COLUMBIA SPORTSWEAR CO
Form 10-Q
August 03, 2017

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

FORM 10-Q

x QUARTERLY REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934
For the quarterly period ended June 30, 2017
OR
¨ TRANSITION REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE EXCHANGE ACT OF 1934
For the transition period from_______to_______
Commission file number 0-23939

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

Oregon	93-0498284
(State or other jurisdiction of incorporation or organization)	(IRS Employer Identification Number)
14375 Northwest Science Park Drive Portland, Oregon	97229
(Address of principal executive offices)	(Zip Code)

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

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

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

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

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

If an emerging growth company, indicate by check mark if the registrant has elected not to use the extended transition period for complying with any new or revised financial accounting standards provided pursuant to Section 13(a) of the Exchange Act ¨

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

The number of shares of Common Stock outstanding on July 21, 2017 was 69,746,957.

COLUMBIA SPORTSWEAR COMPANY
JUNE 30, 2017
INDEX TO FORM 10-Q

PART I—FINANCIAL INFORMATION

Item 1. FINANCIAL STATEMENTS

COLUMBIA SPORTSWEAR COMPANY

CONDENSED CONSOLIDATED BALANCE SHEETS

(In thousands)

(Unaudited)

	June 30, 2017	December 31, 2016	June 30, 2016
ASSETS			
Current Assets:			
Cash and cash equivalents	$620,639	$551,389	$415,944
Short-term investments	1,591	472	12,859
Accounts receivable, net of allowance of $8,666, $8,556 and $7,338, respectively	181,119	333,678	192,354
Inventories	559,544	487,997	653,636
Prepaid expenses and other current assets	42,053	38,487	35,657
Total current assets	1,404,946	1,412,023	1,310,450
Property, plant and equipment, at cost, net of accumulated depreciation of $435,625, $408,676 and $390,100, respectively	286,006	279,650	287,869
Intangible assets, net (Note 4)	131,045	133,438	136,011
Goodwill	68,594	68,594	68,594
Deferred income taxes	94,514	92,494	78,651
Other non-current assets	26,095	27,695	25,979
Total assets	$2,011,200	$2,013,894	$1,907,554
LIABILITIES AND EQUITY			
Current Liabilities:			
Short-term borrowings	$—	$—	$2,364
Accounts payable	264,881	215,048	274,609
Accrued liabilities (Note 5)	114,807	142,158	121,696
Income taxes payable	3,245	5,645	3,094
Total current liabilities	382,933	362,851	401,763
Note payable to related party (Note 13)	—	14,053	14,681
Other long-term liabilities	44,809	42,622	43,416
Income taxes payable	11,102	12,710	9,858
Deferred income taxes	156	147	228
Total liabilities	439,000	432,383	469,946
Commitments and contingencies (Note 11)			
Columbia Sportswear Company Shareholders' Equity:			
Preferred stock; 10,000 shares authorized; none issued and outstanding	—	—	—
Common stock (no par value); 250,000 shares authorized; 69,686, 69,873, and 69,729, issued and outstanding, respectively (Note 8)	31,045	53,801	44,525
Retained earnings	1,529,061	1,529,636	1,385,769
Accumulated other comprehensive loss (Note 7)	(13,296)	(22,617)	(10,773)
Total Columbia Sportswear Company shareholders' equity	1,546,810	1,560,820	1,419,521
Non-controlling interest (Note 3)	25,390	20,691	18,087
Total equity	1,572,200	1,581,511	1,437,608
Total liabilities and equity	$2,011,200	$2,013,894	$1,907,554

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 June 30,		Six Months Ended June 30,	
	2017	2016	2017	2016
Net sales	$398,904	$388,745	$942,697	$913,881
Cost of sales	218,042	209,161	503,368	486,920
Gross profit	180,862	179,584	439,329	426,961
Selling, general and administrative expenses	200,598	193,321	413,413	398,346
Net licensing income	2,451	1,951	4,804	3,864
Income (loss) from operations	(17,285)	(11,786)	30,720	32,479
Interest income, net	1,250	692	2,205	1,183
Interest expense on note payable to related party (Note 13)	(180)	(262)	(429)	(526)
Other non-operating income (expense), net	360	259	307	(116)
Income (loss) before income tax	(15,855)	(11,097)	32,803	33,020
Income tax benefit (expense)	4,539	3,224	(5,234)	(6,699)
Net income (loss)	(11,316)	(7,873)	27,569	26,321
Net income attributable to non-controlling interest	219	299	3,098	2,723
Net income (loss) attributable to Columbia Sportswear Company	$(11,535)	$(8,172)	$24,471	$23,598
Earnings (loss) per share attributable to Columbia Sportswear Company (Note 8):				
Basic	$(0.17)	$(0.12)	$0.35	$0.34
Diluted	$(0.17)	$(0.12)	$0.35	$0.33
Cash dividends per share	$0.18	$0.17	$0.36	$0.34
Weighted average shares outstanding (Note 8):				
Basic	69,672	69,694	69,639	69,567
Diluted	69,672	69,694	70,367	70,542

