direct business where we have ongoing efforts to revitalize Columbia brand sales;  
Ongoing political and economic uncertainty, particularly in South America with respect to import restrictions and currency constraints in key distributor markets;  
The rate of new store expansion and performance of our existing stores in our global direct-to-consumer operations;  
Changes in consumer spending activity; and  
Fluctuating currency exchange rates.

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.

Our previously announced joint venture in mainland China with Swire is expected to commence operations effective January 1, 2014, subject to regulatory approval in the People's Republic of China and other conditions customary in transactions of this size and type. As a majority-owned entity, the joint venture's operations will be included in our consolidated financial results. During 2013, our financial results are affected as we transition to the joint venture from our current third-party distributor relationship with Swire. We funded our initial capital contribution of \$12 million in cash and Swire funded its initial capital contribution of \$8 million in cash to the joint venture during the second quarter of 2013. Additional capital will be provided in the fourth quarter of 2013 in the form of proportionate shareholder loans totaling up to \$40 million. We have incurred approximately \$2.1 million of organizational and other pre-operating costs, including personnel costs, professional fees and selling-related expenses, during the first nine months of 2013 and we expect to incur approximately \$1.6 million in additional China-related costs during the fourth quarter. Our shipments of spring 2014 inventory for the China market, anticipated to begin in the fourth quarter of 2013, will be sold directly to the joint venture entity. The related sales, gross margin, and licensing income, which we would have recognized in the fourth quarter of 2013 under the distributor model, will be deferred and recognized in future periods as the joint venture sells that inventory to wholesale customers and consumers. Similarly, on or about December 31, 2013, Swire's inventory of fall 2013 and prior seasons will be transferred to the joint venture. We have deferred 2013 profits related to the existing inventory expected to be transferred to the joint venture and we will recognize those profits as the inventory is sold by the joint venture in future periods. The actual amount of profit eliminations and deferrals from the remainder of 2013 into future periods will be dependent upon the volume of spring 2014 inventory purchased by the joint venture in the fourth quarter of 2013 and the actual remaining balance of inventory from prior seasons that will be transferred to the joint venture at December 31, 2013. These adjustments have been included in our 2013 outlook described below.

Our current fiscal year 2013 outlook assumes:

a net sales decline of up to 1.5 percent compared to 2012, including: a decline in the LAAP region following two years of rapid growth, driven by import restrictions and currency constraints in key South American distributor markets, the transition to a new distributor in Australia, the effects of transitioning to a joint venture in China, and a decline in Japan due to a significantly weaker yen; increased sales in the EMEA region reflecting increased sales to EMEA distributors partially offset by decreased sales in the EMEA direct markets due to continued product assortment and macro-economic challenges that have hampered our ongoing efforts to revitalize our brands in key European markets; increased sales in the United States driven by the anticipated results of our direct-to-consumer business, largely offset by a decline in wholesale net sales resulting from cautious fall 2013 advance orders following mild winter weather in 2012; a slight increase in net sales in Canada; and an approximately 2 percentage point negative effect from changes in foreign currency exchange rates.

gross margin expansion of approximately 50 basis points compared with 2012, reflecting a higher proportion of direct-to-consumer sales and less promotional activity, partially offset by unfavorable foreign currency hedge rates.



SG&A expenses approximately 2.0 percent higher than 2012, resulting in SG&A expense deleverage of approximately 125 basis points. The slight increase in projected SG&A expense includes pre-tax restructuring charges of approximately \$5.2 million, primarily related to employee termination and lease exit costs in our European operation, and \$3.7 million in pre-operating expenses related to the China joint venture. The increase in SG&A expense is predominately related to the expansion of our global direct-to-consumer platform, partially offset by favorable foreign currency exchange translation and reduced expenses from our EMEA direct business.

licensing income comparable to 2012, including the effect of deferring approximately \$3.5 million of licensing income into 2014 in conjunction with the transition to the China joint venture.

the year-over-year differences in currency exchange rates, particularly the Japanese yen, are anticipated to negatively affect net sales and operating income by approximately 2 percent and 4 percent, respectively.

a full year tax rate of approximately 27.5 percent; however, the actual rate could differ based on the status of tax uncertainties, the geographic mix of pre-tax income, and other discrete events that may occur during the year.

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

The combination of the above assumptions leads us to anticipate 2013 operating margin of approximately 7.25 percent. Excluding anticipated restructuring charges of approximately \$5.2 million, and the effects of pre-operating costs of approximately \$3.7 million and operating income deferral of approximately \$5.6 million related to transitioning to the China joint venture, full year 2013 operating margins are expected to be approximately 8.1 percent.

We intend to continue managing discretionary costs diligently with the goal of limiting the growth of SG&A expense as a percentage of net sales, while we remain focused on driving renewed sales growth by providing innovative products at accessible prices, transforming our supply chain, managing inventory, and nurturing stronger emotional connections with consumers through compelling marketing communications.

#### Results of Operations

The following discussion of our results of operations and liquidity and capital resources should be read in conjunction with the Condensed Consolidated Financial Statements and accompanying Notes that appear elsewhere in this quarterly report. All references to quarters relate to the quarter ended September 30 of the particular year.

#### Highlights of the Third Quarter of 2013

Net sales for the third quarter of 2013 decreased \$21.9 million, or 4%, to \$523.1 million from \$545.0 million for the third quarter of 2012. Changes in foreign currency exchange rates compared with the third quarter of 2012 negatively affected the consolidated net sales comparison by one percentage point.

