
**UNITED STATES
SECURITIES AND EXCHANGE COMMISSION**
Washington, DC 20549

FORM 10-Q

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

For the quarterly period ended September 30, 2003

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
(State or other jurisdiction of
incorporation or organization)

0-23939
(Commission File
Number)

93-0498284
(IRS Employer
Identification Number)

14375 Northwest Science Park Drive Portland, Oregon
(Address of principal executive offices)

97229
(Zip Code)

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

(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

Indicate by check mark whether the registrant is an accelerated filer (as defined in Exchange Act Rule 12b-2). Yes No

The number of shares of Common Stock outstanding on October 31, 2003 was 40,048,347.

[Table of Contents](#)

COLUMBIA SPORTSWEAR COMPANY

September 30, 2003

INDEX TO FORM 10-Q

	<u>PAGE NO.</u>
PART I. FINANCIAL INFORMATION	
Item 1 - Financial Statements - Columbia Sportswear Company (Unaudited)	
Condensed Consolidated Balance Sheets	3
Condensed Consolidated Statements of Operations	4
Condensed Consolidated Statements of Cash Flows	5
Notes to Condensed Consolidated Financial Statements	6
Item 2 - Management's Discussion and Analysis of Financial Condition and Results of Operations	14
Item 3 - Quantitative and Qualitative Disclosures About Market Risk	25
Item 4 - Controls and Procedures	25
PART II. OTHER INFORMATION	
Item 1 - Legal Proceedings	26
Item 6 - Exhibits and Reports on Form 8-K	26
Signatures	27

[Table of Contents](#)

Item 1 – FINANCIAL STATEMENTS

COLUMBIA SPORTSWEAR COMPANY
CONDENSED CONSOLIDATED BALANCE SHEETS
(In thousands)
(Unaudited)

	September 30, 2003	December 31, 2002
ASSETS		
Current Assets:		
Cash and cash equivalents	\$ 85,882	\$ 194,670
Accounts receivable, net of allowance of \$10,374 and \$9,341, respectively	321,169	154,099
Inventories (Note 3)	166,072	94,862
Deferred tax asset	16,439	10,840
Prepaid expenses and other current assets	7,092	6,006
Total Current Assets	596,654	460,477
Property, plant, and equipment, net	119,024	124,515
Intangible assets (Note 4)	35,286	6,971
Other assets	1,308	854
Total Assets	\$ 752,272	\$ 592,817
LIABILITIES AND SHAREHOLDERS' EQUITY		
Current Liabilities:		
Notes payable	\$ —	\$ 9,835
Accounts payable	51,452	49,370
Accrued liabilities	79,898	35,146
Current portion of long-term debt	4,558	4,498
Total Current Liabilities	135,908	98,849
Long-term debt	16,259	20,636
Deferred tax liability	7,530	613
Total Liabilities	159,697	120,098
Commitments and contingencies		
Shareholders' Equity:		
Preferred stock; 10,000 shares authorized; none issued and outstanding	—	—
Common stock; 125,000 shares authorized; 40,028 and 39,737 issued and outstanding	174,210	159,996
Retained earnings	403,177	315,243
Accumulated other comprehensive income (loss)	15,188	(1,156)
Unearned portion of restricted stock issued for future services	—	(1,364)
Total Shareholders' Equity	592,575	472,719
Total Liabilities and Shareholders' Equity	\$ 752,272	\$ 592,817

See accompanying notes to condensed consolidated financial statements.

[Table of Contents](#)

COLUMBIA SPORTSWEAR COMPANY
CONDENSED CONSOLIDATED STATEMENTS OF OPERATIONS
(In thousands, except per share amounts)
(Unaudited)

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2003	2002	2003	2002
Net sales	\$373,409	\$331,504	\$694,357	\$598,998
Cost of sales	194,592	170,717	374,077	322,966
Gross profit	178,817	160,787	320,280	276,032
Selling, general, and administrative expense	78,070	69,646	180,926	158,660
Income from operations	100,747	91,141	139,354	117,372
Interest income	(758)	(1,115)	(2,110)	(3,522)
Interest expense	906	1,244	1,886	3,484
Income before income tax	100,599	91,012	139,578	117,410
Income tax expense	37,027	34,130	51,644	44,029
Net income (Note 5)	\$ 63,572	\$ 56,882	\$ 87,934	\$ 73,381
Earnings per share (Note 6):				
Basic	\$ 1.59	\$ 1.44	\$ 2.20	\$ 1.86
Diluted	1.56	1.42	2.17	1.83
Weighted average shares outstanding :				
Basic	39,984	39,475	39,894	39,393
Diluted	40,781	40,151	40,540	40,059

See accompanying notes to condensed consolidated financial statements.

[Table of Contents](#)

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

	Nine Months Ended September 30,	
	2003	2002
Cash Provided by (Used in) Operating Activities:		
Net income	\$ 87,934	\$ 73,381
Adjustments to reconcile net income to net cash provided by (used in) operating activities:		
Depreciation and amortization	17,316	13,527
Amortization of unearned compensation	—	512
(Gain) loss on disposal of property, plant, and equipment	(88)	93
Deferred income taxes	(4,541)	3,028
Tax benefit from employee stock plans	5,275	1,596
Changes in operating assets and liabilities:		
Accounts receivable	(151,330)	(110,496)
Inventories	(58,271)	(17,116)
Prepaid expenses and other current assets	(699)	(1,248)
Other assets	(232)	29
Accounts payable	(395)	12,271
Accrued liabilities	10,243	2,248
Income taxes payable	33,763	30,695
Net cash provided by (used in) operating activities	(61,025)	8,520
Cash Provided by (Used in) Investing Activities:		
Mountain Hardwear net assets acquired, net of cash	(29,865)	—
Capital expenditures	(7,166)	(34,672)
Proceeds from sale of property, plant, and equipment	88	24
Net cash used in investing activities	(36,943)	(34,648)
Cash Provided by (Used in) Financing Activities:		
Net repayment of notes payable	(9,946)	(13,360)
Repayment of Mountain Hardwear debt	(6,413)	—
Repayment of long-term debt	(4,505)	(5,064)
Proceeds from employee stock plans	10,274	3,259
Repurchase of unvested common stock	(498)	—
Net cash used in financing activities	(11,088)	(15,165)
Net Effect of Exchange Rate Changes on Cash	268	645
Net Decrease in Cash and Cash Equivalents	(108,788)	(40,648)
Cash and Cash Equivalents, Beginning of Period	194,670	79,082
Cash and Cash Equivalents, End of Period	\$ 85,882	\$ 38,434
Supplemental Disclosures of Cash Flow Information:		
Cash paid during the period for interest, net of capitalized interest	\$ 1,782	\$ 2,772
Cash paid during the period for income taxes	16,475	4,927
Supplemental Disclosures of Non-Cash Financing Activities:		
Assumption of Mountain Hardwear debt	\$ 6,413	\$ —

See accompanying notes to condensed consolidated financial statements.

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

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Basis of presentation:

The accompanying unaudited condensed consolidated financial statements have been prepared by the management of Columbia Sportswear Company (the "Company") and in the opinion of management contain all adjustments, consisting only of normal recurring adjustments, necessary to present fairly the Company's financial position as of September 30, 2003 and the results of operations for the three and nine months ended September 30, 2003 and 2002 and cash flows for the nine months ended September 30, 2003 and 2002. The results of operations for the three and nine months ended September 30, 2003 are not necessarily indicative of the results to be expected for the full year.

Certain information and footnote disclosures normally included in financial statements prepared in accordance with accounting principles generally accepted in the United States of America ("generally accepted accounting principles") have been condensed or omitted pursuant to the rules and regulations of the Securities and Exchange Commission. The Company, however, believes that the disclosures contained herein 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 financial statements and notes thereto included in the Company's Annual Report on Form 10-K for the year ended December 31, 2002.