See accompanying notes to condensed consolidated financial statements.

COLUMBIA SPORTSWEAR COMPANY
CONDENSED CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME (LOSS)
(In thousands)
(Unaudited)

	Three Months Ended June 30,		Six Months Ended June 30,	
	2017	2016	2017	2016
Net income (loss)	$(11,316)	$(7,873)	$27,569	$26,321
Other comprehensive income (loss):				
Unrealized holding gains (losses) on available-for-sale securities (net of tax effects of $0, ($1), $0 and $0, respectively)	(4)	4	—	2
Unrealized losses on derivative transactions (net of tax effects of $3,361, $379, $4,241 and $3,160, respectively)	(6,157)	(920)	(7,762)	(9,424)
Foreign currency translation adjustments (net of tax effects of $93, $200, $2 and ($183), respectively)	7,182	315	18,684	18,836
Other comprehensive income (loss)	1,021	(601)	10,922	9,414
Comprehensive income (loss)	(10,295)	(8,474)	38,491	35,735
Comprehensive income (loss) attributable to non-controlling interest	1,644	(543)	4,699	2,074
Comprehensive income (loss) attributable to Columbia Sportswear Company	$(11,939)	$(7,931)	$33,792	$33,661

See accompanying notes to condensed consolidated financial statements.

COLUMBIA SPORTSWEAR COMPANY
CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS
(In thousands)
(Unaudited)

	Six Months Ended June 30, 2017	2016
Cash flows from operating activities:		
Net income	$ 27,569	$ 26,321
Adjustments to reconcile net income to net cash provided by operating activities:		
Depreciation and amortization	29,932	29,491
Loss on disposal and impairment of property, plant, and equipment	441	3,460
Deferred income taxes	3,378	1,514
Stock-based compensation	5,719	5,453
Changes in operating assets and liabilities:		
Accounts receivable	156,755	187,132
Inventories	(61,809)	(167,461)
Prepaid expenses and other current assets	(3,073)	(1,968)
Other assets	2,037	(3,125)
Accounts payable	39,773	53,458
Accrued liabilities	(41,523)	(33,456)
Income taxes payable	(4,133)	(1,020)
Other liabilities	1,981	2,903
Net cash provided by operating activities	157,047	102,702
Cash flows from investing activities:		
Purchases of short-term investments	(33,813)	(21,263)
Sales of short-term investments	32,878	8,855
Capital expenditures	(24,323)	(22,972)
Proceeds from sale of property, plant, and equipment	202	40
Net cash used in investing activities	(25,056)	(35,340)
Cash flows from financing activities:		
	2,774	19,625

Proceeds from credit facilities						
Repayments on credit facilities	(2,774		)	(19,202		)
Proceeds from issuance of common stock under employee stock plans	10,606			9,102		
Tax payments related to restricted stock unit issuances	(3,539		)	(4,806		)
Repurchase of common stock	(35,542		)	—		
Cash dividends paid	(25,046		)	(23,689		)
Payment of related party note payable	(14,236		)	—		
Net cash used in financing activities	(67,757		)	(18,970		)
Net effect of exchange rate changes on cash	5,016			(2,218		)
Net increase in cash and cash equivalents	69,250			46,174		
Cash and cash equivalents, beginning of period	551,389			369,770		
Cash and cash equivalents, end of period	$	620,639		$	415,944	
Supplemental disclosures of cash flow information:						
Cash paid during the period for income taxes	$	18,133		$	11,805	
Cash paid during the period for interest on note payable to related party	501			532		
Supplemental disclosures of non-cash investing and financing activities:						
Capital expenditures incurred but not yet paid	$	9,191		$	4,856	

See accompanying notes to condensed consolidated financial statements.