Net income attributable to Columbia Sportswear Company for the third quarter of 2013 decreased 15% to \$54.6 million, or \$1.57 per diluted share, compared to net income of \$64.4 million, or \$1.88 per diluted share, for the third quarter of 2012.

We paid a quarterly cash dividend of \$0.22 per share, or \$7.6 million, in the third quarter of 2013.

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

	Three Months Ended September 30,		Nine Months Ended September 30,		
	2013	2012	2013	2012	
Net sales	100.0	% 100.0	% 100.0	% 100.0	%
Cost of sales	55.6	55.3	56.1	56.4	
Gross profit	44.4	44.7	43.9	43.6	
Selling, general and administrative expense	31.2	29.4	38.0	37.4	
Net licensing income	1.5	0.8	1.0	0.9	
Income from operations	14.7	16.1	6.9	7.1	
Interest income (expense), net	—	—	—	—	
Other non-operating income (expense)	0.1	—	—	—	
Income before income tax	14.8	16.1	6.9	7.1	
Income tax expense	(4.4)	) (4.3)	) (1.9)	) (1.9)	)
Net income	10.4	11.8	5.0	5.2	
Net loss attributable to non-controlling interest	—	—	—	—	
Net income attributable to Columbia Sportswear Company	10.4	% 11.8	% 5.0	% 5.2	%

Quarter Ended September 30, 2013 Compared to Quarter Ended September 30, 2012



Net Sales: Consolidated net sales decreased \$21.9 million, or 4%, to \$523.1 million for the third quarter of 2013 from \$545.0 million for the comparable period in 2012. Changes in foreign currency exchange rates compared with the third quarter of 2012 negatively affected the consolidated net sales comparison by one percentage point.

#### Sales by Geographic Region

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

	Three Months Ended September 30,		
	2013	2012	% Change
	(In millions, except for percentage changes)		
United States	\$323.1	\$347.8	(7)%
LAAP	72.0	84.7	(15)%
EMEA	78.1	60.5	29%
Canada	49.9	52.0	(4)%
	\$523.1	\$545.0	(4)%

Net sales in the United States decreased \$24.7 million, or 7%, to \$323.1 million for the third quarter of 2013 from \$347.8 million for the comparable period in 2012. The decrease in net sales in the United States was led by a net sales decrease in footwear, followed by apparel, accessories and equipment, and consisted of a decrease in net sales in our wholesale business, partially offset by a net sales increase in our direct-to-consumer business. The net sales decrease in our wholesale business was due to a decline in advance orders following mild winter weather in 2012. The net sales increase in our direct-to-consumer business was primarily attributable to a net sales increase in the Columbia brand, and was led by increased net sales within our retail stores, followed by increased e-commerce net sales. At September 30, 2013, we operated 68 retail stores, compared with 58 at September 30, 2012.

Net sales in the LAAP region decreased \$12.7 million, or 15%, to \$72.0 million for the third quarter of 2013 from \$84.7 million for the comparable period in 2012. Changes in foreign currency exchange rates compared with the third quarter of 2012 negatively affected the LAAP net sales comparison by approximately nine percentage points. The net sales decrease in the LAAP region was led by apparel, accessories and equipment, followed by footwear. The LAAP net sales decrease primarily consisted of a net sales decrease in the Columbia brand and was led by our LAAP distributor business, followed by Japan, partially offset by a net sales increase in Korea. The LAAP distributor net sales decrease was primarily due to lower advance orders, geopolitical issues in key South American distributor markets and a transition to a new distributor in Australia. The decrease in Japan net sales was due to unfavorable changes in currency exchange rates that more than offset a net sales increase in local currency. The increase in Korea net sales was primarily due to a greater number of retail stores operating during the third quarter of 2013 than during the third quarter of 2012, and a small benefit from changes in foreign currency exchange rates.

Net sales in the EMEA region increased \$17.6 million, or 29%, to \$78.1 million for the third quarter of 2013 from \$60.5 million for the comparable period in 2012. Changes in foreign currency exchange rates compared with the third quarter of 2012 contributed four percentage points of benefit to the EMEA net sales comparison. The net sales increase in the EMEA region consisted of an increase in apparel, accessories and equipment, partially offset by a net sales decrease in footwear. The increase in net sales in the EMEA region was primarily attributable to the Columbia brand, partially offset by a net sales decrease in the Sorel brand, and consisted of an increase in net sales to our EMEA distributors, partially offset by a net sales decrease in our EMEA direct business. The EMEA distributor net sales increase was primarily due to a shift in the timing of shipments as a higher percentage of increased fall 2013 advance orders shipped in the third quarter of 2013, while a higher percentage of fall 2012 advance orders shipped in the second quarter of 2012. The decrease in net sales in our EMEA direct business was primarily due to a decline in advance orders placed for the Sorel and Columbia brands.

Net sales in Canada decreased \$2.1 million, or 4%, to \$49.9 million for the third quarter of 2013 from \$52.0 million for the comparable period in 2012. Changes in foreign currency exchange rates compared with the third quarter of 2012 negatively affected the net sales comparison by approximately three percentage points. The decrease in net sales in Canada was due to a decline in advance orders for the Sorel brand and a shift in timing of shipments of Columbia brand orders from the third quarter into the fourth quarter as we transitioned to a new warehouse management system in our Canadian distribution center.