Use of estimates:

The preparation of condensed consolidated financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosures of contingent assets and liabilities at the date of the condensed consolidated financial statements and the reported amounts of revenues and expenses during the reported period. Actual results could differ from these estimates and assumptions.

Stock-based compensation:

The Company has elected to follow the accounting provisions of Accounting Principles Board Opinion No. 25 ("APB 25"), "Accounting for Stock Issued to Employees," for stock-based compensation and to furnish the pro forma disclosures required under Statement of Financial Accounting Standards ("SFAS") No. 148, "Accounting for Stock-Based Compensation – Transition and Disclosure." No stock-based employee compensation cost is reflected in net income, as all options granted under the Company's stock plans had an exercise price equal to the market value of the underlying common stock on the date of the grant.

Table of Contents

The following table illustrates the effect on net income and earnings per share as if the Company had applied the fair value recognition provisions of SFAS No. 123, "Accounting for Stock-Based Compensation," to stock-based compensation (in thousands, except per share amounts):

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2003	2002	2003	2002
Net income, as reported	\$63,572	\$56,882	\$87,934	\$73,381
Adjustment to net earnings for:				
Pro forma stock-based compensation expense, net of tax	2,236	1,853	6,026	4,103
Pro forma net income	\$61,336	\$55,029	\$81,908	\$69,278
Earnings per share - basic				
As reported	\$ 1.59	\$ 1.44	\$ 2.20	\$ 1.86
Pro forma	1.53	1.39	2.05	1.76
Earnings per share - diluted				
As reported	\$ 1.56	\$ 1.42	\$ 2.17	\$ 1.83
Pro forma	1.50	1.37	2.02	1.73

The effects of applying SFAS No. 123 in this pro forma disclosure are not necessarily indicative of future amounts.

Product warranty:

Some of our products carry limited warranty provisions for defects in quality and workmanship. A reserve is established at the time of sale to cover estimated warranty costs based on the Company's history of warranty repairs and replacements. A summary of accrued warranties for the three and nine months ended September 30, 2003 and 2002 is as follows (in thousands):

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2003	2002	2003	2002
Balance at beginning of period	\$ 8,376	\$ 6,873	\$ 7,800	\$ 7,475
Charged to costs and expenses	783	1,063	2,940	2,050
Claims settled	(353)	(315)	(1,934)	(1,904)
Balance at end of period	\$ 8,806	\$ 7,621	\$ 8,806	\$ 7,621

Recent Accounting Pronouncements:

In May 2003, the Financial Accounting Standards Board ("FASB") issued SFAS No. 150, "Accounting for Certain Financial Instruments with Characteristics of Both Liabilities and Equity," which establishes standards for how an issuer classifies and measures certain financial instruments with characteristics of both liabilities and equity. It requires that an issuer classify a financial instrument that is within its scope as a liability (or an asset in some circumstances). Many of those instruments were previously classified as equity. This statement is effective for financial instruments entered into or modified after May 31, 2003, and otherwise is effective at the beginning of the first interim period beginning after June 15, 2003, except for mandatorily redeemable financial instruments of nonpublic entities. The adoption of this statement has not had a material effect on the Company's financial position or results of operations.

In April 2003, the FASB issued SFAS No. 149, "Amendments of Statement No. 133 on Derivative Instruments and Hedging Activities," which amends and clarifies financial accounting and reporting for derivative instruments, including certain derivative instruments embedded in other contracts (collectively referred to as derivatives) and for hedging activities under SFAS No. 133, "Accounting for Derivative Instruments and Hedging Activities." SFAS No. 149 is effective for contracts and hedging transactions executed or modified after June 30, 2003. The adoption of this statement has not had a material effect on the Company's financial position or results of operations.

In December 2002, the FASB issued SFAS No. 148, "Accounting for Stock-Based Compensation – Transition and Disclosure," an amendment of SFAS No. 123, "Accounting for Stock-Based Compensation." This statement provides alternative methods of transition for voluntary change to the fair value based method of accounting for stock-based employee compensation. In addition, this statement amends the disclosure requirements of SFAS

Table of Contents

No. 123 to require prominent disclosures in both annual and interim financial statements about the method of accounting for stock-based employee compensation and the effect of the method used on reported results. The Company has chosen to continue to account for stock-based compensation using the intrinsic value method prescribed in APB 25 and related interpretations. The provisions of SFAS No. 148 are effective for fiscal years ended after December 15, 2002. Accordingly, the Company has adopted the disclosure provisions of SFAS No. 148 in the financial reports for the year ended December 31, 2002. As the adoption of this statement involves disclosures only, there was not a material impact on the Company's financial position or results of operations.

In November 2002, the FASB issued FASB Interpretation No. 45, "Guarantor's Accounting and Disclosure Requirements for Guarantees, Including Indirect Guarantees of Indebtedness of Others" ("FIN 45"). This interpretation elaborates on the disclosures to be made by a guarantor in its interim and annual financial statements about its obligations under specified guarantees that it has issued. It also clarifies that a guarantor is required to recognize, at the inception of a guarantee, a liability for the fair value of the obligation undertaken in issuing the guarantee. The disclosure requirements in this interpretation are effective for financial statements of interim or annual periods ending after December 15, 2002. The Company has adopted the disclosure provisions of FIN 45. Additionally, the recognition of a guarantor's obligation should be applied on a prospective basis to guarantees issued after December 31, 2002. The adoption of this statement has not had a material effect on the Company's financial position or results of operations.

In January 2003, the FASB issued FASB Interpretation No. 46 "Consolidation of Variable Interest Entities" ("FIN 46"). This interpretation explains how to identify variable interest entities and how an enterprise assesses its interest in a variable interest entity to decide whether to consolidate that entity. This interpretation requires existing unconsolidated variable interest entities to be consolidated by their primary beneficiaries if the entities do not effectively disperse risks among parties involved. Variable interest entities that effectively disperse risks will not be consolidated unless a single party holds an interest or combination of interest that effectively recombines risks that were previously dispersed. This interpretation applies immediately to variable interest entities created after January 31, 2003, and to variable interest entities in which an enterprise obtains an interest after that date. It applies in the first fiscal year or interim period beginning after June 15, 2003, to variable interest entities in which an enterprise holds a variable interest that it acquired before February 1, 2003. The Company does not believe that the adoption of this statement will have a material effect on the Company's financial position or results of operations.

NOTE 2 - ACQUISITION

On March 31, 2003, the Company acquired Mountain Hardwear, Inc. ("Mountain Hardwear") for aggregate consideration of approximately \$36 million, including approximately \$30 million in cash and \$6 million of debt assumption. Mountain Hardwear, which is based in Richmond, California, designs, develops and markets technically advanced equipment and apparel for outdoor enthusiasts and professionals. The acquisition was accounted for under the purchase method of accounting and the results of operations of Mountain Hardwear have been recorded in the Company's consolidated financial statements beginning on April 1, 2003. The cost of the acquisition was allocated on the basis of the estimated fair value of the assets acquired and the liabilities assumed. The fair values of assets and liabilities acquired are presented below (in thousands):

Cash	\$ 370
Accounts receivable	6,236
Inventory	8,600
Prepays and other assets	19
Property, plant and equipment	440
Intangible assets	28,357
	<hr/>
Total assets acquired	44,022
	<hr/>
Accounts payable and accrued liabilities	1,181
Deferred tax liabilities	6,193
Debt	6,413
	<hr/>
Total liabilities assumed	13,787
	<hr/>
Net assets acquired	<u>\$30,235</u>

[Table of Contents](#)

Intangible assets acquired consist of \$15.0 million for the trademark and trade names of Mountain Hardwear, \$12.2 million for goodwill and \$1.2 million related to patents. The \$16.2 million of purchase price allocated to the trademark and trade names and patents was determined, in part, by a third party appraiser through established valuation techniques. The trademark and trade names and goodwill are not subject to amortization as these are deemed to have indefinite useful lives. Patents are subject to amortization over 17 years from the date filed with the U.S. Patent and Trademark Office. The remaining useful lives of these patents range from 13 to 15 years and the weighted average useful life is 14.3 years. These intangible assets will be reviewed for impairment in accordance with SFAS No. 142, "Goodwill and Other Intangible Assets."