5

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

NOTE 1—BASIS OF PRESENTATION AND ORGANIZATION

The accompanying unaudited condensed consolidated financial statements have been prepared by the management of Columbia Sportswear Company (together with its wholly owned subsidiaries and entities in which it maintains a controlling financial interest, the "Company") and in the opinion of management include all normal recurring material adjustments necessary to present fairly the Company's financial position as of June 30, 2017 and 2016, and the results of operations and cash flows for the three and six months ended June 30, 2017 and 2016. The December 31, 2016 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, 2016. A significant part of the Company's business is of a seasonal nature; therefore, results of operations for the three and six months ended June 30, 2017 are not necessarily indicative of results to be expected for other quarterly periods or for the full year.

Certain information and footnote disclosures normally included in financial statements prepared in accordance with accounting principles generally accepted in the United States of America ("GAAP") have been condensed or omitted pursuant to the rules and regulations of the Securities and Exchange Commission. The Company, however, believes that the disclosures contained in this report comply with the requirements of Section 13(a) of the Securities Exchange Act of 1934 for a Quarterly Report on Form 10-Q and are adequate to make the information presented not misleading. These unaudited condensed consolidated financial statements should be read in conjunction with the consolidated financial statements and notes thereto included in the Company's Annual Report on Form 10-K for the year ended December 31, 2016.

Principles of Consolidation

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

Estimates and Assumptions

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

NOTE 2—SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

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, 2016.

Recent Accounting Pronouncements

In May 2014, the Financial Accounting Standards Board ("FASB") issued Accounting Standards Update ("ASU") No. 2014-09, Revenue from Contracts with Customers Topic 606, outlining a single comprehensive model for entities to use in accounting for revenue arising from contracts with customers that supersedes most current revenue recognition guidance. The updated guidance requires an entity to recognize revenue when it transfers control of promised goods or services to customers in an amount that reflects the consideration to which the entity expects to be entitled in exchange for those goods or services. In addition, the new standard requires disclosure of the nature, amount, timing, and uncertainty of revenue and cash flows arising from contracts with customers. The Company expects to adopt the standard utilizing the modified retrospective approach on January 1, 2018. The Company is in the process of evaluating the new standard against its existing accounting policies, including principal and agent considerations and balance sheet classifications, to determine the effect the guidance will have on the Consolidated Financial Statements. We do not expect the adoption of the standard to have a material impact on the timing of revenue recognition.

In January 2016, the FASB issued ASU No. 2016-01, Financial Instruments - Overall (Subtopic 825-10): Recognition and Measurement of Financial Assets and Financial Liabilities, an update to its accounting guidance related to the recognition and measurement of certain financial instruments. This new standard requires equity investments that are not accounted for under the equity method of accounting to be measured at fair value with changes recognized in net income and also updates certain presentation and disclosure requirements. This standard is effective beginning in the first quarter of 2018 with early adoption permitted. The

6

adoption of ASU 2016-01 is not expected to have a material impact on the Company's financial position, results of operations or cash flows.

In February 2016, the FASB issued ASU No. 2016-02, Leases (Topic 842), in order to increase transparency and comparability among organizations by recognizing lease assets and lease liabilities on the balance sheet for most leases previously classified as operating leases. The new standard will become effective beginning with the first quarter of 2019 using a modified retrospective approach and early adoption is permitted. The Company is evaluating the impact of this guidance and expects the adoption will result in a material increase in the assets and liabilities on the Company's consolidated balance sheets and will likely have an insignificant impact on the Company's consolidated statements of operations.

In June 2016, the FASB issued ASU No. 2016-13, Financial Instruments - Credit Losses (Topic 326): Measurement of Credit Losses on Financial Instruments. The pronouncement changes the impairment model for most financial assets and will require the use of an "expected loss" model for instruments measured at amortized cost. Under this model, entities will be required to estimate the lifetime expected credit loss on such instruments and record an allowance to offset the amortized cost basis of the financial asset, resulting in a net presentation of the amount expected to be collected on the financial asset. This standard is effective beginning in the first quarter of 2020. The adoption of ASU 2016-13 is not expected to have a material impact on the Company's financial position, results of operations or cash flows.