#### Sales by Product Category

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

21

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	Three Months Ended September 30,		
	2013	2012	% Change
	(In millions, except for percentage changes)		
Apparel, Accessories and Equipment	\$428.6	\$429.5	—%
Footwear	94.5	115.5	(18)%
	\$523.1	\$545.0	(4)%

Net sales of apparel, accessories and equipment decreased \$0.9 million, or less than 1%, to \$428.6 million for the third quarter of 2013 from \$429.5 million for the comparable period in 2012. The decrease in apparel, accessories and equipment net sales was led by the Mountain Hardwear brand, partially offset by a net sales increase in the Columbia brand, and was led by the United States, followed by the LAAP region, partially offset by a net sales increase in the EMEA region and Canada. The apparel, accessories and equipment net sales decrease in the United States consisted of a net sales decrease in our wholesale business, reflecting a decline in advance orders.

Net sales of footwear decreased \$21.0 million, or 18%, to \$94.5 million for the third quarter of 2013 compared to \$115.5 million for the comparable period in 2012. The decrease in footwear net sales was led by a net sales decrease in the Sorel brand, followed by the Columbia brand. The decrease in footwear net sales was led by the United States, followed by the LAAP region, the EMEA region and Canada. The decrease in footwear net sales in the United States consisted of decreases in all brands and was due to a decline in advance orders for cold-weather footwear following mild winter weather in 2012.

#### Sales by Brand

Net sales by brand are summarized in the following table:

	Three Months Ended September 30,		
	2013	2012	% Change
	(In millions, except for percentage changes)		
Columbia	\$431.5	\$436.8	(1)%
Mountain Hardwear	40.6	44.4	(9)%
Sorel	47.4	61.2	(23)%
Other	3.6	2.6	38%
	\$523.1	\$545.0	(4)%

The net sales decrease for the third quarter of 2013 compared to the third quarter of 2012 was led by the Sorel brand, followed by the Columbia and Mountain Hardwear brands. The Sorel brand net sales decrease was led by the United States, followed by the EMEA region and Canada.

Gross Profit: Gross profit, as a percentage of net sales, decreased to 44.4% for the third quarter of 2013 from 44.7% for the comparable period in 2012. Gross profit contraction was primarily due to:

- Unfavorable foreign currency hedge rates; and

- A higher proportion of shipments to distributors, which carry lower gross margins; partially offset by:

- A lower proportion of close-out product sales; and

- A higher proportion of direct-to-consumer sales, which generate higher gross margins.

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

Selling, General and Administrative Expense: SG&A expense includes all costs associated with design, merchandising, marketing, distribution and corporate functions, including related depreciation and amortization. SG&A expense increased \$2.8 million, or 2%, to \$163.0 million, or 31.2% of net sales, for the third quarter of 2013 from \$160.2 million, or 29.4% of net sales, for the comparable period in 2012. The SG&A expense increase was primarily due to:

- Expansion of our direct-to-consumer operations globally;

- Increased incentive compensation; and

- Increased expenses related to our ongoing ERP implementation;



partially offset by:

• Decreased selling expenses; and

• Favorable foreign currency exchange rates.

Depreciation and amortization included in SG&A expense totaled \$10.1 million for the third quarter of 2013, compared to \$9.5 million for the same period in 2012.

Net Licensing Income: Net licensing income increased \$3.2 million to \$7.5 million for the third quarter of 2013 compared to \$4.3 million for the same period in 2012. The increase in net licensing income was primarily due to a shift in timing of production and delivery of licensed product into the third quarter of 2013. This shift was driven by later delivery dates requested by an independent distributor in the LAAP region.

Interest Income (Expense), Net: Net interest income was \$0.1 million for the third quarter of 2013 compared to nominal net interest expense for the same period in 2012.

Other Non-Operating Income: Other non-operating income was \$0.4 million for the third quarter of 2013 and consisted of foreign currency gains and losses.

Income Tax Expense: Income tax expense decreased to \$22.8 million for the third quarter of 2013 from \$23.4 million for the comparable period in 2012. Our effective income tax rate was 29.5% for the third quarter of 2013 compared to 26.7% for the same period in 2012. Our effective income tax rate increased primarily due to the effect of discrete benefits that were recognized in the third quarter of 2012 that did not recur in 2013. Many factors could cause our annual effective tax rate to differ materially from our quarterly effective tax rates, including changes in the geographic mix of taxable income and discrete events in future periods.

Net Income Attributable to Columbia Sportswear Company: Net income decreased \$9.8 million, or 15%, to \$54.6 million, or \$1.57 per diluted share, for the third quarter of 2013 from \$64.4 million, or \$1.88 per diluted share for the comparable period in 2012.

Nine Months Ended September 30, 2013 Compared to Nine Months Ended September 30, 2012

Net Sales: Consolidated net sales decreased \$16.6 million, or 1%, to \$1,151.9 million for the nine months ended September 30, 2013 from \$1,168.5 million for the comparable period in 2012. Changes in foreign currency exchange rates compared with the nine months ended September 30, 2012 negatively affected the consolidated net sales comparison by one percentage point.