[Table of Contents](#)

NOTE 3 - INVENTORIES

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

Inventories consist of the following (in thousands):

	September 30, 2003	December 31, 2002
Raw materials	\$ 3,936	\$ 1,540
Work in process	4,999	2,714
Finished goods	157,137	90,608
	<u>\$ 166,072</u>	<u>\$ 94,862</u>

NOTE 4 - INTANGIBLE ASSETS

The Company adopted SFAS No. 142, "Goodwill and Other Intangible Assets," effective January 1, 2002. In accordance with SFAS No. 142, certain intangible assets with indefinite useful lives are no longer being amortized and are periodically evaluated for impairment. Certain intangible assets that are determined to have definite lives are continuing to be amortized over their useful lives.

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

	September 30, 2003		December 31, 2002	
	Carrying Amount	Accumulated Amortization	Carrying Amount	Accumulated Amortization
Intangible assets subject to amortization:				
Patents	\$ 1,200	\$ (42)	\$ —	\$ —
Intangible assets not subject to amortization:				
Trademarks and trade names	\$21,971		\$ 6,971	
Goodwill	12,157		—	
	<u>\$34,128</u>		<u>\$ 6,971</u>	

The increase in intangible assets from December 31, 2002 to September 30, 2003 is solely due to the Mountain Hardwear acquisition. Amortization expense for intangible assets subject to amortization in each of the next five fiscal years is estimated to be \$63,000 in 2003 and \$84,000 in each of 2004, 2005, 2006 and 2007.

NOTE 5 - COMPREHENSIVE INCOME

Comprehensive income and its components are as follows (in thousands):

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2003	2002	2003	2002
Net income	\$63,572	\$56,882	\$ 87,934	\$73,381
Foreign currency translation gain (loss)	2,335	(1,732)	14,957	3,719
Unrealized gain (loss) on derivative transactions, net of tax	2,509	826	1,387	(969)
Comprehensive income	<u>\$68,416</u>	<u>\$55,976</u>	<u>\$104,278</u>	<u>\$76,131</u>

[Table of Contents](#)

Accumulated other comprehensive income (loss) consisted of the following (in thousands):

	Foreign currency translation	Unrealized holding gains (losses) on derivative transactions	Accumulated other comprehensive income (loss)
Balances at December 31, 2002	\$ 988	\$ (2,144)	\$ (1,156)
Activity for the nine months ended September 30, 2003	14,957	1,387	16,344
Balances at September 30, 2003	\$ 15,945	\$ (757)	\$ 15,188

NOTE 6 - EARNINGS PER SHARE

SFAS 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 EPS for the three and nine months ended September 30, 2003 and 2002. A reconciliation of the common shares used in the denominator for computing basic and diluted EPS is as follows (in thousands, except per share amounts):

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2003	2002	2003	2002
Weighted average common shares outstanding, used in computing basic earnings per share	39,984	39,475	39,894	39,393
Effect of dilutive stock options	797	676	646	666
Weighted average common shares outstanding, used in computing diluted earnings per share	40,781	40,151	40,540	40,059
Earnings per share of common stock:				
Basic	\$ 1.59	\$ 1.44	\$ 2.20	\$ 1.86
Diluted	1.56	1.42	2.17	1.83

Options to purchase an additional -0- and 819,000 shares of common stock were outstanding at September 30, 2003 and 2002, respectively, but these shares were excluded in the computation of diluted EPS because their effect would be antidilutive.

In June 2003, the Company repurchased 234,831 unvested shares of its common stock awarded to a former key employee under a Deferred Compensation Conversion Agreement (the "Agreement"). The repurchase cost was approximately \$498,000 and was accounted for as a reduction to shareholders' equity. As provided in the Agreement and because the executive's employment terminated January 3, 2003, the unvested shares would vest automatically unless the executive was compensated by the Company within 180 days from termination date.

NOTE 7 - SEGMENT INFORMATION

The Company operates in one industry segment: the design, sourcing, marketing and selling of active outdoor apparel, including outerwear, sportswear, rugged footwear, equipment, and accessories. The geographic distribution of the Company's net sales, income before income tax, and identifiable assets are summarized in the following tables (in thousands). In addition to the geographic distribution, the Company's net sales by major product line are also summarized below. Inter-geographic net sales, which are recorded at a negotiated mark-up and eliminated in consolidation, are not material.

[Table of Contents](#)

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2003	2002	2003	2002
Net sales to unrelated entities:				
United States	\$249,835	\$234,171	\$439,890	\$411,762
Canada	49,361	41,490	78,421	61,744
Europe	45,654	32,932	98,249	72,857
Other International	28,559	22,911	77,797	52,635
	<u>\$373,409</u>	<u>\$331,504</u>	<u>\$694,357</u>	<u>\$598,998</u>
Income before income tax:				
United States	\$ 82,846	\$ 72,987	\$104,910	\$ 92,708
Canada	12,019	10,197	15,781	11,759
Europe	3,403	4,382	5,340	5,069
Other International	4,500	3,280	12,695	6,919
Less interest income (expense), net and eliminations	(2,169)	166	852	955
	<u>\$100,599</u>	<u>\$ 91,012</u>	<u>\$139,578</u>	<u>\$117,410</u>

	September 30, 2003	December 31, 2002
Total assets:		
United States	\$ 725,648	\$ 563,447
Canada	81,357	55,046
Europe	147,194	120,722
Other International	39,219	35,830
	<u>993,418</u>	<u>775,045</u>
Eliminations	(241,146)	(182,228)
Total assets	<u>\$ 752,272</u>	<u>\$ 592,817</u>

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2003	2002	2003	2002
Net sales to unrelated entities:				
Outerwear	\$220,930	\$214,028	\$303,677	\$291,722
Sportswear	86,032	62,860	252,602	204,437
Footwear	46,184	37,946	104,170	75,831
Accessories	18,915	16,670	30,103	27,008
Equipment (1)	1,348	—	3,805	—
	<u>\$373,409</u>	<u>\$331,504</u>	<u>\$694,357</u>	<u>\$598,998</u>

(1) The equipment product category was introduced with the acquisition of Mountain Hardwear and consists primarily of tents and sleeping bags.

NOTE 8 - FINANCIAL INSTRUMENTS AND RISK MANAGEMENT

As part of the Company's risk management programs, the Company uses a variety of financial instruments, including foreign currency option and forward exchange contracts. The Company does not hold or issue derivative financial instruments for trading purposes.

The Company hedges against the currency risk associated with firmly committed and anticipated transactions for the next twelve months denominated in European euros, Canadian dollars or Japanese yen

The Company accounts for these instruments as cash flow hedges. In accordance with SFAS No. 133, "Accounting for Derivative Instruments and Hedging Activity," as amended, such financial instruments are marked

[Table of Contents](#)

to market with the offset to accumulated other comprehensive income (loss) and subsequently recognized as a component of cost of goods sold when the underlying transaction is recognized. Hedge effectiveness is determined by evaluating whether gains and losses on hedges will offset gains and losses on the underlying exposures. Hedge ineffectiveness was not material during the three and nine months ended September 30, 2003 and 2002.

[Table of Contents](#)

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

Forward Looking Statements

This Quarterly Report, including Items 1, 2 and 3 of Part I, contains forward-looking statements. Forward-looking statements include any statements related to our expectations regarding future performance or conditions, including any statements regarding:

- potential growth in domestic and international markets;
- growth in merchandise categories;
- increased sales to department stores and specialty shops;
- implementation and performance of new management information systems and distribution facilities;
- access to raw materials and factory capacity; and
- financing and working capital requirements and resources.