In October 2016, the FASB issued ASU No. 2016-16, Income Taxes (Topic 740): Intra-Entity Transfer of Assets Other than Inventory, which requires the recognition of the income tax effects of an intra-entity transfer of an asset, other than inventory, when the transfer occurs, eliminating an exception under current GAAP in which the tax effects of intra-entity asset transfers are deferred until the transferred asset is sold to a third party or otherwise recovered through use. Income tax effects of intra-entity transfers of inventory will continue to be deferred until the inventory has been sold to a third party. The Company expects to adopt this standard when it becomes effective during the first quarter of 2018, and plans to apply the required modified retrospective approach with a cumulative-effect adjustment to retained earnings of the previously deferred charges. The Company anticipates it will result in increased volatility in our effective income tax rate.

In January 2017, the FASB issued ASU No. 2017-04, Intangibles-Goodwill and Other (Topic 350): Simplifying the Test for Goodwill Impairment, which simplifies the accounting for goodwill impairments by eliminating step two from the goodwill impairment test. Under this new guidance, if the carrying amount of a reporting unit exceeds its estimated fair value, an impairment charge shall be recognized in an amount equal to that excess, limited to the total amount of goodwill allocated to that reporting unit. The new standard will become effective during the first quarter of 2019, with early adoption permitted. The Company is evaluating the impact and expects the adoption of ASU 2017-04 to affect the amount and timing of future goodwill impairment charges, if any.

NOTE 3—NON-CONTROLLING INTEREST

The Company owns a 60% controlling interest in a joint venture formed with Swire Resources Limited ("Swire") to support the development and operation of the Company's business in China. The accounts of the joint venture are included in the condensed consolidated financial statements. Swire's share of net income from the joint venture is included in net income attributable to non-controlling interest in the Condensed Consolidated Statements of Operations for the three and six months ended June 30, 2017 and 2016. The 40% non-controlling equity interest in this entity is included in total equity as non-controlling interest in the Condensed Consolidated Balance Sheets as of June 30, 2017 and 2016, and December 31, 2016.

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

The following table presents the changes in Columbia Sportswear Company shareholders' equity and non-controlling interest for the six months ended June 30, 2017 (in thousands, except per share amounts):

	Columbia Sportswear Company	Non-Controlling Interest	Total
Balance at December 31, 2016	$1,560,820	$ 20,691	$1,581,511
Net income	24,471	3,098	27,569
Other comprehensive income (loss), net of tax:			
Derivative holding losses	(7,567)	(195)	(7,762)
Foreign currency translation adjustments	16,888	1,796	18,684
Cash dividends ($0.36 per share)	(25,046)	—	(25,046)
Issuance of common stock under employee stock plans, net	7,067	—	7,067
Stock-based compensation expense	5,719	—	5,719
Repurchase of common stock	(35,542)	—	(35,542)
Balance at June 30, 2017	$1,546,810	$ 25,390	$1,572,200

The following table presents the changes in Columbia Sportswear Company shareholders' equity and non-controlling interest for the six months ended June 30, 2016 (in thousands, except per share amounts):

	Columbia Sportswear Company	Non-Controlling Interest	Total
Balance at December 31, 2015	$1,399,800	$ 16,013	$1,415,813
Net income	23,598	2,723	26,321
Other comprehensive income (loss), net of tax:			
Unrealized holding gains on available-for-sale securities	2	—	2
Derivative holding losses	(9,424)	—	(9,424)
Foreign currency translation adjustments	19,485	(649)	18,836
Cash dividends ($0.34 per share)	(23,689)	—	(23,689)
Issuance of common stock under employee stock plans, net	9,102	—	9,102
Tax adjustment from stock plans	(4,806)	—	(4,806)
Stock-based compensation expense	5,453	—	5,453
Balance at June 30, 2016	$1,419,521	$ 18,087	$1,437,608

NOTE 4—INTANGIBLE ASSETS, NET

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

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

Intangible Assets

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

	June 30, 2017	December 31, 2016	June 30, 2016
Intangible assets subject to amortization:			
Patents and purchased technology	$14,198	$ 14,198	$14,198
Customer relationships	23,000	23,000	23,000
Gross carrying amount	37,198	37,198	37,198
Accumulated amortization:			
Patents and purchased technology	(9,986)	(9,321)	(8,656)
Customer relationships	(11,588)	(9,860)	(7,952)
Total accumulated amortization	(21,574)	(19,181)	(16,608)
Net carrying amount	15,624	18,017	20,590
Intangible assets not subject to amortization	115,421	115,421	115,421
Intangible assets, net	$131,045	$ 133,438	$136,011

Amortization expense for intangible assets subject to amortization was $1,106,000 and $1,287,000 for the three months ended June 30, 2017 and 2016, respectively, and was $2,393,000 and $2,573,000 for the six months ended June 30, 2017 and 2016, respectively.