Sales by Geographic Region

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

	Nine Months Ended September 30,		
	2013	2012	% Change
	(In millions, except for percentage changes)		
United States	\$663.4	\$672.9	(1)%
LAAP	236.3	245.6	(4)%
EMEA	172.1	168.6	2%
Canada	80.1	81.4	(2)%
	\$1,151.9	\$1,168.5	(1)%

Net sales in the United States decreased \$9.5 million, or 1%, to \$663.4 million for the nine months ended September 30, 2013 from \$672.9 million for the comparable period in 2012. The decrease in net sales in the United States primarily consisted of a net sales decrease in footwear, and consisted of a decrease in net sales in our wholesale business, partially offset by a net sales increase in our direct-to-consumer business. The net sales decrease in our wholesale business was led by the Columbia brand, followed by the Sorel and Mountain Hardwear brands, and was due a decline in advance orders following mild winter weather in 2012. The net sales increase in our direct-to-consumer business was led by the Columbia brand, followed by the Sorel and Mountain Hardwear brands, and was led by increased net sales within our retail stores, followed by increased e-commerce net sales. At September 30, 2013, we operated 68 retail stores, compared with 58 at September 30, 2012.

Net sales in the LAAP region decreased \$9.3 million, or 4%, to \$236.3 million for the nine months ended September 30, 2013 from \$245.6 million for the comparable period in 2012. Changes in foreign currency exchange rates compared with the nine months ended September 30, 2012 negatively affected the LAAP net sales comparison by approximately seven percentage points. The net sales decrease in the LAAP region was led by apparel, accessories



and equipment, followed by footwear. The LAAP net

23

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sales decrease was led by the Columbia brand, followed by the Mountain Hardwear brand, and was led by Japan, followed by our LAAP distributor business, partially offset by a net sales increase in Korea. The decrease in Japan net sales was due to unfavorable changes in currency exchange rates that more than offset a net sales increase in local currency. The LAAP distributor net sales decrease was primarily due to lower advance orders, geopolitical issues in key South American distributor markets and a transition to a new distributor in Australia. The increase in Korea net sales was due to a greater number of retail stores operating during the nine months ended September 30, 2013 than during the comparable period in 2012, partially offset by decreased sales from existing stores.

Net sales in the EMEA region increased \$3.5 million, or 2%, to \$172.1 million for the nine months ended September 30, 2013 from \$168.6 million for the comparable period in 2012. Changes in foreign currency exchange rates compared with the nine months ended September 30, 2012 contributed two percentage points of benefit to the EMEA net sales comparison. The net sales increase in the EMEA region consisted of an increase in apparel, accessories and equipment, partially offset by a net sales decrease in footwear. The increase in net sales in the EMEA region was concentrated in the Columbia brand and our EMEA distributor business. The EMEA distributor net sales increase was primarily due to increased advance orders for fall 2013 products.

Net sales in Canada decreased \$1.3 million, or 2%, to \$80.1 million for the nine months ended September 30, 2013 from \$81.4 million for the comparable period in 2012. Changes in foreign currency exchange rates compared with the nine months ended September 30, 2012 negatively affected the Canada net sales comparison by approximately three percentage points, offsetting a net sales increase in local currency. The decrease in net sales in Canada was led by the Sorel brand, followed by the Mountain Hardwear brand, partially offset by a net sales increase in the Columbia brand, and consisted of a net sales decrease in footwear, partially offset by a net sales increase in apparel, accessories and equipment.

#### Sales by Product Category

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

	Nine Months Ended September 30,		
	2013	2012	% Change
	(In millions, except for percentage changes)		
Apparel, Accessories and Equipment	\$958.6	\$954.7	—%
Footwear	193.3	213.8	(10)%
	\$1,151.9	\$1,168.5	(1)%

Net sales of apparel, accessories and equipment increased \$3.9 million, or less than one percent, to \$958.6 million for the nine months ended September 30, 2013 from \$954.7 million for the comparable period in 2012. The increase in apparel, accessories and equipment net sales consisted of an increase in the Columbia brand, partially offset by a net sales decrease in the Mountain Hardwear brand, and was led by the EMEA region, followed by the United States, partially offset by a net sales decrease in the LAAP region. The apparel, accessories and equipment net sales increase in the EMEA region was due to higher advance orders for fall 2013 products.

Net sales of footwear decreased \$20.5 million, or 10%, to \$193.3 million for the nine months ended September 30, 2013 compared to \$213.8 million for the comparable period in 2012. The decrease in footwear net sales was led by the Columbia brand, followed by the Sorel and Montrail brands. The decrease in footwear net sales was led by the United States, followed by the EMEA region, the LAAP region and Canada. The decrease in footwear net sales in the United States was led by the Columbia brand and was due to a decline in advance orders for cold-weather footwear following mild winter weather in 2012.

#### Sales by Brand

Net sales by brand are summarized in the following table:

	Nine Months Ended September 30,		
	2013	2012	% Change
	(In millions, except for percentage changes)		
Columbia	\$985.1	\$990.6	(1)%
Mountain Hardwear	95.2	98.8	(4)%
Sorel	62.7	70.5	(11)%
Other	8.9	8.6	3%

\$1,151.9      \$1,168.5      (1)%

The net sales decrease for the nine months ended September 30, 2013 compared to the nine months ended September 30, 2012 was led by the Sorel brand, followed by the Columbia and Mountain Hardwear brands. The Sorel brand net sales decrease was led by the EMEA region, followed by Canada and the United States, and was due to a decline in advance orders for cold-weather footwear following mild winter weather in 2012.

