

UNITED STATES
SECURITIES AND EXCHANGE COMMISSION
WASHINGTON, DC 20549

FORM 10-Q

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

For the quarterly period ended March 31, 1998

OR

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

For the transition period from _____ to _____

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

Oregon	0-23939	93-0498284
----- (State or other jurisdiction of incorporation or organization)	(Commission File Number)	(IRS Employer Identification Number)

6600 North Baltimore	Portland, Oregon	97203
----- (Address of principal executive offices)		(Zip Code)

(503) 286-3676

(Registrant's telephone number, including area code)

Not Applicable

(Former name, former address and former fiscal year,
if changed since last report)

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 X

The number of shares of Common Stock outstanding on May 14, 1998, was
25,232,176.

COLUMBIA SPORTSWEAR COMPANY

MARCH 31, 1998

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COLUMBIA SPORTSWEAR COMPANY
CONDENSED CONSOLIDATED BALANCE SHEETS
(IN THOUSANDS, EXCEPT SHARE AND PER SHARE AMOUNTS)
(UNAUDITED)

<TABLE>
<CAPTION>

	MARCH 31,1998	DECEMBER 31,1997
	-----	-----
	<C>	<C>
<S>		
ASSETS		
Current Assets:		
Cash and cash equivalents	\$ 6,264	\$ 4,001
Accounts receivable, net of allowance of \$2,479 and \$2,461, respectively	58,691	76,086
Receivable from underwriters(Note 2)	107,934	-
Deferred income taxes (Note 5)	6,300	-
Inventories (Note 3)	65,419	48,300
Prepaid expenses and other current assets	1,789	2,430
	-----	-----
Total current assets	246,397	130,817
Property, plant, and equipment, net	46,981	35,277
Intangibles and other assets	3,715	8,383
	-----	-----
Total assets	\$ 297,093	\$ 174,477
	-----	-----

LIABILITIES AND SHAREHOLDERS' EQUITY

Current Liabilities:		
Notes payable	\$ 29,109	\$ 20,427
Accounts payable	34,631	21,765
Accrued liabilities	11,522	12,899
Current portion of long-term debt	158	154
Distribution payable	89,262	5,866
	-----	-----

Total current liabilities	164,682	61,111
Long-term debt	2,789	2,831
Deferred income taxes (Note 5)	4,300	-
	-----	-----
Total liabilities	171,771	63,942
Shareholders' Equity:		
Preferred stock; 10,000,000 shares authorized; none issued and outstanding	-	-
Common stock; 50,000,000 shares authorized; issued and outstanding 25,232,176, and 18,792,176	124,837	17,886
Retained earnings	8,906	101,805
Foreign currency translation adjustment	(3,313)	(3,806)
Unearned portion of restricted stock issued for future services	(5,108)	(5,350)
	-----	-----
Total shareholders' equity	125,322	110,535
	-----	-----
Total liabilities and shareholders' equity	\$ 297,093	\$ 174,477
	-----	-----
	-----	-----

</TABLE>

See accompanying notes to condensed consolidated financial statements

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COLUMBIA SPORTSWEAR COMPANY
CONDENSED CONSOLIDATED STATEMENTS OF OPERATIONS
(IN THOUSANDS, EXCEPT SHARE AND PER SHARE AMOUNTS)
(UNAUDITED)

<TABLE>
<CAPTION>

	THREE MONTHS ENDED MARCH 31,	
	1998	1997
	-----	-----
	<C>	<C>
Net sales	\$ 74,938	\$ 54,495
Cost of sales	46,001	33,743
	-----	-----
Gross profit	28,937	20,752
Selling, general, and administrative		28,330 21,883
	-----	-----
Income (loss) from operations		607 (1,131)
Interest expense, net	438	300
	-----	-----
Income (loss) before income tax		169 (1,431)
Income tax benefit (Note 5)	1,932	11
	-----	-----
Net income (loss) (Note 7)	\$ 2,101	\$ (1,420)
	-----	-----
	-----	-----
Net income (loss) per share (Note 6):		
Basic	\$ 0.11	\$ (0.08)
Diluted	\$ 0.11	\$ (0.08)
Weighted average shares outstanding :		
Basic	19,174,842	18,792,176
Diluted	19,558,978	18,792,176

</TABLE>

See accompanying notes to condensed consolidated financial statements

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COLUMBIA SPORTSWEAR COMPANY
CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS
(IN THOUSANDS)
(UNAUDITED)

<TABLE>
<CAPTION>

	THREE MONTHS ENDED MARCH 31,			
	1998	1997		
<S>	<C>	<C>		
CASH FLOWS FROM OPERATING ACTIVITIES:				
Net Income (loss)	\$ 2,101	\$ (1,420)		
Adjustments to reconcile net income (loss) to net cash provided by operating activities:				
Depreciation and amortization	1,904	1,686		
Non-cash compensation	242	242		
Loss on disposal of property, plant, & equipment		44	-	
Deferred income taxes	(2,000)	-		
Changes in operating assets and liabilities:				
Accounts receivable	16,714	12,501		
Inventories	(16,851)	(16,015)		
Prepaid expenses and other current assets		(642)	(58)	
Intangibles and other assets	(991)	(320)		
Accounts payable	14,220	9,575		
Accrued liabilities	(2,277)	(3,777)		
Net cash provided by operating activities	12,464	2,414		
CASH FLOW FROM INVESTING ACTIVITIES:				
Additions to property, plant, and equipment		(13,287)	(2,967)	
Proceeds from sale of property, plant, and equipment		94	-	
Maturity of short-term investments		-	222	
Net cash used in investing activities		(13,193)	(2,745)	
CASH FLOW FROM FINANCING ACTIVITIES:				
Net borrowings on notes payable		8,727	407	
Repayments on long-term debt		(38)	(31)	
Distributions paid to shareholders		(5,866)	(132)	
Net cash provided by financing activities		2,823	244	
NET EFFECT OF EXCHANGE RATE CHANGES ON CASH			169	(123)
NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS	2,263	(210)		
CASH AND CASH EQUIVALENTS, BEGINNING OF PERIOD			4,001	3,283
CASH AND CASH EQUIVALENTS, END OF PERIOD			\$ 6,264	\$ 3,073
SUPPLEMENTAL DISCLOSURES OF CASH FLOW INFORMATION:				
Cash paid during the period for interest		\$ 757	\$ 461	
Cash paid during the period for state and foreign income taxes		762	294	

</TABLE>

See accompanying notes to condensed consolidated financial statements

NOTE 1. BASIS OF PRESENTATION

The accompanying condensed consolidated financial statements have been prepared by the management of Columbia Sportswear Company ("the Company") and in the opinion of management contain all adjustments, consisting only of normal recurring adjustments, necessary to present fairly the Company's financial position as of March 31, 1998 and December 31, 1997, and the results of operations and cash flows for the three months ended March 31, 1998 and 1997. It should be understood that accounting measurements at interim dates inherently involve greater reliance on estimates than at year end. The results of operations for the three months ended March 31, 1998 are not necessarily indicative of the results to be expected for the full year.