These forward-looking statements, and others we make from time to time, are subject to many risks and uncertainties. Many factors could cause actual results to differ materially from those projected in the forward-looking statements, including the risks described below under the heading “Factors That May Affect Our Business and the Price of Our Common Stock.” Risk factors that may affect our business and liquidity, future financing and working capital requirements and availability include:

- business disruptions and costs arising from disease outbreaks, acts of terrorism, or military activities around the globe;
- unfavorable economic conditions generally and weakness in consumer confidence;
- the financial health of our customers;
- our ability to cost-effectively integrate Mountain Hardwear into our existing operations;
- our ability to effectively deliver products to customers in a timely manner due to potential service interruptions;
- effects of unseasonable weather (for example, warm weather in the winter and cold weather in the spring, each of which affects demand for our products);
- our reliance on product acceptance by consumers;
- our dependence on independent manufacturers and suppliers;
- the effectiveness of our sales and marketing efforts;
- intense competition in the industry (which we expect to increase);
- our ability to achieve and manage growth effectively;
- international risks, including trade disruptions, political instability in foreign markets, exchange rate fluctuations, and changes in quotas and tariffs or other duties;
- our ability to effectively construct and integrate new distribution facilities into our existing operations;
- the availability of labor, raw materials and other resources on favorable terms; and
- our ability to establish and protect our intellectual property.

We do not undertake any duty to update forward-looking statements after the date they are made or to conform them to actual results or to changes in circumstances or expectations.

[Table of Contents](#)

Results of Operations

The following table sets forth, for the periods indicated, selected statements of operations data expressed as a percentage of net sales.

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2003	2002	2003	2002
Net sales	100.0%	100.0%	100.0%	100.0%
Cost of sales	52.1	51.5	53.9	53.9
Gross profit	47.9	48.5	46.1	46.1
Selling, general and administrative expense	20.9	21.0	26.1	26.5
Income from operations	27.0	27.5	20.0	19.6
Interest (income) expense, net	0.1	—	(0.1)	—
Income before income tax	26.9	27.5	20.1	19.6
Income tax expense	9.9	10.3	7.4	7.3
Net income	17.0%	17.2%	12.7%	12.3%

Three Months Ended September 30, 2003 Compared to Three Months Ended September 30, 2002

Net Sales: Net sales increased 12.6% to \$373.4 million from \$331.5 million for the comparable period in 2002. Net sales in the United States increased 6.7% to \$249.8 million from \$234.2 million for the comparable period in 2002. Sales of our recently acquired Mountain Hardwear products contributed \$13.0 million in net sales for the three months ended September 30, 2003, nearly all of which were sales in the United States. European direct sales increased 38.9% to \$45.7 million from \$32.9 million for the comparable period in 2002. Canadian sales increased 19.0% to \$49.4 million from \$41.5 million for the same period in 2002. Other international sales, excluding Canadian and European direct sales, increased 24.5% to \$28.5 million from \$22.9 million for the same period in 2002. International distributor sales, including Russia, accounted for the majority of the growth in the other international sales category.

By product category, the growth in net sales was primarily attributable to increased sales of sportswear and footwear units throughout all geographic segments.

Excluding changes in currency exchange rates, European direct sales increased 21.8%, other international sales, which exclude Canadian and European direct sales increased 24.3%, and Canadian sales increased 5.7% for the three months ended September 30, 2003 compared to the same period in 2002. Consolidated net sales increased 9.3% to \$362.3 million excluding the changes in currency exchange rates, when compared to the same period in 2002.

Gross Profit: Gross profit as a percentage of net sales was 47.9% compared to 48.5% for the comparable period in 2002. The decrease in gross profit was due to a higher mix of sportswear and footwear sales, which have lower gross margins than outerwear, and to a lesser degree, the negative impact of marking the Mountain Hardwear inventory to market value in purchase accounting in connection with our recent acquisition of Mountain Hardwear. We expect the majority of the remaining Mountain Hardwear inventory mark-to-market adjustment to be incurred in the fourth quarter of 2003.

Selling, General and Administrative Expense: Selling, general, and administrative (“SG&A”) expense increased 12.1% to \$78.1 million from \$69.6 million for the comparable period in 2002, primarily as a result of an increase in personnel costs to support the higher level of sales and increased depreciation related to our European distribution center in Cambrai, France, which was placed in service in January 2003. As a percentage of sales, SG&A expense decreased to 20.9% from 21.0% for the comparable period in 2002. The decrease as a percentage of sales is primarily due to the operating expense leverage gained through sales growth and prudent cost control.

Interest (Income) Expense, Net: Interest income was \$758,000 compared to \$1.1 million for the comparable period in 2002. The decrease in interest income was due to the lower interest rate environment for the three

Table of Contents

months ended September 30, 2003 and the relative mix of taxable and tax-exempt investment securities compared to the same period in 2002. Interest expense was \$906,000 compared to \$1.2 million for the comparable period in 2002. The decrease in interest expense was primarily attributable to the repayment of short-term notes payable and long-term debt.

Income Tax Expense: The provision for income taxes increased to \$37.0 million for the third quarter of 2003 from \$34.1 million for the comparable period in 2002. The estimated effective tax rate was 36.8% for the third quarter of 2003 compared to 37.5% for the same period in 2002. We reduced our estimated full year effective tax rate in the third quarter of 2003 from 37.5% to 37.0% which resulted in the third quarter of 2003 effective tax rate being 36.8%. The decrease in the Company's 2003 estimated effective tax rate is primarily related to the utilization of foreign tax credits.

Nine Months Ended September 30, 2003 Compared to Nine Months Ended September 30, 2002

Net Sales: Net sales increased 15.9% to \$694.4 million from \$599.0 million for the comparable period in 2002. Net sales in the United States increased 6.8% to \$439.9 million from \$411.8 million for the comparable period in 2002. Sales of our recently acquired Mountain Hardwear products contributed \$19.3 million in net sales, nearly all of which were sales in the United States. European direct sales increased 34.8% to \$98.3 million from \$72.9 million for the comparable period in 2002. Other international sales, excluding Canadian and European direct sales, increased 47.9% to \$77.8 million from \$52.6 million for the same period in 2002. International distributor sales, including Russia, accounted for the majority of the growth in the other international sales category. Canadian sales increased 27.1% to \$78.4 million from \$61.7 million for the same period in 2002.

By product category, the growth in net sales was primarily attributable to increased sales of sportswear and footwear units throughout all geographic segments.

Excluding changes in currency exchange rates, other international sales, which exclude Canadian sales and European direct sales, increased 43.9%, European direct sales increased 13.1%, and Canadian sales increased 15.1% for the nine months ended September 30, 2003 compared to the same period in 2002. Consolidated net sales increased 11.7% to \$669.1 million excluding the changes in currency exchange rates, when compared to the same period in 2002.

Gross Profit: Gross profit as a percentage of net sales remained constant at 46.1% for the nine months ended September 30, 2003 and 2002. Gross profit was favorably impacted as a result of favorable sourcing costs for our spring products, as well as a lower volume of fall close-out sales at higher margins in the first quarter of 2003 compared to the same period in 2002. This increase was offset by a higher mix of sportswear and footwear sales which have lower gross margins than outerwear and a higher mix of international distributor sales, which have lower margins than our direct sales, as well as the negative impact of marking the Mountain Hardwear inventory to market value in purchase accounting.

Selling, General and Administrative Expense: SG&A expense increased 14.0% to \$180.9 million from \$158.7 million for the comparable period in 2002, primarily as a result of an increase in personnel costs to support the higher level of sales and increased depreciation related to our European distribution center in Cambrai, France,. As a percentage of sales, SG&A expense decreased to 26.1% from 26.5% for the comparable period in 2002. The decrease as a percentage of sales is primarily the result of the increase in international distributor sales, which have nominal associated overhead costs, continued operating efficiencies from global infrastructure investments and prudent cost control.