Gross Profit: Gross profit, as a percentage of net sales, increased to 43.9% for the nine months ended September 30, 2013 from 43.6% for the comparable period in 2012. Gross profit expansion was primarily due to:

• Higher full price margins on direct-to-consumer sales; and

• A higher proportion of direct-to-consumer sales, which carry higher gross margins;

partially offset by:

• Unfavorable foreign currency hedge rates.

Selling, General and Administrative Expense: SG&A expense decreased \$0.1 million, or less than one percent, to \$437.8 million, or 38.0% of net sales, for the nine months ended September 30, 2013 from \$437.9 million, or 37.4% of net sales, for the comparable period in 2012. The SG&A expense decrease was primarily due to:

• Favorable foreign currency exchange rates;

• Lower personnel and related expenses in our European operations;

• Decreased selling expenses; and

• Decreased expenses related to our ongoing ERP implementation due to a higher capitalization rate of project expenditures;

partially offset by:

• Expansion of our direct-to-consumer operations globally.

Depreciation and amortization included in SG&A expense totaled \$29.5 million for the nine months ended September 30, 2013, compared to \$30.0 million for the same period in 2012.

Net Licensing Income: Net licensing income increased \$0.7 million to \$11.5 million for the nine months ended September 30, 2013 compared to \$10.8 million for the same period in 2012. The increase in net licensing income was led by increased licensing income from accessories in the United States, followed by increased apparel and footwear licensing income in the LAAP region, where a third party distributor is licensed to locally manufacture Columbia brand apparel and footwear for sale in local markets, partially offset by the deferral of licensing income to 2014 related to the China joint venture.

Interest Income, Net: Net interest income was \$0.4 million for the nine months ended September 30, 2013 and 2012. Interest expense was nominal for the nine months ended September 30, 2013 and for the comparable period in 2012.

Other Non-Operating Expense: Other non-operating expense was \$0.7 million for the nine months ended September 30, 2013 and consisted of foreign currency gains and losses.

Income Tax Expense: Income tax expense decreased to \$22.0 million for the nine months ended September 30, 2013 from \$22.5 million for the comparable period in 2012. Our effective income tax rate was 27.8% for the nine months ended September 30, 2013 compared to 27.1% for the same period in 2012. Our effective income tax rate increased primarily due to the effect of discrete benefits that were recognized in the third quarter of 2012 that did not recur in 2013.

Net Income Attributable to Columbia Sportswear Company: Net income was \$57.6 million, or \$1.66 per diluted share, for the nine months ended September 30, 2013 compared to \$60.4 million, or \$1.77 per diluted share, for the comparable period in 2012.

#### Liquidity and Capital Resources

Our primary ongoing funding requirements are for working capital, investing activities associated with our ongoing ERP implementation and the expansion of our global operations, including our planned joint venture in China, and general corporate needs. At September 30, 2013, we had total cash and cash equivalents of \$274.2 million, compared to \$290.8 million at December 31, 2012 and \$94.2 million at September 30, 2012. In addition, we had short-term investments of \$29.0 million at September 30, 2013, compared to \$44.7 million at December 31, 2012 and \$2.1 million at September 30, 2012. At September 30, 2013, approximately 47% of our cash and short-term investments were held by some of our foreign subsidiaries where a repatriation of those funds to the United States would likely result in a significant tax expense for us. However, based on the capital and liquidity needs of our foreign operations,

as well as the status of current tax law, we intend to indefinitely reinvest these funds outside the United States. In addition, our United States operations do not require the repatriation of these funds to meet our currently projected liquidity needs.

25

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Net cash provided by operating activities was \$23.7 million for the nine months ended September 30, 2013, compared to net cash used in operations of \$110.6 million for the same period in 2012. The increase in cash provided by operating activities was primarily due to reductions in inventory purchases and payments made on accounts payable and lower accounts receivable levels during the nine months ended September 30, 2013, compared to the same period in 2012.

Net cash used in investing activities was \$33.2 million for the nine months ended September 30, 2013, compared to \$31.5 million for the comparable period in 2012. For the 2013 period, net cash used in investing activities primarily consisted of \$49.2 million for capital expenditures, partially offset by \$15.9 million from net sales of short-term investments. For the same period in 2012, net cash used in investing activities primarily consisted of \$32.4 million for capital expenditures. The increase in capital expenditures from the 2012 period was primarily driven by increased expenditures related to our ongoing ERP implementation and the expansion of our direct-to-consumer operations globally.

Net cash used in financing activities was \$1.7 million for the nine months ended September 30, 2013, compared to \$3.4 million for the comparable period in 2012. For the 2013 period, net cash used in financing activities primarily consisted of dividend payments of \$22.7 million, partially offset by net proceeds from stock plan activity of \$12.1 million and an \$8.0 million capital contribution from our joint venture partner. For the same period in 2012, net cash used in financing activities primarily consisted of dividend payments of \$22.3 million, partially offset by net proceeds from credit facilities of \$10.2 million and net proceeds from stock plan activity of \$8.3 million.