The accompanying financial statements should be read in conjunction with the audited financial statements and notes thereto including in the Company's final prospectus, which forms part of the registration statement on Form S-1 (file no. 333-43199) filed in connection with the Company's initial public offering of 6,440,000 shares (including an over-allotment option of 840,000 shares) of its Common Stock (the "IPO").

NOTE 2. INITIAL PUBLIC OFFERING

The IPO closed on April 1, 1998. Gross proceeds from the IPO (including exercise of the over -allotment option) totaled \$115,920,000 and proceeds net of underwriting discounts and commissions totaled \$107,934,400, which at March 31, 1998 was recorded as a receivable from underwriters.

NOTE 3. INVENTORIES

Inventories consist of the following (in thousands):

<TABLE>
<CAPTION>

	March 31, 1998	December 31, 1997
<S>	<C>	<C>
Raw Materials	\$ 5,091	\$ 4,565
Work In process	16,143	7,637
Finished goods	44,185	36,098
	-----	-----
	\$ 65,419	\$ 48,300
	-----	-----
	-----	-----

</TABLE>

NOTE 4. DIVIDENDS

In March 1998 the Company declared a dividend to its shareholders of record on March 23, 1998 in an amount equal to the greater of \$95 million or the amount of the Company Subchapter S accumulated adjustments account as of March 26, 1998, the date of termination of the Company's S corporation status (the "Termination Date"). The Company has not yet determined the final amount of the Subchapter S accumulated adjustments account as of the Termination Date, however, the Company believes the dividend will exceed \$95 million.

NOTE 5. INCOME TAXES

In connection with the IPO, the Company became subject to federal and state income taxes from the Termination Date. The condensed consolidated statement of operations for the three months ended March 31, 1998 reflects adjustments for income taxes based upon income before provision for income taxes as if the Company had been subject to additional federal and state income taxes based upon an effective tax rate of 40%.

In accordance with Statement of Financial Accounting Standards No. 109, "Accounting for Income Taxes", the Company recorded a net deferred tax asset of \$2,000,000 for cumulative temporary differences between financial statement and income tax bases of the Company's assets and liabilities by

recording a benefit for such deferred tax assets in its condensed consolidated statement of operations on the Termination Date. The net amount represents a current asset of \$6,300,000 and a non-current liability of \$4,300,000. Such deferred tax assets are based on the cumulative temporary difference upon the conversion from an S corporation to a C corporation on the Termination Date.

During interim periods, income tax expense is based on the estimated effective income tax rate that is expected for the entire fiscal year. The estimated effective tax rate for the three months ended March 31, 1998 was 40%. The net income tax benefit for the three months ended March 31, 1998 was \$1,932,000. This amount includes the recording of the net deferred tax asset of approximately \$2,000,000 and the provision for income taxes for the three months ended March 31, 1998 of \$68,000.

NOTE 6. EARNINGS PER SHARE

Statement of Financial Accounting Standards No. 128, "Earnings Per Share" requires dual presentation of basic and diluted earnings per share ("EPS"). Basic EPS is based on the weighted average number of common shares outstanding. Diluted EPS reflects the potential dilution that could occur if securities or other contracts to issue common stock were exercised or converted into common stock.

There were no adjustments to net income in computing diluted earnings per share for the three months ended March 31, 1998 and 1997. A reconciliation of the common shares used in the denominator for computing basic and diluted earnings per share is as follows:

<TABLE>
<CAPTION>

	Three months ended March 31,	
	----- 1998	1997 -----
	----- <C>	<C> -----
Weighted average common shares outstanding, used in computing basic earnings per share	19,175	18,792
Effect of dilutive stock options	384	-
Weighted-average common shares outstanding, used in computing diluted earnings per share	----- 19,559	----- 18,792
Earnings (loss) per share of common stock - basic and diluted	----- \$ 0.11	----- \$ (0.08)

</TABLE>

NOTE 7. COMPREHENSIVE INCOME

On January 1, 1998, the Company adopted Statement of Financial Accounting Standards No. 130, "Reporting Comprehensive Income". Comprehensive income (loss) was approximately \$2,594,000 and \$(2,202,000) for the three months ended March 31, 1998 and 1997, respectively. The differences from net income consist of changes in foreign currency translation adjustments.

FORWARD LOOKING STATEMENTS

The statements in this report concerning certain expected future expenses as a percentage of net sales, future financing and working capital requirements, and the Year 2000 issue constitute forward - looking statements that are subject to risks and uncertainties. Factors that could adversely affect selling, general and administrative expense as a percentage of net sales include, but are not limited to, increased competitive factors (including increased competition, new product offerings by competitors and price pressures), unfavorable seasonal differences in sales volume, changes in consumer preferences, an inability to increase sales to department stores or

to open and operate new concept shops on favorable terms, a failure to manage growth effectively (including timely implementation of the Company's enterprise system and expansion of its distribution center) and unavailability of independent manufacturing, labor or supplies at reasonable prices, as well as unfavorable business conditions and disruptions in the outerwear, sportswear and rugged footwear industries and general economy. Factors that could materially affect future financing requirements include, but are not limited to, the ability to obtain additional financing on acceptable terms and greater than expected S corporation dividends. Factors that could materially affect future working capital requirements include, but are not limited to, the industry factors and general business conditions noted above. Factors that could materially affect the Year 2000 issue include, but are not limited to, unanticipated costs associated with any required modifications to the Company's computer systems and associated software.

RESULTS OF OPERATIONS

THREE MONTHS ENDED MARCH 31, 1998 COMPARED TO THREE MONTHS ENDED MARCH 31, 1997

NET SALES: Net sales increased 37.4% to \$74.9 million for the three month period ended March 31, 1998 from \$54.5 million for the comparable period in 1997. Domestic sales increased 42.5% to \$60.0 million for the three month period ended March 31, 1998 from \$42.1 million for the comparable period in 1997. Net international sales, excluding Canada, increased 23.8% to \$10.4 million for the three month period ended March 31, 1998 from \$8.4 million for the comparable period in 1997. Canadian sales grew 12.6% to \$4.6 million for the three month period ended March 31, 1998 compared to the same period in 1997. These increases were attributable to increased sales of spring sportswear units and timely shipments of products to customers

GROSS PROFIT: Gross profit as a percentage of net sales was 38.6% for the three months ending March 31, 1998 compared to 38.1% for the comparable period in 1997. The increase in gross margin was due to increased domestic and European wholesale sales as a percentage of total sales, which have traditionally been higher margin than other International markets, as well as efficiencies in the manufacturing process and continued strength of the brand in the market.