Interest (Income) Expense, Net: Interest income was \$2.1 million compared to \$3.5 million for the comparable period in 2002. The decrease in interest income was due to the lower interest rate environment for the nine months ended September 30, 2003 and the relative mix of taxable and tax-exempt investment securities compared to the same period in 2002. Interest expense was \$1.9 million compared to \$3.5 million for the comparable period in 2002. The decrease in interest expense was attributable to the repayment of short-term notes payable and long-term debt.

Income Tax Expense: The provision for income taxes increased to \$51.6 million for the nine months ended September 30, 2003 from \$44.0 million for the comparable period in 2002. The estimated effective tax rate was 37.0% for the nine months ended September 30, 2003 and 37.5% for the comparable period in 2002. The decrease in the our 2003 estimated effective tax rate is primarily related to the utilization of foreign tax credits.

[Table of Contents](#)

Seasonality of Business

Our business is affected by the general seasonal trends common to the outdoor apparel industry, with sales and profits highest in the third calendar quarter. Our products are marketed on a seasonal basis, with a product mix weighted substantially toward the fall season. Results of operations in any period should not be considered indicative of the results to be expected for any future period. The sale of our products is subject to substantial cyclical fluctuation or impact from unseasonal weather conditions. Sales tend to decline in periods of recession or uncertainty regarding future economic prospects that affect consumer spending, particularly on discretionary items. This cyclical nature and any related fluctuation in consumer demand could have a material adverse effect on our results of operations, cash flows and financial position.

Liquidity and Capital Resources

Our primary ongoing funding requirements are to finance working capital and the continued growth of the business. At September 30, 2003, we had total cash equivalents of \$85.9 million compared to \$194.7 million at December 31, 2002. Cash used in operating activities was \$61.0 million for the nine months ended September 30, 2003 as compared to cash provided by operating activities of \$8.5 million for the comparable period in 2002. This change was primarily due to an increase in inventory required to support higher sales levels and the associated higher accounts receivable balances, partially offset by an increase in earnings.

Our primary capital requirements are for working capital, investing activities associated with the expansion of our international and domestic operations and general corporate needs. Net cash used in investing activities was \$36.9 million for the nine months ended September 30, 2003 and \$34.6 million for the comparable period in 2002. The increase was primarily due to the acquisition of Mountain Hardwear of \$29.9 million, net of cash acquired, partially offset by a reduction in capital expenditures.

Cash used in financing activities was \$11.1 million for the nine months ended September 30, 2003 compared to cash used in financing activities of \$15.2 million for the comparable period in 2002. In 2003, net cash used in financing activities was primarily for the repayment of notes payable of \$9.9 million and the repayment of Mountain Hardwear debt of \$6.4 million, partially offset by proceeds from the sale of stock under employee stock plans of \$10.3 million. In 2002, net cash used in financing activities was primarily due to the net repayment of notes payable of \$13.4 million offset by proceeds from the sale of stock under employee stock plans of \$3.3 million.

To fund our domestic working capital requirements, we have available unsecured revolving lines of credit with aggregate seasonal limits ranging from approximately \$30 million to \$75 million, of which \$5 million to \$50 million is committed. As of September 30, 2003, no domestic balance was outstanding under these lines of credit. Internationally, our subsidiaries have local currency operating lines in place that we guarantee with a combined limit of approximately \$61 million at September 30, 2003. There were no balances outstanding under these lines of credit at September 30, 2003.

Additionally, we maintain unsecured import lines of credit with a combined limit of approximately \$250 million at September 30, 2003, available for issuing documentary letters of credit. At September 30, 2003, outstanding letters of credit totaled \$88.7 million.

As we continue our investment in global infrastructure to support our growth, we anticipate that capital expenditures for 2003 will total approximately \$15 million, consisting of maintenance capital requirements and information technology and distribution projects. We broke ground for the construction of a distribution center in Henderson County, Kentucky primarily for the purpose of distributing footwear products. This distribution center is expected to be approximately 450,000 square feet, cost an estimated \$40 million to construct, and begin shipping products in 2005. Although it will be constructed with a specific focus on footwear, it will be designed and engineered to support other product lines as well. The facility will improve proximity to major footwear customers and should help facilitate reorders. We expect to fund our capital expenditures with existing cash and cash provided by operations. If the need arises for additional expenditures, we may need to seek additional funding. Our ability to obtain additional credit facilities will depend on many factors, including prevailing market conditions, our financial condition, and our ability to negotiate favorable terms and conditions. We do not assure you that financing will be available on terms that are acceptable or favorable to us, if at all.

[Table of Contents](#)

Critical Accounting Policies and Estimates

Management's discussion and analysis of our financial condition and results of operations are based on our consolidated financial statements, which have been prepared in accordance with accounting principles generally accepted in the United States. The preparation of these financial statements requires us to make various estimates and judgments that affect reported amounts of assets, liabilities, sales, cost of sales and expenses and related disclosure of contingent assets and liabilities. We believe that the estimates, assumptions and judgments involved in the accounting policies described below have the greatest potential impact on our financial statements, so we consider these to be our critical accounting policies and estimates. Because of the uncertainty inherent in these matters, actual results could differ from the estimates we use in applying the critical accounting policies. We base our ongoing estimates on historical experience and other various assumptions that we believe to be reasonable under the circumstances. Some of these critical accounting policies affect working capital account balances, including the policy for revenue recognition, the allowance for doubtful accounts receivable, inventory obsolescence, product warranty and income taxes.

Revenue Recognition

We record wholesale and licensed product revenues when title passes and the risks and rewards of ownership have passed to the customer, based on the terms of sale. Title generally passes upon shipment or upon receipt by the customer, depending on the country of the sale and the agreement with the customer. Retail store revenues are recorded at the time of sale.

In some countries outside of the United States, precise information regarding the date of receipt by the customer is not readily available. In these cases, we estimate the date of receipt by the customer based upon historical and expected delivery times by geographic location.

Upon shipment, we also provide for estimated sales returns and miscellaneous claims from customers as reductions to revenues. We base our estimates on historical rates of product returns and claims. However, actual returns and claims in any future period are inherently uncertain and thus may differ from our estimates. If actual or expected future returns and claims were significantly greater or lower than the reserves we had established, we would record a reduction or increase to net revenues in the period in which we made such determination.

Allowance for Uncollectible Accounts Receivable

We make ongoing estimates for the uncollectibility of our accounts receivable and maintain an allowance for estimated losses resulting from the inability of our customers to make required payments. In determining the amount of the allowance, we consider our historical level of credit losses and we make judgments about the credit worthiness of customers based on ongoing credit evaluations. We analyze specific customer accounts, customer concentrations, current economic trends, and changes in customer payment terms. Because we cannot predict future changes in the financial stability of our customers, actual future losses from uncollectible accounts may differ from our estimates. If the financial condition of our customers were to deteriorate, resulting in their inability to make payments, a larger allowance may be required. If we determine a smaller or larger allowance was appropriate, we would record a credit or a charge to selling, general and administrative expense in the period in which we made the determination.

Inventory Obsolescence and Product Warranty

We make ongoing estimates of potential future excess, close-out or slow moving inventory and product warranty costs. We identify our excess inventory, a component of which is planned, and evaluate our purchase commitments, sales forecasts, and historical experience and make provisions as necessary to properly reflect inventory value. When evaluating our reserve for warranty costs, we consider our historical returns rates by season, product mix, current economic trends, and the historical cost to repair, replace, or refund the original sale. In the event we determine smaller or larger reserves were appropriate, we would record a credit or a charge to cost of sales in the period we made the determination.