#### Short-term borrowings and credit lines

We have an unsecured, committed \$125.0 million revolving line of credit available to fund our domestic working capital requirements. At September 30, 2013, no balance was outstanding under this line of credit and we were in compliance with all associated covenants. Internationally, our subsidiaries have operating lines in place guaranteed by the parent company with a combined limit of approximately \$102.9 million at September 30, 2013, of which \$3.8 million is designated as a European customs guarantee. At September 30, 2013, no balance was outstanding under these subsidiary lines of credit.

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

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

#### Off-Balance Sheet Arrangements

We have arrangements in place to facilitate the import and purchase of inventory through import letters of credit. We maintain unsecured and uncommitted import lines of credit with a combined limit of \$5.0 million at September 30, 2013, available for issuing documentary letters of credit. At September 30, 2013, no balance was outstanding under these letters of credit.

#### Critical Accounting Policies and Estimates

Management's discussion and analysis of our financial condition and results of operations are based on our consolidated financial statements, which have been prepared in accordance with generally accepted accounting principles. The preparation of these financial statements requires us to make various estimates and judgments that affect reported amounts of assets, liabilities, sales, cost of sales and expenses and related disclosure of contingent assets and liabilities. We believe that the estimates, assumptions and judgments involved in the accounting policies referred to in our Annual Report on Form 10-K for the year ended December 31, 2012 have the greatest potential impact on our financial statements, so we consider these to be our critical accounting policies and estimates. Because of the uncertainty inherent in these matters, actual results could differ from the estimates we use in applying the critical accounting policies. We base our ongoing estimates on historical experience and other assumptions that we

believe to be reasonable in the circumstances. Many of these critical accounting policies affect working capital account balances, including the policy for revenue recognition, the allowance for doubtful accounts, the provision for potential excess, close-out and slow moving inventory, product warranty, income taxes and stock-based compensation.

Management regularly discusses with our audit committee each of our critical accounting estimates, the development and selection of these accounting estimates, and the disclosure about each estimate in Management's Discussion and Analysis of

Financial Condition and Results of Operations. These discussions typically occur at our quarterly audit committee meetings and include the basis and methodology used in developing and selecting these estimates, the trends in and amounts of these estimates, specific matters affecting the amount of and changes in these estimates, and any other relevant matters related to these estimates, including significant issues concerning accounting principles and financial statement presentation.

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

Recent Accounting Pronouncements

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



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

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

**Item 4 – CONTROLS AND PROCEDURES**

**Disclosure Controls and Procedures**

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

**Changes in Internal Control over Financial Reporting**

We are implementing an enterprise resource planning ("ERP") system, including complementary systems that support our operations and financial reporting which is expected to significantly impact our business and financial transaction and reporting processes. This implementation is occurring in phases globally over several years, and began with a roll-out to our Canadian subsidiary in April 2012. The implementation of a worldwide ERP system and associated systems affects the processes that constitute our internal control over financial reporting and will require continued testing for effectiveness as the implementation progresses.

There were no other changes in internal controls over financial reporting that occurred during the quarter ended September 30, 2013 that have materially affected, or are reasonably likely to materially affect, our internal controls over financial reporting.

## PART II. OTHER INFORMATION

### Item 1. LEGAL PROCEEDINGS

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

### Item 1A. RISK FACTORS

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

#### We Face Many Challenges Executing Growth Strategies

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

To implement our business strategies, we must continue to modify and fund various aspects of our business, to maintain and enhance our information systems and supply chain operations to respond to changes in demand, and to attract, retain and manage qualified personnel. These efforts, coupled with cost containment measures, place increasing strains on management, financial, product design, marketing, distribution, supply chain and other resources, and we may have operating difficulties as a result. For example, in support of our strategic initiatives, we are making significant investments in our business processes and information technology infrastructure that require significant management attention and corporate resources. These changes may make it increasingly difficult to pursue acquisitions or adapt our information technology systems and business processes to integrate an acquired business. These integration challenges may also be present as we integrate operations under a joint venture arrangement in China, which we expect to be effective in 2014. These business initiatives involve many risks and uncertainties that, if not managed effectively, may have a material adverse effect on our financial condition, results of operations or cash flows.

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

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

We regularly implement business process improvement initiatives to optimize our performance. Our current business process initiatives include plans to improve business results through standardization of business processes and

technology that support our supply chain and go-to-market strategies through implementation of an integrated ERP software solution and other complementary information technology systems over the next several years. We may experience difficulties as we transition to these new or upgraded systems and processes, including loss of data, decreases in productivity as our personnel become familiar with new systems, and lost revenues. In addition, transitioning to these new or upgraded systems requires significant capital investments and personnel resources. Difficulties in implementing new or upgraded information systems or significant system

failures could disrupt our operations and have a material adverse effect on our capital resources, financial condition, results of operations or cash flows.

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

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

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

Our legacy ERP, product development and other systems, on which we currently manage a substantial majority 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 transition from our legacy ERP systems to new ERP systems and supporting systems that interface with our new ERP systems, certain functionality and information from our legacy systems may not be fully compatible with the new systems. As a result, temporary processes may be required, including manual operations, which could significantly increase the risk of human errors in information used by the business and/or result in business disruptions, which could have a material adverse effect on our capital resources, financial condition, results of operations or cash flows.

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

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

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

potential customers that may impede our sales, manufacturing, distribution or other critical functions.