SELLING, GENERAL AND ADMINISTRATIVE EXPENSE: Selling, general, and administrative expense increased 29.2% to \$28.3 million for the three months ended March 31, 1998 from \$21.9 million for the comparable period in 1997, primarily as a result of an increase in variable selling and operating expenses to support both the higher level of sales and continued investment in operational infrastructure. As a percentage of sales, selling, general, and administrative decreased to 37.8% for the three months ended March 31, 1998 from 40.2% for the comparable period in 1997, reflecting the Company's operating expense leverage. The Company believes that it will be able to continue to leverage selling, general, and administrative as a percentage of sales as its international operations become more established and its sportswear and footwear sales expand.

INTEREST EXPENSE: Interest expense increased by 46% for the three months ended March 31, 1998 from the comparable period in 1997. The increase was attributable to additional borrowing requirements for working capital during the three months ended March 31, 1998.

PROVISION FOR INCOME TAXES: Income tax expense for the three months ended March 31, 1998 includes a deferred income tax benefit of \$2.0 million as a result of the conversion to C corporate status in connection with the IPO.

NET INCOME: Earnings per share were based on the weighted average number of common shares outstanding for the three months ended March 31, 1998 and 1997. If the shares issued in connection with the IPO had been outstanding for the three months ended March 31, 1998, the total shares outstanding would have been 25.2 million and 25.6 million for basic and diluted methods, respectively, resulting in earnings per share of \$0.08 for the three months ended March 31, 1998.

LIQUIDITY AND CAPITAL RESOURCES

The Company financed its operations in the three months ended March 31, 1998 primarily through cash from operations and current cash balances. At March 31, 1998, the Company had total cash equivalents of \$6.3 million compared to \$3.1 million at March 31, 1997. Cash provided by operating activities was \$12.5 million for the three months ended March 31, 1998 and \$2.4 million for the comparable period in 1997. This increase was primarily due to a decrease in accounts receivable and increase in accounts payable offset by an increase in inventory, which provided additional working capital to fund the Company's first quarter operations.

The Company's primary capital requirements are for working capital, investing activities associated with expansion of its distribution center, systems development and general corporate needs. Net cash used in investing activities was \$13.2 million for the three months ended March 31, 1998 and \$2.7 million for the comparable period in 1997.

Cash provided from financing activities was \$2.8 million for the three months ended March 31, 1998 and \$244,000 for the comparable period in 1997. The increase in net cash provided from financing activities was primarily due to increases in net short term borrowings offset by the repayment of an outstanding note from a shareholder of approximately \$5.7 million.

To fund its working capital requirements, the Company has an unsecured revolving line of credit of \$50 million with Wells Fargo Bank, N.A. which expires June 30, 1998. As of March 31, 1998, \$20.5 million was outstanding under this line of credit bearing interest at a rate of 6.2% per annum. The Company expects to renew or replace this line of credit upon its expiration.

The Company is party to a Buying Agency Agreement with Nissho Iwai American Corporation ("Nissho") pursuant to which Nissho provides the Company unsecured credit, the amount of which varies annually at Nissho's discretion, and acts as a buying agent on behalf of the Company. At March 31, 1998 the maximum amount available under the Nissho Agreement was \$120 million, which includes \$70 million allowed under the credit line and amounts available for letters of credit. The agreement expires September 30, 1998. As of March 31, 1998, \$23.7 million was outstanding under the Company's line of credit with Nissho bearing interest at a rate of 6.2% per annum.

The Company maintains a credit agreement with The Hong Kong and Shanghai Banking Corporation Limited for an uncommitted and unsecured line of credit with a combined limit of \$60 million. Within this limit, up to \$45 million may be used as an import line of credit for issuing documentary letters of credit and up to \$25 million may be used as a revolving line of credit for working capital. As of March 31, 1998, \$5 million was outstanding under the agreement bearing interest at a rate of 6% per annum.

Proceeds from the IPO net of underwriting discounts and commissions totaled \$107.9 million, of which an amount equal to the greater of \$95 million or the amount of the Company Subchapter S accumulated adjustments account as of the Termination Date was declared as a dividend to shareholders of record on March 23, 1998. As of April 1, 1998, \$95 million has been distributed to such shareholders, however, the Company has not yet determined the final amount of the Subchapter S accumulated adjustments account as of the Termination date. The additional dividend is not estimated to significantly effect the Company's liquidity.

For the three months ended March 31, 1998, the Company expended approximately \$13.0 million, excluding capitalized interest, on capital projects. In connection with these capital projects, the Company intends to enter into a long term borrowing arrangement in mid-1998 to provide funds to complete the projects. The Company believes that its liquidity requirements for the next 12 months and beyond will be adequately covered by the IPO proceeds, short term arrangements, and the anticipated long term borrowing facility.

The Company is currently expending capital for a new enterprise management information system, expected to be fully operational by late 1998, which will address the Year 2000 issue on all core Company business systems. The Company has other ancillary systems that will be modified to address the Year 2000 issue. The Company, however, cannot be certain that these planned system

modifications will be completed in a timely fashion. In addition, the Company has not thoroughly analyzed the impact of other parties' computer system failures, but the Company believes costs incurred in responding to other parties' Year 2000 computer system failures, together with the cost of modifications to the Company's computer systems, will not have a material impact on the Company's results of operations or financial condition.

PART II OTHER INFORMATION

ITEM 2 CHANGE IN SECURITIES AND USE OF PROCEEDS

On March 24, 1998, prior to the completion of the IPO, the Company amended and restated its articles of incorporation, increasing the total number of authorized shares of capital stock to 50,000,000 shares of Common Stock and 10,000,000 shares of Preferred Stock. The Second Amended and Restated Articles of Incorporation also converted each share of nonvoting Common Stock into one share of voting Common Stock, and effected a 0.59-for-one reverse stock split.

Effective as of March 24, 1998, prior to completion of the IPO and the filing of the Second Amended and Restated Articles of Incorporation, the Company issued 686,504 shares of Common Stock to holders of the Company's voting Common Stock pursuant to an Agreement Regarding Plan of Recapitalization, dated March 23, 1998. The issuance was made pursuant to Section 3(a) (9) of the Securities Act of 1933.

The Company's registration statement (No. 333-43199) on Form S-1 for the IPO was declared effective by the Securities and Exchange Commission on March 26, 1998. In the IPO, which closed on April 1, 1998, the Company registered and issued 6,440,000 shares of Common Stock, including 840,000 shares issued upon exercise of an over-allotment option granted to the underwriters. The managing underwriters for the IPO were Goldman, Sachs & Co., NationsBanc Montgomery Securities LLC and PaineWebber Incorporated in the United States, and Goldman Sachs International, NationsBanc Montgomery Securities LLC, PaineWebber International and Credit Lyonnaise Securities outside the United States. The IPO price was \$18 per share, or an aggregate of \$115,920,000. Underwriter discounts and commissions totaled \$7,985,600. The Company paid an estimated total of \$1,000,000 for other expenses in connection with the IPO. Proceeds to the Company, net of underwriter discounts, commissions and other expenses, were \$106,934,400.