[Table of Contents](#)

Income Taxes

We record valuation allowances against our deferred tax assets, when necessary, in accordance with SFAS No. 109, "Accounting for Income Taxes." We make ongoing estimates in determining the valuation allowance for the net deferred tax asset in order to reduce our deferred tax assets to the amount that is more likely than not to be realized. Although we consider future taxable income and ongoing prudent and feasible tax planning strategies in assessing the need for the valuation allowance, if we have different judgments or use different estimates in the future, these differences may affect the valuation allowance and, accordingly, income in the period we made the determination.

On a quarterly basis, we estimate what our effective tax rate will be for the full fiscal year and record a quarterly income tax provision in accordance with the anticipated effective rate. As the calendar year progresses, we periodically refine our estimate based upon actual events and earnings by jurisdiction during the year. This ongoing estimation process can result in changes to our expected effective tax rate for the full calendar year. When this occurs, we adjust the income tax provision during the quarter in which the change in estimate occurs so that the year-to-date provision equals the expected annual effective tax rate.

Recent Accounting Pronouncements

In May 2003, the FASB issued SFAS No. 150, "Accounting for Certain Financial Instruments with Characteristics of Both Liabilities and Equity," which establishes standards for how an issuer classifies and measures certain financial instruments with characteristics of both liabilities and equity. It requires that an issuer classify a financial instrument that is within its scope as a liability (or an asset in some circumstances). Many of those instruments were previously classified as equity. This statement is effective for financial instruments entered into or modified after May 31, 2003, and otherwise is effective at the beginning of the first interim period beginning after June 15, 2003, except for mandatorily redeemable financial instruments of nonpublic entities. The adoption of this statement has not had a material effect on our financial position or results of operations.

In April 2003, the FASB issued SFAS No. 149, "Amendments of Statement No. 133 on Derivative Instruments and Hedging Activities," which amends and clarifies financial accounting and reporting for derivative instruments, including certain derivative instruments embedded in other contracts (collectively referred to as derivatives) and for hedging activities under SFAS No. 133, "Accounting for Derivative Instruments and Hedging Activities." SFAS No. 149 is effective for contracts and hedging transactions executed or modified after June 30, 2003. The adoption of this statement has not had a material effect on our financial position or results of operations.

In December 2002, the FASB issued SFAS No. 148, "Accounting for Stock-Based Compensation – Transition and Disclosure," an amendment of SFAS No. 123, "Accounting for Stock-Based Compensation." This statement provides alternative methods of transition for voluntary change to the fair value based method of accounting for stock-based employee compensation. In addition, this statement amends the disclosure requirements of SFAS No. 123 to require prominent disclosures in both annual and interim financial statements about the method of accounting for stock-based employee compensation and the effect of the method used on reported results. The Company has chosen to continue to account for stock-based compensation using the intrinsic value method prescribed in APB 25 and related interpretations. The provisions of SFAS No. 148 are effective for fiscal years ended after December 15, 2002. Accordingly, the Company has adopted the disclosure provisions of SFAS No. 148 in the financial reports for the year ended December 31, 2002. As the adoption of this statement involves disclosures only, there was no material impact on our financial position or results of operations.

In November 2002, the FASB issued FASB Interpretation No. 45, "Guarantor's Accounting and Disclosure Requirements for Guarantees, Including Indirect Guarantees of Indebtedness of Others" ("FIN 45"). This interpretation elaborates on the disclosures to be made by a guarantor in its interim and annual financial statements about its obligations under specified guarantees that it has issued. It also clarifies that a guarantor is required to recognize, at the inception of a guarantee, a liability for the fair value of the obligation undertaken in issuing the guarantee. The disclosure requirements in this interpretation are effective for financial statements of interim or annual periods ending after December 15, 2002. We have adopted the disclosure provisions of FIN 45. Additionally, the recognition of a guarantor's obligation should be applied on a prospective basis to guarantees issued after December 31, 2002. The adoption of this statement has not had a material effect on our financial position or results of operations.

[Table of Contents](#)

In January 2003, the FASB issued FASB Interpretation No. 46 “Consolidation of Variable Interest Entities” (“FIN 46”). This interpretation explains how to identify variable interest entities and how an enterprise assesses its interest in a variable interest entity to decide whether to consolidate that entity. This interpretation requires existing unconsolidated variable interest entities to be consolidated by their primary beneficiaries if the entities do not effectively disperse risks among parties involved. Variable interest entities that effectively disperse risks will not be consolidated unless a single party holds an interest or combination of interest that effectively recombines risks that were previously dispersed. This interpretation applies immediately to variable interest entities created after January 31, 2003, and to variable interest entities in which an enterprise obtains an interest after that date. It applies in the first fiscal year or interim period beginning after December 15, 2003, to variable interest entities in which an enterprise holds a variable interest that it acquired before February 1, 2003. We do not believe that the adoption of this statement will have a material effect on our financial position or results of operations.

Factors That May Affect Our Business and the Price of Our Common Stock

Our Business is Affected by Weather Conditions

Our business is adversely affected by unseasonal weather conditions. Sales of our outerwear are dependent in part on the weather and may decline in years in which weather conditions do not favor the use of our outerwear or cold weather footwear. For example, we believe unseasonably warm weather in the United States in 1998 and 1999 caused customers to delay, and in some cases reduce or cancel, orders for our outerwear, which had an adverse effect on our net sales and profitability. Similarly, unseasonably warm weather in 2001 made it more difficult for retailers to sell outerwear and we believe resulted in retailer caution when placing orders for fall 2002. Periods of unseasonably warm weather in the fall or winter or unseasonably cold or wet weather in the spring could have a material adverse effect on our results of operations and financial condition.

Our Sales and Earnings May be Adversely Affected by an Economic Downturn or Economic Uncertainty

Sales of our products, particularly outerwear, are subject to substantial cyclical fluctuation. Consumer demand for our apparel and footwear, or our licensed products, may not reach our growth targets, or may decline, when there is an economic downturn or economic uncertainty in our key markets, particularly markets in North America and Europe. Continuing weakness in the Japanese economy, for example, has limited growth opportunities in recent years, and a slower economy in the United States in 2002 and 2003 has created additional uncertainties as to our customers and our business. In addition, recent volatility in the global oil markets has resulted in rising fuel prices, which many shipping companies are passing on to their customers. Our shipping costs have increased over the past several months, and we expect these costs may continue to increase. We may not be able to pass these increased costs on to our customers. Our sensitivity to economic cyclicality and any related fluctuation in consumer demand and rising shipping costs could have a material adverse effect on our results of operations and financial condition.

Our International Operations Involve Many Risks

We are subject to many risks generally associated with doing business abroad, including foreign governmental regulations, foreign consumer preferences, political unrest, disruptions or delays in shipments and changes in economic conditions in countries in which we manufacture or sell products. Disease outbreaks, terrorist acts and U.S. military operations abroad appear to have increased the risks of doing business abroad. These factors, among others, could affect our ability to sell products in international markets, our ability to manufacture products or procure materials, and our cost of doing business. If any of these or other factors make the conduct of business in a particular country undesirable or impractical, our business could be materially and adversely affected. In addition, many of our imports are subject to duties, tariffs or quotas that affect the cost and quantity of various types of goods imported into the United States or into our other sales markets. The countries in which our products are produced or sold may adjust or impose new quotas, duties, tariffs or other restrictions, any of which could have a material adverse effect on us. We produce a significant portion of our products in China, and therefore adverse conditions in China or adverse changes in China’s trading status with the U.S. or with other sales markets could have a material adverse effect on our results of operations and financial condition.