**We Depend on Independent Factories**

Our products are manufactured by independent factories worldwide. Although we enter into purchase order commitments with these independent factories each season, we generally do not maintain long-term manufacturing commitments with them. Without long-term or reserve commitments, there is no assurance that we will be able to secure adequate or timely production

30

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capacity or favorable pricing if growth or product demand differs from our forecasts. Independent factories may fail to perform as expected or our competitors may obtain production capacities that effectively limit or eliminate the availability of these resources to us. If an independent manufacturer fails to ship orders in a timely manner or to meet our standards or if we are unable to obtain necessary capacities, we may miss delivery deadlines or incur additional costs, which may cause our wholesale customers to cancel their orders, refuse to accept deliveries, or demand a reduction in purchase prices, any of which could have a material adverse effect on our financial condition, results of operations or cash flows.

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

We also have license agreements that permit unaffiliated parties to manufacture or contract to manufacture products using our trademarks. We impose Standards of Manufacturing Practices on our independent factories and licensees for the benefit of workers and require compliance with our restricted substances list and product safety and other applicable environmental, health and safety laws. We also require our independent factories and licensees to impose these practices, standards and laws on their contractors. If an independent manufacturer, licensee or subcontractor violates labor or other laws, or engages in practices that are not generally accepted as safe or ethical, they and their 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, significant negative publicity or lost sales that could result in long-term damage to our brands and corporate reputation. In some circumstances parties may attempt to 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 financial condition, results of operations or cash flows.

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

Our product costs are subject to substantial fluctuation based on:

• Availability and quality of raw materials;

• The prices of oil, 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, particularly in China and Vietnam;

• Interest rates and currency exchange rates;

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

• General economic conditions.

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

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

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

We are a consumer products company and are highly dependent on consumer discretionary spending patterns and the purchasing patterns of our wholesale customers as they attempt to match their seasonal purchase volumes to volatile consumer demand. In addition, as we have expanded our direct-to-consumer operations, we have increased our exposure to the risks associated with volatile and unpredictable consumer discretionary spending patterns. Consumer discretionary spending behavior is inherently unpredictable and consumer demand for our products may not reach our sales targets, or may decline, especially during periods

31

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of heightened economic uncertainty in our key markets, particularly markets in North America and the EMEA region. Our sensitivity to economic cycles and any related fluctuation in consumer demand may have a material adverse effect on our financial condition, results of operations or cash flows.

In the EMEA region, our business includes direct-to-consumer, wholesale and distributor sales. Continued economic weakness in Europe has hampered our ongoing efforts to revitalize sales of our brands in key European markets, and continued erosion of business in these markets could have a material adverse effect on our business.

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

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

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

- Unseasonable weather conditions;

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

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

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

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

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

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

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

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

A significant portion of our business is highly dependent on cold-weather seasons and patterns to generate consumer demand for our cold-weather apparel and footwear. Consumer demand for our cold-weather apparel and footwear may be negatively affected to the extent global weather patterns trend warmer, reducing typical patterns of cold-weather



events, or increasing weather volatility, which could have a material adverse effect on our financial condition, results of operations or cash flow.

32

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

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

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

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

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

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

### Our International Operations Involve Many Risks

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

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

We May Have Additional Tax Liabilities

33

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As a global company, we determine our income tax liability in various competing tax jurisdictions based on an analysis and interpretation of local tax laws and regulations. This analysis requires a significant amount of judgment and estimation and is often based on various assumptions about the future actions of the local tax authorities. These determinations are the subject of periodic domestic and foreign tax audits. Although we accrue for uncertain tax positions, our accrual may be insufficient to satisfy unfavorable findings. Unfavorable audit findings and tax rulings may result in payment of taxes, fines and penalties for prior periods and higher tax rates in future periods, which may have a material adverse effect on our financial condition, results of operations or cash flows. Changes in tax law or our interpretation of tax laws and the resolution of current and future tax audits could significantly affect the amounts provided for income taxes in our consolidated financial statements.

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

#### We Operate in Very Competitive Markets

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

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

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

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

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

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

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

which could have a material adverse effect on our financial condition, results of operations or cash flows.

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

Economic downturns and economic uncertainty generally affect global credit markets. Our vendors, customers and other participants in our supply chain may require access to credit markets in order to do business. Credit market conditions may slow

our collection efforts as customers find it more difficult to obtain necessary financing, leading to higher than normal accounts receivable. This could result in greater expense associated with collection efforts and increased bad debt expense. Credit conditions may impair our vendors' ability to finance the purchase of raw materials or general working capital needs to support our production requirements, resulting in a delay or non-receipt of inventory shipments during key seasons.

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

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

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

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

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

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

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

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

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

Our registered and common law trademarks and our patented or patent-pending designs and technologies have significant value and are important to our ability to differentiate our products from those of our competitors and to create and sustain demand for our products. We also place significant value on our trade dress, the overall appearance

and image of our products. We regularly discover products that are counterfeit reproductions of our products or that otherwise infringe on our proprietary rights. Counterfeiting activities typically increase as brand recognition increases, especially in markets outside the United States. Increased instances of counterfeit manufacture and sales may adversely affect our sales and our brand and result in a shift of consumer preference away from our products. The actions we take to establish and protect trademarks and other proprietary rights may not be adequate to prevent imitation of our products by others or to prevent others from seeking to block sales of our products as

35

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violations of proprietary rights. In markets outside of the United States, it may be more difficult for us to establish our proprietary rights and to successfully challenge use of those rights by other parties. We also license our proprietary rights to third parties. Failure to choose appropriate licensees and licensed product categories may dilute or harm our brands. In addition to our own intellectual property rights, many of the intellectual property rights in the technology, fabrics and processes used to manufacture our products are generally owned or controlled by our suppliers and are generally not unique to us. In those cases, we may not be able to adequately protect our products or differentiate their performance characteristics and fabrications from those of our competitors. Actions or decisions in the management of our intellectual property portfolio may affect the strength of our brands, which may in turn have a material adverse effect on our financial condition, results of operations or cash flows.