As of April 1, 1998, \$95,000,000 of the net proceeds from the IPO had been distributed to the Company's shareholders of record as of March 23, 1998, including direct payments to the Company's Chairman, President and Chief Executive Officer, Director of Retail Operations, Chief Operating Officer and various trusts.

The remaining \$11,900,000 of net proceeds after distribution of dividends were used for general corporate operating requirements, including current working capital needs and capital project funding.

ITEM 4 SUBMISSION OF MATTERS TO A VOTE OF SECURITY HOLDERS

On March 20, 1998, by consent resolution in lieu of an annual meeting of shareholders, the holders of the Company's outstanding voting Common Stock took the actions described below:

1. The shareholders elected each of Gertrude Boyle, Timothy P. Boyle, Sarah A. Bany, Murrey R. Albers, Edward S. George and John Stanton to the Company's Board of Directors, by the vote indicated below, to serve until the next annual meeting of shareholders:

2,764,748 shares of voted in favor (pre-reverse split)

0 shares voted against or withheld
0 abstentions
0 broker nonvotes

2. The shareholders approved, by the vote indicated below, an increase in the number of authorized shares under the 1997 Stock Incentive Plan to 2,500,000 shares of Common Stock:

2,764,748 shares voted in favor (pre-reverse split)
0 shares voted against or withheld
0 abstentions
0 broker nonvotes

On March 23, 1998, by consent resolution, the holders of the Company's outstanding Common Stock (including voting and nonvoting Common Stock) took the actions described below:

1. The shareholders approved, by the vote indicated below, an Agreement Regarding Plan of Recapitalization:

2,764,748 shares of voting Common Stock voted in favor
(pre-reverse split)
0 shares voted against or withheld
0 abstentions
0 broker nonvotes

27,922,825 shares of nonvoting Common Stock voted in favor
(pre-reverse split)
0 shares voted against or withheld
0 abstentions
0 broker nonvotes

2. The shareholders approved, by the vote indicated below, the Second Amended and Restated Articles of Incorporation:

2,764,748 shares of voting Common Stock voted in favor
(pre-reverse split)
0 shares voted against or withheld
0 abstentions
0 broker nonvotes

27,922,825 shares of nonvoting Common Stock voted in favor
(pre-reverse split)
0 shares voted against or withheld
0 abstentions
0 broker nonvotes

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As of each of March 20 and March 23, 1998, there were 2,764,748 shares of voting Common Stock outstanding and 27,922,825 shares of nonvoting Common Stock outstanding. The foregoing share numbers do not reflect the Company's conversion of nonvoting stock to voting stock or a 0.59-for-one reverse stock split.

ITEM 6 EXHIBITS AND REPORTS ON FORM 8-K

(a) Exhibits

10.1 1997 Stock Incentive Plan, as amended
27.1 Financial Data Schedule

(b) Reports on Form 8-K

None.

SIGNATURES

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

COLUMBIA SPORTSWEAR COMPANY

Date: 5/14/98

/s/ Patrick D. Anderson

Patrick D. Anderson
Chief Financial Officer and Authorized
Officer

COLUMBIA SPORTSWEAR COMPANY

1997 STOCK INCENTIVE PLAN, AS AMENDED

1. **PURPOSE.** The purpose of this Stock Incentive Plan (the "Plan") is to enable Columbia Sportswear Company (the "Company") to attract and retain the services of (1) selected employees, officers and directors of the Company and (2) selected nonemployee agents, consultants, advisors and independent contractors of the Company.

2. **SHARES SUBJECT TO THE PLAN.** Subject to adjustment as provided below and in SECTION 13, the shares to be offered under the Plan shall consist of Common Stock of the Company, and the total number of shares of Common Stock that may be issued under the Plan shall not exceed 2,500,000 shares. The shares issued under the Plan may be authorized and unissued shares or reacquired shares. If an option, stock appreciation right or performance unit granted under the Plan expires, terminates or is cancelled, the unissued shares subject to such option, stock appreciation right or performance unit shall again be available under the Plan. If shares sold or awarded as a bonus under the Plan are forfeited to or repurchased by the Company, the number of shares forfeited or repurchased shall again be available under the Plan.

3. **EFFECTIVE DATE AND DURATION OF PLAN.**

(a) **EFFECTIVE DATE.** The Plan shall become effective as of March 12, 1997. No option, stock appreciation right or performance unit granted under the Plan shall become exercisable, however, until the Plan is approved by the affirmative vote of the holders of a majority of the shares of Common Stock represented at a shareholders meeting at which a quorum is present, and any such awards under the Plan before such approval shall be conditioned on and subject to such approval. Subject to this limitation, options, stock appreciation rights and performance units may be granted and shares may be awarded as bonuses or sold under the Plan at any time after the effective date and before termination of the Plan.

(b) **DURATION.** The Plan shall continue in effect until all shares available for issuance under the Plan have been issued and all restrictions on such shares have lapsed. The Board of Directors may suspend or terminate the Plan at any time except with respect to options, performance units and shares subject to restrictions then outstanding under the Plan. Termination shall not affect any outstanding options, any right of the Company to repurchase shares or the forfeitability of shares issued under the Plan.

4. **ADMINISTRATION.**

(a) **BOARD OF DIRECTORS.** The Plan shall be administered by the Board of Directors of the Company, which shall determine and designate from time to time the individuals to whom awards shall be made, the amount of the awards and the other terms and conditions of the awards. Subject to the provisions of the Plan, the Board of Directors may from time to time adopt and amend rules and regulations relating to administration of the Plan, advance the lapse of any waiting period, accelerate any exercise date, waive or modify any restriction applicable to shares (except those restrictions imposed by law) and make all other determinations in the judgment of the Board of Directors necessary or desirable for the administration of the Plan. The interpretation and construction of the provisions of the Plan and related agreements by the Board of Directors shall be final and conclusive. The Board of Directors may correct any defect or supply any omission or reconcile any inconsistency in the Plan or in any related agreement in the manner and to the extent it shall deem expedient to carry the Plan into effect, and it shall be the sole and final judge of such expediency.

(b) **COMMITTEE.** The Board of Directors may delegate to the Compensation Committee of the Board of Directors (the "Committee") any or all authority for administration of the Plan. If authority is delegated to the Committee, all references to the Board of Directors in the Plan shall mean and relate to the Committee, except (i) as otherwise provided by the Board of Directors, (ii) that only the Board of Directors may amend or terminate the Plan as provided in SECTIONS 3 and 13 and (iii) that if the Committee

includes officers of the Company, the Committee shall not be permitted to grant options to persons who are officers of the Company.