[Table of Contents](#)

We Are Affected by the Financial Health of Retailers

We extend credit to our customers based on an assessment of a customer's financial circumstances, generally without requiring collateral. To assist in the scheduling of production and the shipping of seasonal products, we offer customers discounts for placing pre-season orders and extended payment terms for taking delivery before the peak shipping season. These extended payment terms increase our exposure to the risk of uncollectible receivables. In addition, we face increased risk of order reduction or cancellation when dealing with financially ailing retailers or retailers struggling with economic uncertainty. Some of our significant customers have experienced financial difficulties in the past, which in turn have had an adverse effect on our business, and we believe retailers are being more cautious than usual with orders as a result of weakness in the retail economy. A slowing economy in our key markets could have an adverse effect on the financial health of our customers, which could in turn have a material adverse effect on our results of operations and financial condition.

We Operate in Very Competitive Markets

The markets for outerwear, sportswear, rugged footwear, tents and sleeping bags are highly competitive, as are the markets for our licensees' products. In each of our geographic markets, we face significant competition from global and regional branded apparel and footwear companies. In many instances, retailers who are our customers pose our most significant competitive threat by marketing apparel and footwear under their own labels. We also compete with other apparel and footwear companies for the production capacity of independent manufacturers that produce our apparel and for import quota capacity. Many of our competitors are significantly larger and have substantially greater financial, distribution, marketing and other resources and have achieved greater recognition for their products than we have. Increased competition could result in reductions in display areas in retail locations, reductions in sales or reductions in prices of our products, any of which could have a material adverse effect on our results of operations and financial condition.

We Face Risks Associated with Consumer Preferences and Fashion Trends

We believe we have benefited from changing consumer preferences, including increased consumer interest in outdoor activities and lifestyle changes that emphasize apparel designed for these activities. Changes in consumer preferences or consumer interest in outdoor activities could have a material adverse effect on our business. In addition, although we believe our products have not been significantly affected by past fashion trends, changes in fashion trends could have a greater impact as we expand our offerings to include more product categories in more geographic areas. Also, we face risks because our business requires us to anticipate consumer preferences. Our decisions about product designs often are made far in advance of consumer acceptance. Although we try to manage our inventory risk through early order commitments by retailers, we must generally place production orders with manufacturers before we have received all of a season's orders. If we fail to anticipate accurately and respond to consumer preferences, we could experience lower sales, excess inventories and lower profit margins, any of which could have a material adverse effect on our results of operations and financial condition.

Our Success Depends on Our Use of Proprietary Rights

Our registered and common law trademarks have significant value and are important to our ability to create and sustain demand for our products. We also place significant value on our trade dress, the overall appearance and image of our products. From time to time, we discover products that are counterfeit reproductions of our products or design "knock offs." If we are unsuccessful in challenging a party's products on the basis of trademark or design infringement, continued sales of these products could adversely affect our sales and our brand and result in the shift of consumer preference away from our products. The actions we take to establish and protect trademarks and other proprietary rights may not be adequate to prevent imitation of our products by others or to prevent others from seeking to block sales of our products as violations of proprietary rights. Additionally, in markets outside of the United States, it may be more difficult for us to establish our proprietary rights and to challenge successfully use of those rights by other parties. Although we have not been materially inhibited from selling products in connection with trademark and trade dress disputes, as we extend our brand into new product categories and new product lines, and expand the geographic scope of our marketing, we could become subject to litigation based on allegations of the infringement of intellectual property rights of third parties. Future litigation

[Table of Contents](#)

also may be necessary to defend us against such claims or to enforce and protect our intellectual property rights. Any intellectual property litigation could be costly and could cause diversion of management's attention from the operation of our business. Adverse determinations in any litigation could result in the loss of our proprietary rights, subject us to significant liabilities or require us to seek licenses from third parties, which may not be available on commercially reasonable terms, if at all. Any intellectual property litigation could have a material adverse effect on our results of operations and financial condition.

Our Success Depends on Our Distribution Facilities and Systems

Our ability to meet customer expectations, manage inventory, complete sales and achieve objectives for operating efficiencies depends on the proper operation of our existing distribution facilities, the development or expansion of additional distribution capabilities and the timely performance of services by third parties (including those involved in shipping product to and from our distribution facilities). In the United States, we rely primarily on our distribution center in Portland, Oregon; in Canada, we rely primarily on our distribution center in Strathroy, Ontario; and in Europe we distribute our products through our distribution center in Cambrai, France. The implementation and performance of any new distribution facility is subject to many risks generally associated with transition and startup activities, including the risk that the new distribution facility may not successfully handle distribution activities. Our distribution facilities in the United States and France are highly automated, which means their operations are complicated and may be subject to a number of risks related to computer viruses, the proper operation of software and hardware, electronic or power interruptions, or other system failures. Our operations could also be interrupted by disasters, such as earthquakes (which are known to occur in the Northwestern United States) or fires. We maintain business interruption insurance, but it may not adequately protect us from the adverse effect that could be caused by significant disruptions in our distribution facilities.

We have begun construction of a new distribution center in the Henderson County, Kentucky, which we will own and operate. We anticipate that the new facility will be operational in 2005. Our ability to complete a new facility is subject to a number of risks and uncertainties, including our ability to construct and integrate a new facility with existing operations in a timely manner, the availability of labor, raw materials and other inputs on anticipated terms and our ability to obtain any necessary governmental approvals.

We May Not Be Able to Implement Our Growth Strategy or Manage Growth Successfully

We face many challenges in implementing our growth strategies. For example, our expansion into international markets involves countries where we have little sales or distribution experience and where our brand is not yet widely known. Expanding our product categories involves, among other things, gaining experience with new products, gaining consumer acceptance, and establishing and protecting intellectual property rights. Increasing sales to department stores, and improving the sales productivity of our customers, will each depend on various factors, including strength of our brand name, competitive conditions, our ability to manage increased sales and future expansion, the availability of desirable locations and the negotiation of terms with retailers. Future terms with customers may be less favorable to us than those under which we now operate. Large retailers in particular increasingly seek to transfer various costs of business to their vendors, such as the cost of lost profits from product price markdowns. To implement our business strategy, we need to manage growth effectively. We need to continue to change various aspects of our business, to maintain and enhance our information systems and operations to respond to increased demand and to attract, retain and manage qualified personnel. Growth could place an increasing strain on management, financial, product design, marketing, distribution and other resources, and we could experience operating difficulties. For example, in recent years, we have undertaken a number of new initiatives that require significant management attention and corporate resources, including the development or expansion of distribution facilities on two continents, the acquisition, rejuvenation and extension of the Sorel brand and the acquisition and integration of Mountain Hardware, Inc. This growth involves many risks and uncertainties and, if we are unable to manage it effectively, we may not achieve our objectives which could have a material adverse effect on our results of operations and financial condition.

Currency Exchange Rate Fluctuations May Affect our Business

We generally purchase products in U.S. dollars. However, the cost of these products sourced overseas may be affected by changes in the value of the relevant currencies. Price increases caused by currency exchange rate fluctuations could make our products less competitive or have an adverse effect on our margins. Our international revenues and expenses generally are derived from sales and operations in foreign currencies, and these revenues and expenses could be materially affected by currency fluctuations, including amounts recorded in foreign

[Table of Contents](#)

currencies and translated into U.S. dollars for consolidated financial reporting. Currency exchange rate fluctuations could also disrupt the business of the independent manufacturers that produce our products by making their purchases of raw materials more expensive and more difficult to finance. We conduct a program to hedge against our exposure to currency exchange rate fluctuations. Our hedging program may not succeed, however, and foreign currency fluctuations could have a material adverse effect on our results of operations and financial condition.

Labor Disruptions at Ports May Adversely Affect Our Business

Our business depends on our ability to source and distribute products in a timely manner. As a result, we rely on the free flow of goods through open and operational ports worldwide, particularly in the western United States. Labor disputes at certain ports, such as those experienced at western U.S. ports in 2002, create significant risks for our business, particularly if such disputes result in work slowdowns, lockouts, strikes, or other disruptions during our peak importing seasons, and could have a material adverse effect on our business, potentially resulting in cancelled orders by customers, unanticipated inventory accumulation, and reduced revenues and earnings.