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

#### Our Success Depends on Our Distribution Facilities

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

Our 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 e-commerce business in the United States. Failure to successfully maintain and update these modifications could disrupt our wholesale and e-commerce shipments and may have a material adverse effect on our financial condition, results of operations or cash flows.

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



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

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

Although the majority of our product purchases are denominated in U.S. dollars, the cost of these products may be affected by relative changes in the value of the local currencies of our subsidiaries and our manufacturers. Price increases caused by currency exchange rate fluctuations may make our products less competitive or have an adverse effect on our margins. Our international revenues and expenses generally are derived from sales and operations in currencies other than the U.S. dollar. Because the

functional currency of many of our subsidiaries is not the U.S. dollar, we are exposed to the potential of material gains or losses from the remeasurement of U.S. dollar monetary transactions into the respective functional currencies. Currency exchange rate fluctuations may also disrupt the business of the independent factories that produce our products by making their purchases of raw materials more expensive and more difficult to finance. As a result, currency fluctuations may have a material adverse effect on our financial condition, results of operations or cash flows.

All of our independent distributors purchase the vast majority of their inventory from us in U.S. dollars and, therefore, are dependent upon their ability to exchange their functional currency for U.S. dollars on global currency exchanges. At times, some of our distributors have experienced periods during which they have been unable to obtain U.S. dollars in sufficient quantity to complete their purchase of goods or to pay amounts owed for past deliveries. Disruptions in currency exchange markets may have a material adverse effect on our financial condition, results of operations, or cash flows.

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

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

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

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

#### We Depend on Key Suppliers

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

#### We Depend on Key Personnel

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

#### Our Business Is Affected by Seasonality

Our business is affected by the general seasonal trends common to the outdoor industry. Our products are marketed on a seasonal basis and our annual net sales are weighted heavily toward the fall/winter season, while our operating expenses are more equally distributed throughout the year. As a result, the majority, and sometimes all, of our operating profits are generated in the second half of the year. The expansion of our direct-to-consumer operations and sales growth in our winter footwear business (both Sorel and Columbia brands) has increased the proportion of sales and profits that we generate in the fourth calendar quarter. This seasonality, along with other factors that are beyond

our control and that are discussed elsewhere in this section, may adversely affect our business and cause our results of operations to fluctuate. As a result, our profitability may be materially affected if management is not able to timely adjust expenses in reaction to adverse events such as unfavorable weather, weak consumer spending patterns or unanticipated levels of order cancellations. Results of operations in any period should not be considered indicative of the results to be expected for any future period.

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

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

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

#### Our Common Stock Price May Be Volatile

The price of our common stock has fluctuated substantially since our initial public offering. Our common stock is traded on the NASDAQ Global Select Market. Factors such as general market conditions, 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

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

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

The Board of Directors has authorized the repurchase of \$500,000,000 of the Company’s common stock. As of September 30, 2013, the Company had repurchased 9,593,278 shares under this program at an aggregate purchase price of approximately \$441,443,000. Shares of the Company’s common stock may be purchased in the open market or through privately negotiated transactions, subject to market conditions. The repurchase program does not obligate the Company to acquire any specific number of shares or to acquire shares over any specified period of time. The Company did not repurchase any equity securities during the three months ended September 30, 2013.

Item 6 – EXHIBITS

(a) Exhibits

- 10.1 Fourth amendment to Credit Agreement, dated September 27, 2013, among Columbia Sportswear Company, Wells Fargo Bank, National Association, as the administrator for the lenders and as a lender, and Bank of America, N.A., as a lender (incorporated by reference to the Company's Form 8-K filed on September 30, 2013) (File No. 0-23939)
- 31.1 Rule 13a-14(a) Certification of Timothy P. Boyle, President and Chief Executive Officer
- 31.2 Rule 13a-14(a) Certification of Thomas B. Cusick, Senior Vice President of Finance and Chief Financial Officer
- 32.1 Section 1350 Certification of Timothy P. Boyle, President and Chief Executive Officer
- 32.2 Section 1350 Certification of Thomas B. Cusick, Senior Vice President of Finance and Chief Financial Officer
- 101 INS XBRL Instance Document \*
- 101 SCH XBRL Taxonomy Extension Schema Document \*
- 101 CAL XBRL Taxonomy Extension Calculation Linkbase Document \*
- 101 DEF XBRL Taxonomy Extension Definition Linkbase Document\*
- 101 LAB XBRL Taxonomy Extension Label Linkbase Document \*
- 101 PRE XBRL Taxonomy Extension Presentation Linkbase Document \*

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

**SIGNATURES**

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

Date: November 7, 2013

COLUMBIA SPORTSWEAR COMPANY

/s/ THOMAS B. CUSICK

Thomas B. Cusick

Senior Vice President of Finance and Chief Financial Officer

(Duly Authorized Officer and Principal Financial and Accounting Officer)