5. TYPES OF AWARDS; ELIGIBILITY. The Board of Directors may, from time to time, take the following action, separately or in combination, under the Plan: (i) grant Incentive Stock Options, as defined in Section 422 of the Internal Revenue Code of 1986, as amended (the "Code"), as provided in SECTIONS 6(a) and 6(b); (ii) grant options other than Incentive Stock Options ("Non-Statutory Stock Options") as provided in SECTIONS 6(a) and 6(c); (iii) award stock bonuses as provided in SECTION 7; (iv) sell shares subject to restrictions as provided in SECTION 8; (v) grant stock appreciation rights as provided in SECTION 9; (vi) grant cash bonus rights as provided in SECTION 10; and (vii) grant performance units as provided in SECTION 11. Any such awards may be made to employees, including employees who are officers or directors, and to other individuals described in SECTION 1 who the Board of Directors believes have made or will make an important contribution to the Company; PROVIDED, HOWEVER, that only employees of the Company shall be eligible to receive Incentive Stock Options under the Plan. The Board of Directors shall select the individuals to whom awards shall be made and shall specify the action taken with respect to each individual to whom an award is made. At the discretion of the Board of Directors, an individual may be given an election to surrender an award in exchange for the grant of a new award. No employee may be granted options or stock appreciation rights under the Plan for more than an aggregate of 100,000 shares

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of Common Stock in connection with the hiring of the employee or 100,000 shares of Common Stock in any calendar year otherwise.

6. OPTION GRANTS.

(a) GENERAL RULES RELATING TO OPTIONS.

(i) TERMS OF GRANT. The Board of Directors may grant options under the Plan. With respect to each option grant, the Board of Directors shall determine the number of shares subject to the option, the option price, the period of the option, the time or times at which the option may be exercised and whether the option is an Incentive Stock Option (subject to the provisions of Section 6(b)) or a Non-Statutory Stock Option. At the time of the grant of an option or at any time thereafter, the Board of Directors may provide that an optionee who exercised an option with Common Stock of the Company shall automatically receive a new option to purchase additional shares equal to the number of shares surrendered and may specify the terms and conditions of such new options.

(ii) EXERCISE OF OPTIONS. Except as provided in SECTION 6(a)(iv) or as determined by the Board of Directors, no option granted under the Plan may be exercised unless at the time of such exercise the optionee is employed by or in the service of the Company and shall have been so employed or provided such service continuously since the date the option was granted. Absence on leave or on account of illness or disability under rules established by the Board of Directors shall not, however, be deemed an interruption of employment or service for this purpose. Unless otherwise determined by the Board of Directors, vesting of options shall not continue during an absence on leave (including an extended illness) or on account of disability. Except as provided in SECTIONS 6(a)(iv) and 12, options granted under the Plan may be exercised from time to time over the period stated in each option in such amounts and at such times as shall be prescribed by the Board of Directors, provided that options shall not be exercised for fractional shares. Unless otherwise determined by the Board of Directors, if an optionee does not exercise an option in any one year with respect to the full number of shares to which the optionee is entitled in that year, the optionee's rights shall be cumulative and the optionee may purchase those shares in any subsequent year during the term of the option.

(iii) NONTRANSFERABILITY. Each Incentive Stock Option and, unless otherwise determined by the Board of Directors, each other option granted under the Plan by its terms shall be nonassignable and nontransferable by the optionee, either voluntarily or by operation of law, except by will or by the laws of descent and distribution of the state or

country of the optionee's domicile at the time of death.

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(iv) TERMINATION OF EMPLOYMENT OR SERVICE.

(A) GENERAL RULE. Unless otherwise determined by the Board of Directors, in the event an optionee's employment or service with the Company terminates for any reason other than because of physical disability or death as provided in SECTIONS 6(a)(iv)(B) and (C), his or her option may be exercised at any time before the expiration date of the option or the expiration of 30 days after the date of termination, whichever is the shorter period, but only if and to the extent the optionee was entitled to exercise the option at the date of termination.

(B) TERMINATION BECAUSE OF TOTAL DISABILITY. Unless otherwise determined by the Board of Directors, in the event an optionee's employment or service with the Company terminates because of total disability, his or her option may be exercised at any time before the expiration date of the option or the expiration of 12 months after the date of termination, whichever is the shorter period, but only if and to the extent the optionee was entitled to exercise the option at the date of termination. The term "total disability" means a medically determinable mental or physical impairment that is expected to result in death or has lasted or is expected to last for a continuous period of 12 months or more and that causes the optionee to be unable, in the opinion of the Company and two independent physicians, to perform his or her duties as an employee, director, officer or consultant of the Company and to be engaged in any substantial gainful activity. Total disability shall be deemed to have occurred on the first day after the Company and the two independent physicians have furnished their opinion of total disability to the Company.

(C) TERMINATION BECAUSE OF DEATH. Unless otherwise determined by the Board of Directors, in the event of an optionee's death while employed by or providing service to the Company, his or her option may be exercised at any time before the expiration date of the option or the expiration of 12 months after the date of death, whichever is the shorter period, but only if and to the extent the optionee was entitled to exercise the option at the date of death and only by the person or persons to whom the optionee's rights under the option shall pass by the optionee's will or by the laws of descent and distribution of the state or country of domicile at the time of death.

(D) AMENDMENT OF EXERCISE PERIOD APPLICABLE TO TERMINATION. The Board of Directors, at the time of grant or, with respect to an option that is not an Incentive Stock Option, at any time thereafter, may extend the 30-day and 12-month exercise periods any length of time not longer than the original expiration date of the option, and may increase

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the portion of an option that is exercisable, subject to such terms and conditions as the Board of Directors may determine.

(E) FAILURE TO EXERCISE OPTION. To the extent that the option of any deceased optionee or any optionee whose employment or service terminates is not exercised within the applicable period, all further rights to purchase shares pursuant to the option shall cease and terminate.