Annual amortization expense is estimated to be as follows for the years 2017-2021 (in thousands):

2017	$3,883
2018	2,980
2019	2,980
2020	2,537
2021	1,650

NOTE 5—PRODUCT WARRANTY

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

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

	Three Months Ended June 30,		Six Months Ended June 30,	
	2017	2016	2017	2016
Balance at beginning of period	$11,503	$11,733	$11,455	$11,487
Provision for warranty claims	731	895	1,931	2,438
Warranty claims	(1,190)	(906)	(2,489)	(2,433)
Other	170	(69)	317	161
Balance at end of period	$11,214	$11,653	$11,214	$11,653

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

NOTE 6—STOCK-BASED COMPENSATION

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

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

	Three Months Ended June 30,		Six Months Ended June 30,	
	2017	2016	2017	2016
Stock options	$1,005	$1,009	$2,009	$1,981
Restricted stock units	1,772	1,371	3,710	3,472
Total	$2,777	$2,380	$5,719	$5,453

Stock Options

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

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

	Three Months Ended June 30,		Six Months Ended June 30,	
	2017	2016	2017	2016
Expected option term	6.89 years	7.73 years	4.56 years	4.63 years
Expected stock price volatility	28.50%	30.95%	28.91%	29.80%
Risk-free interest rate	1.94%	1.47%	1.72%	1.17%
Expected annual dividend yield	1.26%	1.21%	1.30%	1.20%
Weighted average grant date fair value	$15.98	$17.47	$13.00	$13.39

During the six months ended June 30, 2017 and 2016, the Company granted a total of 496,384 and 422,973 stock options, respectively. At June 30, 2017, unrecognized costs related to outstanding stock options totaled approximately $9,241,000, 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 June 30, 2017 are expected to be recognized over a weighted average period of 2.72 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, expected annual dividend yield and closing price of the Company's common stock on the date of grant.

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

	Three Months Ended June 30,		Six Months Ended June 30,	
	2017	2016	2017	2016
Vesting period	3.08 years	2.80 years	3.86 years	3.83 years
Expected annual dividend yield	1.26%	1.20%	1.30%	1.16%
Estimated average grant date fair value per restricted stock unit	$55.06	$54.80	$52.54	$55.94

During the six months ended June 30, 2017 and 2016, the Company granted 245,953 and 188,719 restricted stock units, respectively. At June 30, 2017, unrecognized costs related to outstanding restricted stock units totaled approximately $18,265,000, before any related tax benefit. The unrecognized costs related to restricted stock units are being amortized over the related vesting

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

period using the straight-line attribution method. These unrecognized costs at June 30, 2017 are expected to be recognized over a weighted average period of 2.56 years.

NOTE 7—ACCUMULATED OTHER COMPREHENSIVE LOSS

Accumulated other comprehensive loss, net of applicable taxes, reported on the Company's Condensed Consolidated Balance Sheets consists of unrealized holding gains and losses on available-for-sale securities, unrealized gains and losses on certain derivative transactions and foreign currency translation adjustments.

The following table sets forth the changes in accumulated other comprehensive loss attributable to Columbia Sportswear Company, net of tax, for the three months ended June 30, 2017 (in thousands):

	Unrealized losses on available-for-sale securities	Unrealized holding gains (losses) on derivative transactions	Foreign currency translation adjustments	Total
Balance at March 31, 2017	$ —	$ 5,246	$ (18,138)	$ (12,892)
Other comprehensive income (loss) before reclassifications	(4)	(5,537)	5,640	99
Amounts reclassified from other comprehensive income	—	(503)	—	(503)
Net other comprehensive income (loss) during the period	(4)	(6,040)	5,640	(404)
Balance at June 30, 2017	$ (4)	$ (794)	$ (12,498)	$ (13,296)