(v) PURCHASE OF SHARES. Unless the Board of Directors determines otherwise, shares may be acquired pursuant to an option granted under the Plan only upon the Company's receipt of written notice from the optionee of the optionee's intention to exercise, specifying the number of shares as to which the optionee desires to exercise the option and the date on which the optionee desires to complete the transaction, and if required in order to comply with the Securities Act of 1933, as amended, containing

a representation that it is the optionee's present intention to acquire the shares for investment and not with a view to distribution. Unless the Board of Directors determines otherwise, on or before the date specified for completion of the purchase of shares pursuant to an option, the optionee must have paid the Company the full purchase price of those shares in cash (including, with the consent of the Board of Directors, cash that may be the proceeds of a loan from the Company (provided that, with respect to an Incentive Stock Option, such loan is approved at the time of option grant)) or, with the consent of the Board of Directors, in whole or in part, in Common Stock of the Company valued at fair market value, restricted stock, performance units or other contingent awards denominated in either stock or cash, promissory notes and other forms of consideration. The fair market value of Common Stock provided in payment of the purchase price shall be the closing price of the Common Stock as reported in THE WALL STREET JOURNAL on the last trading day before the date the option is exercised if the Common Stock is publicly traded, or such other reported value of the Common Stock as shall be specified by the Board of Directors. No shares shall be issued until full payment for the shares has been made. With the consent of the Board of Directors (which, in the case of an Incentive Stock Option, shall be given only at the time of grant), an optionee may request the Company to apply automatically the shares to be received upon the exercise of a portion of a stock option (even though stock certificates have not yet been issued) to satisfy the purchase price for additional portions of the option. Each optionee who has exercised an option shall, immediately upon notification of the amount due, if any, pay to the Company in cash amounts necessary to satisfy any applicable federal, state and local tax withholding requirements. If additional withholding is or becomes required beyond any amount deposited before delivery of the certificates, the optionee shall pay such amount to the Company on demand. If the optionee fails to pay the amount demanded, the Company may withhold that amount from other amounts payable by the Company to the optionee, including salary, subject to applicable law. With the consent of the Board of Directors an optionee may satisfy this obligation, in whole or in part, by having the Company

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withhold from the shares to be issued upon exercise that number of shares that would satisfy the withholding amount due or by delivering to the Company Common Stock to satisfy the withholding amount. Upon the exercise of an option, the number of shares reserved for issuance under the Plan shall be reduced by the number of shares issued upon exercise of the option.

(b) INCENTIVE STOCK OPTIONS. Incentive Stock Options shall be subject to the following additional terms and conditions:

(i) LIMITATION ON AMOUNT OF GRANTS. If the aggregate fair market value of stock (determined as of the date the option with respect to such stock is granted) with respect to which Incentive Stock Options granted under this Plan (and any other stock incentive plan of the Company or its parent or subsidiary corporations) are exercisable for the first time by an employee during any calendar year exceeds \$100,000, the portion of the option or options not exceeding \$100,000 will be treated as an Incentive Stock Option and the portion of the option exceeding \$100,000 will be treated as a Non-Statutory Stock Option. The preceding sentence will be applied by taking options into account in the order in which they were granted. The Company may designate stock that is treated as acquired pursuant to exercise of an option that is in part an Incentive Stock Option and in part a Non-Statutory Stock Option as Incentive Stock Option stock by issuing a separate certificate for that stock and identifying the certificate as Incentive Stock Option stock in its stock records. In the absence of such a designation, each share of stock issued pursuant to exercise of the option will be treated in part as Incentive Stock Option stock and in part as Non-Statutory Stock Option stock.

(ii) LIMITATIONS ON GRANTS TO 10 PERCENT SHAREHOLDERS. An Incentive Stock Option may be granted under the Plan to an employee possessing more than 10 percent of the total combined voting power of all classes of stock of the Company only if the option price is at least 110 percent of the fair market value, as described in SECTION 6(b)(iv), of the Common Stock subject to the option on the date it is granted and the

option by its terms is not exercisable after the expiration of five years from the date it is granted.

(iii) DURATION OF OPTIONS. Subject to SECTIONS 6(a)(ii) and 6(b)(ii), Incentive Stock Options granted under the Plan shall continue in effect for the period fixed by the Board of Directors, except that no Incentive Stock Option shall be exercisable after the expiration of 10 years from the date it is granted.

(iv) OPTION PRICE. The option price per share shall be determined by the Board of Directors at the time of grant. Except as provided in SECTION 6(b)(ii), the option price shall not be less than 100 percent of the fair market value of the Common Stock covered by the Incentive Stock Option at the date the option is granted. The fair market value shall be deemed to be the closing price of the

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Common Stock as reported in THE WALL STREET JOURNAL on the day before the date the option is granted if the stock is publicly traded, or, if there has been no sale on that date, on the last preceding date on which a sale occurred, or such other value of the Common Stock as shall be specified by the Board of Directors.

(v) LIMITATION ON TIME OF GRANT. No Incentive Stock Option shall be granted on or after the 10th anniversary of the effective date of the Plan.

(vi) CONVERSION OF INCENTIVE STOCK OPTIONS. The Board of Directors may at any time, without the optionee's consent, convert an Incentive Stock Option to a Non-Statutory Stock Option.

(c) NON-STATUTORY STOCK OPTIONS. Non-Statutory Stock Options shall be subject to the following terms and conditions, in addition to those set forth in SECTION 6(a) above:

(i) OPTION PRICE. The option price for Non-Statutory Stock Options shall be determined by the Board of Directors at the time of grant and may be any amount determined by the Board of Directors.

(ii) DURATION OF OPTIONS. Non-Statutory Stock Options granted under the Plan shall continue in effect for the period fixed by the Board of Directors.

7. STOCK BONUSES. The Board of Directors may award shares under the Plan as stock bonuses. Shares awarded as a bonus shall be subject to the terms, conditions and restrictions determined by the Board of Directors. The restrictions may include restrictions concerning transferability and forfeiture of the shares awarded, together with such other restrictions as may be determined by the Board of Directors. The Board of Directors may require the recipient to sign an agreement as a condition of the award, but may not require the recipient to pay any monetary consideration other than amounts necessary to satisfy tax withholding requirements. The agreement may contain any terms, conditions, restrictions, representations and warranties required by the Board of Directors. The certificates representing the shares awarded shall bear any legends required by the Board of Directors. The Company may require any recipient of a stock bonus to pay to the Company in cash upon demand amounts necessary to satisfy any applicable federal, state or local tax withholding requirements. If the recipient fails to pay the amount demanded, the Company may withhold that amount from other amounts payable by the Company to the recipient, including salary, subject to applicable law. With the consent of the Board of Directors, a recipient may deliver Common Stock to the Company to satisfy this withholding obligation. Upon the issuance of a stock bonus, the number of shares reserved for issuance under the Plan shall be reduced by the number of shares issued.

8. RESTRICTED STOCK. The Board of Directors may issue shares under the Plan for such consideration (including promissory notes and services) as determined by the

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Board of Directors. Shares issued under the Plan shall be subject to the terms, conditions and restrictions determined by the Board of Directors. The restrictions may include restrictions concerning transferability, repurchase by the Company and forfeiture of the shares issued, together with such other restrictions as may be determined by the Board of Directors. All Common Stock issued pursuant to this SECTION 8 shall be subject to a purchase agreement, which shall be executed by the Company and the prospective recipient of the shares before the delivery of certificates representing such shares to the recipient. The purchase agreement may contain any terms, conditions, restrictions, representations and warranties required by the Board of Directors. The certificates representing the shares shall bear any legends required by the Board of Directors. The Company may require any purchaser of restricted stock to pay to the Company in cash upon demand amounts necessary to satisfy any applicable federal, state or local tax withholding requirements. If the purchaser fails to pay the amount demanded, the Company may withhold that amount from other amounts payable by the Company to the purchaser, including salary, subject to applicable law. With the consent of the Board of Directors, a purchaser may deliver Common Stock to the Company to satisfy this withholding obligation. Upon the issuance of restricted stock, the number of shares reserved for issuance under the Plan shall be reduced by the number of shares issued.

9. STOCK APPRECIATION RIGHTS.

(a) GRANT. Stock appreciation rights may be granted under the Plan by the Board of Directors, subject to such rules, terms and conditions as the Board of Directors may determine.

(b) EXERCISE.

(i) Each stock appreciation right shall entitle the holder, upon exercise, to receive from the Company in exchange therefor an amount equal in value to the excess of the fair market value on the date of exercise of one share of Common Stock of the Company over its fair market value on the date of grant (or, in the case of a stock appreciation right granted in connection with an option, the excess of the fair market value of one share of Common Stock of the Company over the option price per share under the option to which the stock appreciation right relates), multiplied by the number of shares covered by the stock appreciation right or the option, or portion thereof, that is surrendered. Payment by the Company upon exercise of a stock appreciation right may be made in Common Stock valued at fair market value, in cash or partly in Common Stock and partly in cash, all as determined by the Board of Directors.

(ii) A stock appreciation right shall be exercisable only at the time or times established by the Board of Directors. If a stock appreciation right is granted in connection with an option, the following rules shall apply: (1) the stock appreciation right shall be exercisable only to the extent and on the same conditions that the related option may be exercised; (2) the stock appreciation right shall be

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exercisable only when the fair market value of the stock exceeds the option price of the related option; (3) the stock appreciation right shall be for no more than 100 percent of the excess of the fair market value of the stock at the time of exercise over the option price; (4) upon exercise of the stock appreciation right, the option or portion thereof to which the stock appreciation right relates terminates; and (5) upon exercise of the option, the related stock appreciation right or portion thereof terminates.

(iii) The Board of Directors may withdraw any stock appreciation right granted under the Plan at any time and may impose any conditions upon the exercise of a stock appreciation right or adopt rules and regulations from time to time affecting the rights of holders of stock appreciation rights. Such rules and regulations may govern the right to exercise stock appreciation rights granted before adoption or amendment of such rules and regulations, as well as stock appreciation rights granted thereafter.

(iv) For purposes of this SECTION 9, the fair market value of the Common Stock shall be determined as of the date the stock appreciation

right is exercised, under the methods set forth in SECTION 6(b)(iv).

(v) No fractional shares shall be issued upon exercise of a stock appreciation right. In lieu thereof, cash may be paid in an amount equal to the value of the fraction or, if the Board of Directors shall determine, the number of shares may be rounded downward to the next whole share.

(vi) Each stock appreciation right granted in connection with an Incentive Stock Option, and unless otherwise determined by the Board of Directors, each other stock appreciation right granted under the Plan by its terms shall be nonassignable and nontransferable by the holder, either voluntarily or by operation of law, except by will or by the laws of descent and distribution of the state or country of the holder's domicile at the time of death, and each stock appreciation right by its terms shall be exercisable during the holder's lifetime only by the holder.

(vii) Each participant who has exercised a stock appreciation right shall, upon notification of the amount due, pay to the Company in cash amounts necessary to satisfy any applicable federal, state and local tax withholding requirements. If the participant fails to pay the amount demanded, the Company may withhold that amount from other amounts payable by the Company to the participant, including salary, subject to applicable law. With the consent of the Board of Directors, a participant may satisfy this obligation, in whole or in part, by having the Company withhold from any shares to be issued upon exercise that number of shares that would satisfy the withholding amount due or by delivering Common Stock to the Company to satisfy the withholding amount.

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(viii) Upon the exercise of a stock appreciation right for shares, the number of shares reserved for issuance under the Plan shall be reduced by the number of shares issued. Cash payments of stock appreciation rights shall not reduce the number of shares of Common Stock reserved for issuance under the Plan.

10. CASH BONUS RIGHTS.

(a) GRANT. The Board of Directors may grant cash bonus rights under the Plan in connection with (i) options granted or previously granted, (ii) stock appreciation rights granted or previously granted, (iii) stock bonuses awarded or previously awarded and (iv) shares sold or previously sold under the Plan. Cash bonus rights will be subject to such rules, terms and conditions as the Board of Directors may determine. Unless otherwise determined by the Board of Directors, each cash bonus right granted under the Plan by its terms shall be nonassignable and nontransferable by the holder, either voluntarily or by operation of law, except by will or by the laws of descent and distribution of the state or country of the holder's domicile at the time of death. The payment of a cash bonus shall not reduce the number of shares of Common Stock reserved for issuance under the Plan.

(b) CASH BONUS RIGHTS IN CONNECTION WITH OPTIONS. A cash bonus right granted in connection with an option will entitle an optionee to a cash bonus when the related option is exercised (or terminates in connection with the exercise of a stock appreciation right related to the option) in whole or in part if, in the sole discretion of the Board of Directors, the bonus right will result in a tax deduction that the Company has sufficient taxable income to use. If an optionee purchases shares upon exercise of an option and does not exercise a related stock appreciation right, the amount of the bonus, if any, shall be determined by multiplying the excess of the total fair market value of the shares to be acquired upon exercise over the total option price for the shares by the applicable bonus percentage. If the optionee exercises a related stock appreciation right in connection with the termination of an option, the amount of the bonus, if any, shall be determined by multiplying the total fair market value of the shares and cash received pursuant to the exercise of the stock appreciation right by the applicable bonus percentage. The bonus percentage applicable to a bonus right, including a previously granted bonus right, may be changed from time to time at the sole discretion of the Board of Directors but shall in no event exceed 75 percent.

(c) CASH BONUS RIGHTS IN CONNECTION WITH STOCK BONUS. A cash bonus

right granted in connection with a stock bonus will entitle the recipient to a cash bonus payable when the stock bonus is awarded or restrictions, if any, to which the stock is subject lapse. If bonus stock awarded is subject to restrictions and is repurchased by the Company or forfeited by the holder, the cash bonus right granted in connection with the stock bonus shall terminate and may not be exercised. The amount and timing of payment of a cash bonus shall be determined by the Board of Directors.

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(d) CASH BONUS RIGHTS IN CONNECTION WITH STOCK PURCHASES. A cash bonus right granted in connection with the purchase of stock pursuant to SECTION 8 will entitle the recipient to a cash bonus when the shares are purchased or restrictions, if any, to which the stock is subject lapse. Any cash bonus right granted in connection with shares purchased pursuant to SECTION 8 shall terminate and may not be exercised in the event the shares are repurchased by the Company or forfeited by the holder pursuant to applicable restrictions. The amount of any cash bonus to be awarded and timing of payment of a cash bonus shall be determined by the Board of Directors.