The following table sets forth the changes in accumulated other comprehensive loss attributable to Columbia Sportswear Company, net of tax, for the three months ended June 30, 2016 (in thousands):

	Unrealized gains (losses) on available-for-sale securities	Unrealized holding losses on derivative transactions	Foreign currency translation adjustments	Total
Balance at March 31, 2016	$ (4)	$ (2,417)	$ (8,593)	$ (11,014)
Other comprehensive income (loss) before reclassifications	4	(787)	1,157	374
Amounts reclassified from other comprehensive income	—	(133)	—	(133)
Net other comprehensive income (loss) during the period	4	(920)	1,157	241
Balance at June 30, 2016	$ —	$ (3,337)	$ (7,436)	$ (10,773)

The following table sets forth the changes in accumulated other comprehensive loss attributable to Columbia Sportswear Company, net of tax, for the six months ended June 30, 2017 (in thousands):

	Unrealized losses on available-for-sale securities	Unrealized holding gains (losses) on derivative transactions	Foreign currency translation adjustments	Total
Balance at December 31, 2016	$ (4)	$ 6,773	$ (29,386)	$ (22,617)
Other comprehensive income (loss) before reclassifications	—	(6,975)	16,888	9,913
Amounts reclassified from other comprehensive income	—	(592)	—	(592)
Net other comprehensive income (loss) during the period	—	(7,567)	16,888	9,321
Balance at June 30, 2017	$ (4)	$ (794)	$ (12,498)	$ (13,296)

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

The following table sets forth the changes in accumulated other comprehensive loss attributable to Columbia Sportswear Company, net of tax, for the six months ended June 30, 2016 (in thousands):

	Unrealized gains (losses) on available-for-sale securities	Unrealized holding gains (losses) on derivative transactions	Foreign currency translation adjustments	Total
Balance at December 31, 2015	$ (2)	$ 6,087	$ (26,921)	$(20,836)
Other comprehensive income (loss) before reclassifications	2	(7,925)	19,485	11,562
Amounts reclassified from other comprehensive income	—	(1,499)	—	(1,499)
Net other comprehensive income (loss) during the period	2	(9,424)	19,485	10,063
Balance at June 30, 2016	$ —	$ (3,337)	$ (7,436)	$(10,773)

NOTE 8—EARNINGS PER SHARE

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

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 June 30,		Six Months Ended June 30,	
	2017	2016	2017	2016
Weighted average shares of common stock outstanding, used in computing basic earnings per share	69,672	69,694	69,639	69,567
Effect of dilutive stock options and restricted stock units	—	—	728	975
Weighted average shares of common stock outstanding, used in computing diluted earnings per share	69,672	69,694	70,367	70,542
Earnings per share of common stock attributable to Columbia Sportswear Company:				
Basic	$(0.17)	$(0.12)	$0.35	$0.34
Diluted	$(0.17)	$(0.12)	$0.35	$0.33

Stock options and service-based restricted stock units representing 2,641,676 and 2,793,715 shares of common stock for the three months ended June 30, 2017 and 2016, respectively, were outstanding but were excluded from the computation of diluted EPS because their effect would have been anti-dilutive due to a net loss in the period. Stock options and service-based restricted stock units representing 862,559 and 471,964 shares of common stock for the six months ended June 30, 2017 and 2016, 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 50,403 and 76,742 shares of common stock for the three months ended June 30, 2017 and 2016, respectively, and 46,485 and 69,472 shares of common stock for the six months ended June 30, 2017 and 2016, 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.

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

Common Stock Repurchase Plan

Since the inception of the Company's stock repurchase plan in 2004 through June 30, 2017, the Company's Board of Directors has authorized the repurchase of $700,000,000 of the Company's common stock. Shares of the Company's common stock may be purchased in the open market or through privately negotiated transactions, subject to market conditions. The repurchase program does not obligate the Company to acquire any specific number of shares or to acquire shares over any specified period of time. As of June 30, 2017, the Company had repurchased 21,658,035 shares under this program at an aggregate purchase price of approximately $562,064,000. During the three and six months ended June 30, 2017, the Company repurchased 48,943 and 665,095 shares of the Company's common stock at an aggregate purchase price of $2,542,000 and $35,542,000, respectively. During the three and six months ended June 30, 2016, the Company did not repurchase any shares of the Company's common stock.