(e) TAXES. The Company shall withhold from any cash bonus paid pursuant to this SECTION 10 the amount necessary to satisfy any applicable federal, state and local withholding requirements.

11. PERFORMANCE UNITS. The Board of Directors may grant performance units consisting of monetary units which may be earned in whole or in part if the Company achieves certain goals established by the Board of Directors over a designated period of time, but not in any event more than 10 years. The goals established by the Board of Directors may include earnings per share, return on shareholders' equity, return on invested capital and such other goals as the Board of Directors may establish. In the event that the minimum performance goal established by the Board of Directors is not achieved at the conclusion of a period, no payment shall be made to the participants. In the event the maximum corporate goal is achieved, 100 percent of the monetary value of the performance units shall be paid to or vested in the participants. Partial achievement of the maximum goal may result in a payment or vesting corresponding to the degree of achievement as determined by the Board of Directors. Payment of an award earned may be in cash or in Common Stock or a combination of both, and may be made when earned, or vested and deferred, as the Board of Directors determines. Deferred awards shall earn interest on the terms and at a rate determined by the Board of Directors. Unless otherwise determined by the Board of Directors, each performance unit granted under the Plan by its terms shall be nonassignable and nontransferable by the holder, either voluntarily or by operation of law, except by will or by the laws of descent and distribution of the state or country of the holder's domicile at the time of death. Each participant who has been awarded a performance unit shall, upon notification of the amount due, pay to the Company in cash amounts necessary to satisfy any applicable federal, state and local tax withholding requirements. If the participant fails to pay the amount demanded, the Company may withhold that amount from other amounts payable by the Company to the participant, including salary, subject to applicable law. With the consent of the Board of Directors a participant may satisfy this obligation, in whole or in part, by having the Company withhold from any shares to be issued that number of shares that would satisfy the withholding amount due or by delivering Common Stock to the Company to satisfy the withholding amount. The payment of a performance unit in cash shall not reduce the number of shares of Common Stock reserved for issuance under the Plan. The number of shares reserved for issuance under the Plan shall be reduced by the number of shares issued upon payment of an award.

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12. CHANGES IN CAPITAL STRUCTURE.

(a) STOCK SPLITS; STOCK DIVIDENDS. If the outstanding Common Stock of the Company is hereafter increased or decreased or changed into or exchanged for a different number or kind of shares or other securities of the Company by reason of any stock split, combination of shares, dividend payable in shares, recapitalization or reclassification, appropriate adjustment shall

be made by the Board of Directors in the number and kind of shares available for grants under the Plan. In addition, the Board of Directors shall make appropriate adjustment in the number and kind of shares as to which outstanding options, or portions thereof then unexercised, shall be exercisable, so that the optionee's proportionate interest before and after the occurrence of the event is maintained. Notwithstanding the foregoing, the Board of Directors shall have no obligation to effect any adjustment that would or might result in the issuance of fractional shares, and any fractional shares resulting from any adjustment may be disregarded or provided for in any manner determined by the Board of Directors. Any such adjustments made by the Board of Directors shall be conclusive.

(b) **MERGERS, REORGANIZATIONS, ETC.** In the event of a merger, consolidation, plan of exchange, acquisition of property or stock, separation, reorganization or liquidation to which the Company is a party or a sale of all or substantially all of the Company's assets (each, a "Transaction"), the Board of Directors shall, in its sole discretion and to the extent possible under the structure of the Transaction, select one of the following alternatives for treating outstanding options under the Plan:

(i) Outstanding options shall remain in effect in accordance with their terms.

(ii) Outstanding options shall be converted into options to purchase stock in the corporation that is the surviving or acquiring corporation in the Transaction. The amount, type of securities subject thereto and exercise price of the converted options shall be determined by the Board of Directors of the Company, taking into account the relative values of the companies involved in the Transaction and the exchange rate, if any, used in determining shares of the surviving corporation to be issued to holders of shares of the Company. Unless otherwise determined by the Board of Directors, the converted options shall be vested only to the extent that the vesting requirements relating to options granted hereunder have been satisfied.

(iii) The Board of Directors shall provide a 30-day period before the consummation of the Transaction during which outstanding options may be exercised to the extent then exercisable, and upon the expiration of that 30-day period, all unexercised options shall immediately terminate. The Board of Directors may, in its sole discretion, accelerate the exercisability of options so that they are exercisable in full during that 30-day period.

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(c) **DISSOLUTION OF THE COMPANY.** In the event of the dissolution of the Company, options shall be treated in accordance with SECTION 12(b)(iii).

(d) **RIGHTS ISSUED BY ANOTHER CORPORATION.** The Board of Directors may also grant options, stock appreciation rights, performance units, stock bonuses and cash bonuses and issue restricted stock under the Plan having terms, conditions and provisions that vary from those specified in this Plan, provided that any such awards are granted in substitution for, or in connection with the assumption of, existing options, stock appreciation rights, stock bonuses, cash bonuses, restricted stock and performance units granted, awarded or issued by another corporation and assumed or otherwise agreed to be provided for by the Company pursuant to or by reason of a Transaction.

13. **AMENDMENT OF PLAN.** The Board of Directors may at any time, and from time to time, modify or amend the Plan in such respects as it shall deem advisable because of changes in the law while the Plan is in effect or for any other reason. Except as provided in SECTIONS 6(a)(iv), 9, 10 and 12, however, no change in an award already granted shall be made without the written consent of the holder of such award.

14. **APPROVALS.** The Company's obligations under the Plan are subject to the approval of state and federal authorities or agencies with jurisdiction in the matter. The Company will use its best efforts to take steps required by state or federal law or applicable regulations, including rules and regulations of the Securities and Exchange Commission and any stock exchange on which the Company's shares may then be listed, in connection with the grants under the Plan. The foregoing notwithstanding, the Company shall not be obligated to

issue or deliver Common Stock under the Plan if such issuance or delivery would violate applicable state or federal securities laws.

15. EMPLOYMENT AND SERVICE RIGHTS. Nothing in the Plan or any award pursuant to the Plan shall (i) confer upon any employee any right to be continued in the employment of the Company or interfere in any way with the Company's right to terminate such employee's employment at any time, for any reason, with or without cause, or to decrease such employee's compensation or benefits, or (ii) confer upon any person engaged by the Company any right to be retained or employed by the Company or to the continuation, extension, renewal or modification of any compensation, contract or arrangement with or by the Company.

16. RIGHTS AS A SHAREHOLDER. The recipient of any award under the Plan shall have no rights as a shareholder with respect to any Common Stock until the date of issue to the recipient of a stock certificate for those shares. Except as otherwise expressly provided in the Plan, no adjustment shall be made for dividends or other rights for which the record date occurs before the date such stock certificate is issued.

Adopted: March 12, 1997

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