NOTE 9—SEGMENT INFORMATION

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

The geographic distribution of the Company's net sales and income from operations are summarized in the following table (in thousands) for the three and six months ended June 30, 2017 and 2016.

	Three Months Ended June 30,		Six Months Ended June 30,	
	2017	2016	2017	2016
Net sales to unrelated entities:				
United States	$238,196	$228,776	$571,380	$565,021
LAAP	79,467	87,258	197,811	189,059
EMEA	67,392	59,045	122,726	110,374
Canada	13,849	13,666	50,780	49,427
	$398,904	$388,745	$942,697	$913,881
Segment income (loss) from operations:				
United States	$22,314	$21,687	$84,956	$87,979
LAAP	3,503	5,331	23,311	19,498
EMEA	152	105	1,476	1,364
Canada	(2,563)	(3,173)	3,264	686
Total segment income from operations	23,406	23,950	113,007	109,527
Unallocated corporate expenses	(40,691)	(35,736)	(82,287)	(77,048)
Interest income, net	1,250	692	2,205	1,183
Interest expense on note payable to related party	(180)	(262)	(429)	(526)
Other non-operating income (expense)	360	259	307	(116)
Income (loss) before income taxes	$(15,855)	$(11,097)	$32,803	$33,020

Concentrations

The Company had two customers that accounted for approximately 12.6% and 10.9%, respectively, of consolidated accounts receivable at June 30, 2017. The Company had one customer that accounted for approximately 10.4% consolidated accounts receivable at June 30, 2016. No single customer accounted for 10% or more of consolidated accounts receivable at December 31, 2016. No single customer accounted for 10% or more of consolidated net sales for the three or six months ended June 30, 2017 or 2016.

NOTE 10—FINANCIAL INSTRUMENTS AND RISK MANAGEMENT

13

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

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

The Company actively manages the risk of changes in functional currency equivalent cash flows resulting from anticipated non-functional currency denominated purchases and sales. Subsidiaries that use European euros, Canadian dollars, Japanese yen, Chinese renminbi, or Korean won as their functional currency are primarily exposed to changes in functional currency equivalent cash flows from anticipated U.S. dollar inventory purchases. The Company's prAna subsidiary uses U.S. dollars as its functional currency and is exposed to anticipated Canadian dollar denominated sales. The Company manages these risks by using currency forward and option contracts formally designated and effective as cash flow hedges. Hedge effectiveness is generally determined by evaluating the ability of a hedging instrument's cumulative change in fair value to offset the cumulative change in the present value of expected cash flows on the underlying exposures. For forward contracts, the change in fair value attributable to changes in forward points is excluded from the determination of hedge effectiveness and included in current period cost of sales for hedges of anticipated U.S. dollar inventory purchases and in net sales for hedges of anticipated Canadian dollar sales. For option contracts, the change in fair value attributable to changes in time value are excluded from the assessment of hedge effectiveness and included in current period cost of sales. Hedge ineffectiveness was not material during the three and six months ended June 30, 2017 and 2016.

The Company also uses currency forward contracts not formally designated as hedges to manage the consolidated currency exchange rate risk associated with the remeasurement of non-functional currency denominated monetary assets and liabilities by subsidiaries that use U.S. dollars, euros, Swiss francs, Canadian dollars, yen, won, or renminbi as their functional currency. Non-functional currency denominated monetary assets and liabilities consist primarily of cash and cash equivalents, short-term investments, receivables, payables, and intercompany loans. The gains and losses generated on these currency forward contracts not formally designated as hedges are expected to be largely offset in other non-operating expense, net by the gains and losses generated from the remeasurement of the non-functional currency denominated monetary assets and liabilities.

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

	June 30, 2017	December 31, 2016	June 30, 2016
Derivative instruments designated as cash flow hedges:			
Currency forward contracts	$314,000	$ 206,000	$247,500
Derivative instruments not designated as cash flow hedges:			
Currency forward contracts	166,476	184,940	79,930

At June 30, 2017, approximately $7,000 of deferred net losses on both outstanding and matured derivatives accumulated in other comprehensive income are expected to be reclassified to net income during the next twelve months as a result of underlying hedged transactions also being recorded in net income. Actual amounts ultimately reclassified to net income are dependent on U.S. dollar exchange rates in effect against the euro, renminbi, Canadian dollar, and yen when outstanding derivative contracts mature.

At June 30, 2017, the Company's derivative contracts had a remaining maturity of less than three years. The maximum net exposure to any single counterparty, which is generally limited to the aggregate unrealized gain of all contracts with that counterparty, was less than $2,000,000 at June 30, 2017. All of the Company's derivative counterparties have investment grade credit ratings. The Company is a party to master netting arrangements that contain features that allow counterparties to net settle amounts arising from multiple separate derivative transactions or net settle in the case of certain triggering events such as a bankruptcy or major default of one of the counterparties to the transaction. Finally, the Company has not pledged assets or posted collateral as a requirement for entering into or maintaining derivative positions.

14

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

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

	Balance Sheet Classification	June 30, 2017	December 31, 2016	June 30, 2016
Derivative instruments designated as cash flow hedges:				
Derivative instruments in asset positions:				
Currency forward contracts	Prepaid expenses and other current assets	$ 1,648	$ 9,805	$ 2,228
Currency forward contracts	Other non-current assets	816	1,969	1,079
Derivative instruments in liability positions:				
Currency forward contracts	Accrued liabilities	3,151	106	4,169
Currency forward contracts	Other long-term liabilities	1,665	—	1,456
Derivative instruments not designated as cash flow hedges:				
Derivative instruments in asset positions:				
Currency forward contracts	Prepaid expenses and other current assets	505	1,361	458
Derivative instruments in liability positions:				
Currency forward contracts	Accrued liabilities	916	180	3,545

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

	Statement of Operations Classification	Three Months Ended June 30,		Six Months Ended June 30,	
		2017	2016	2017	2016
Currency Forward and Option Contracts:					
Derivative instruments designated as cash flow hedges:					
Loss recognized in other comprehensive income or loss	—	$(5,537)	$(787)	$(6,975)	$(7,925)
Gain reclassified from accumulated other comprehensive income or loss to income for the effective portion	Net sales	—	—	144	161
Gain reclassified from accumulated other comprehensive income or loss to income for the effective portion	Cost of sales	897	171	951	1,605
Loss reclassified from accumulated other comprehensive income or loss to income as a result of cash flow hedge discontinuance	Cost of sales	—	(81)	—	(81)
Gain recognized in income for amount excluded from effectiveness testing and for the ineffective portion	Net sales	2	1	5	5
Gain recognized in income for amount excluded from effectiveness testing and for the ineffective portion	Cost of sales	492	540	1,286	962
Derivative instruments not designated as cash flow hedges:					
Loss recognized in income	Other non-operating expense	(1,723)	(1,887)	(3,411)	(3,441)

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

NOTE 11—COMMITMENTS AND CONTINGENCIES

Inventory Purchase Obligations

Inventory purchase obligations consist of open production purchase orders and other commitments for raw materials and sourced apparel, footwear, accessories, and equipment. At June 30, 2017, inventory purchase obligations were $319,714,000.

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 12—FAIR VALUE MEASURES

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

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

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

Level 3 — unobservable inputs for which there is little or no market data available, that require the reporting entity to develop its own assumptions.

Assets and liabilities measured at fair value on a recurring basis as of June 30, 2017 are as follows (in thousands):

	Level 1	Level 2	Level 3	Total
Assets:				
Cash equivalents:				
Money market funds	$307,724	$—	$ —	$307,724
Time deposits	66,217	—	—	66,217
U.S. Government-backed municipal bonds	—	97,738	—	97,738
Other short-term investments:				
Mutual fund shares	1,591	—	—	1,591
Other current assets:				
Derivative financial instruments (Note 10)	—	2,153	—	2,153
Other non-current assets:				
Derivative financial instruments (Note 10)	—	816	—	816
Mutual fund shares	8,298	—	—	8,298
Total assets measured at fair value	$383,830	$100,707	$ —	$484,537
Liabilities:				
Accrued liabilities:				
Derivative financial instruments (Note 10)	$—	$4,067	$ —	$4,067
Other long-term liabilities:				
Derivative financial instruments (Note 10)	—	1,665	—	1,665
Total liabilities measured at fair value	$—	$5,732	$ —	$5,732

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

Assets and liabilities measured at fair value on a recurring basis as of December 31, 2016 are as follows (in thousands):

	Level 1	Level 2	Level 3	Total
Assets:				
Cash equivalents:				
Money market funds	$299,769	$ —	$ —	$299,769
Time deposits	73,127			