We Depend on Independent Manufacturers to Make Our Products and Meet Customer Expectations

Our products are produced by independent manufacturers worldwide. We do not operate or own any production facilities. Although we enter into a number of purchase order commitments each season, we do not have long-term contracts with certain manufacturers. We therefore face risks that manufacturing operations will fail to perform as expected, or that our competitors will gain production or quota capacities that we need for our business. If a manufacturer fails to ship orders in a timely manner or to meet our standards, we could miss delivery requirements, which could result in cancellation of orders, refusal to accept deliveries or a reduction in purchase prices, any of which could have a material adverse effect on our business. In an effort to ensure that our independent manufacturers operate with safe, ethical and humane working conditions, we regularly monitor factories and we enforce our requirements that each agree to comply with our *Standards of Manufacturing Practices* and applicable laws and regulations, but we do not control these vendors or their labor practices. If a manufacturer violates labor or other laws, or engages in practices that are not generally accepted as ethical in our key markets, it could have a material adverse effect on our results of operations and financial condition.

We Depend on Key Suppliers for Some Specialty Fabrics

Some of the materials that we use may be available, in the short-term, from only one source or a very limited number of sources. For example, some specialty fabrics are manufactured to our specification by one source or a few sources. From time to time, we have experienced difficulty satisfying our raw material and finished goods requirements. Although we believe we could identify and qualify additional factories to produce these materials, the unavailability of some existing manufacturers for supply of these materials could have a material adverse effect on our results of operations and financial condition.

Our Advance Purchases of Products May Result in Excess Inventories

To minimize our purchasing costs, the time necessary to fill customer orders and the risk of non-delivery, we place orders for our products with manufacturers prior to receiving all of our customers' orders and maintain an inventory of various products that we anticipate will be in greater demand. We may not be able to sell the products we have ordered from manufacturers or that we have in our inventory. Customers may be allowed to cancel an order prior to shipment with sufficient advance notice. Inventory levels in excess of customer demand may result in inventory write-downs and the sale of excess inventory at discounted prices, which could have a material adverse effect on our results of operations and financial condition.

We Depend on Key Personnel

Our future success will depend in part on the continued service of key personnel, particularly Timothy Boyle, our President and Chief Executive Officer, and Gert Boyle, our Chairman and widely recognized advertising spokesperson. Our future success will also depend on our ability to attract and retain key managers, designers, sales people and others. We face intense competition for such individuals worldwide, and there is a significant concentration of well-funded apparel and footwear competitors in and around Portland, Oregon (including Nike and adidas). We may not be able to attract or retain these employees, and our failure to do so could have a material adverse effect on our results of operations and financial condition.

[Table of Contents](#)

Our Business Is Affected by Seasonality and Fluctuations in Operating Results

Our results of operations have fluctuated and are likely to fluctuate significantly from period to period. Our products are marketed on a seasonal basis, with a product mix now weighted substantially toward the fall season. Our results of operations for the quarters ended September 30 in the past have been much stronger than the results for the other quarters. This seasonality, along with other factors that are beyond our control, including general economic conditions, changes in consumer behavior, weather conditions, availability of import quotas and currency exchange rate fluctuations, could adversely affect our business and cause our results of operations to fluctuate. Results of operations in any period should not be considered indicative of the results to be expected for any future period.

We Face Risks of Product Liability and Warranty Claims

Our products are used in outdoor activities, sometimes in severe conditions. Although we have not experienced any significant expense as the result of product recalls or product liability claims, recalls or these types of claims could occur in the future and have a material adverse effect on our business. Some of our products carry limited warranty provisions for defects in quality and workmanship. We maintain a warranty reserve for future warranty claims, but the actual costs of servicing future warranty claims could exceed the reserve and have a material adverse effect on our results of operations and financial condition.

Our Common Stock Price May Be Volatile

The price of our common stock has fluctuated substantially since our initial public offering. Our common stock is traded on the NASDAQ National Market, which has experienced and is likely to experience significant price and volume fluctuations that could adversely affect the market price of our common stock without regard to our operating performance. We also believe factors such as fluctuations in financial results, variances from financial market expectations, changes in earnings estimates by analysts, or announcements by us or competitors may cause the market price of the common stock to fluctuate, perhaps substantially.

Insiders Control a Majority of Our Common Stock and Could Sell Shares

Timothy Boyle, Gert Boyle and Sarah Bany (Gert Boyle's daughter and a member of our Board of Directors), beneficially own a majority of our Common Stock. As a result, if acting together, they are able to effectively control matters requiring shareholder approval without the cooperation of other shareholders. Shares held by these three insiders are available for resale, subject to the limitations of Rule 144 under the Securities Act of 1933. The sale or prospect of the sale of a substantial number of these shares could have an adverse effect on the market price of our Common Stock.

[Table of Contents](#)

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

There has not been any material change in the market risk disclosure contained in the Company's Annual Report on Form 10-K for the year ended December 31, 2002.

Item 4 – *CONTROLS AND PROCEDURES*

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

There has been no change in our internal control over financial reporting that occurred during our fiscal quarter ended September 30, 2003 that has materially affected, or is reasonably likely to materially affect, our internal control over financial reporting.

[Table of Contents](#)

PART II. OTHER INFORMATION

Item 1 – LEGAL PROCEEDINGS

None.

Item 6 – EXHIBITS AND REPORTS ON FORM 8-K

(a) Exhibits

31.1 Rule 13a-14(a) Certification of Timothy P. Boyle, President and Chief Executive Officer

31.2 Rule 13a-14(a) Certification of Bryan L. Timm, Chief Financial Officer

32.1 Section 1350 Certification of Timothy P. Boyle, President and Chief Executive Officer

32.2 Section 1350 Certification of Bryan L. Timm, Chief Financial Officer

(b) Reports on Form 8-K

A Form 8-K was filed on July 23, 2003, reporting the Company's financial and operating results for the second quarter ended June 30, 2003.

A Form 8-K was filed on July 29, 2003, furnishing a transcript of the Company's conference call on July 23, 2003 to elaborate on second quarter 2003 results.

SIGNATURE

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

Date: November 7, 2003

COLUMBIA SPORTSWEAR COMPANY

/s/ BRYAN L. TIMM

Bryan L. Timm
Chief Financial Officer and Authorized Officer

CERTIFICATION

I, Timothy P. Boyle, certify that:

1. I have reviewed this quarterly report on Form 10-Q of Columbia Sportswear Company;
2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;
3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this report;
4. The registrant's other certifying officer(s) and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) for the registrant and have:
 - (a) Designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;
 - (b) Evaluated the effectiveness of the registrant's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and
 - (c) Disclosed in this report any change in the registrant's internal control over financial reporting that occurred during the registrant's most recent fiscal quarter (the registrant's fourth fiscal quarter in the case of an annual report) that has materially affected, or is reasonably likely to materially affect, the registrant's internal control over financial reporting; and
5. The registrant's other certifying officer(s) and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant's auditors and the audit committee of the registrant's board of directors (or persons performing the equivalent functions):
 - (a) All significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the registrant's ability to record, process, summarize and report financial information; and
 - (b) Any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal control over financial reporting.

Date: November 7, 2003

/s/ TIMOTHY P. BOYLE

Timothy P. Boyle
President and Chief Executive Officer

CERTIFICATION

I, Bryan L. Timm, certify that:

1. I have reviewed this quarterly report on Form 10-Q of Columbia Sportswear Company;
2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;
3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this report;
4. The registrant's other certifying officer(s) and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) for the registrant and have:
 - (a) Designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;
 - (b) Evaluated the effectiveness of the registrant's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and
 - (c) Disclosed in this report any change in the registrant's internal control over financial reporting that occurred during the registrant's most recent fiscal quarter (the registrant's fourth fiscal quarter in the case of an annual report) that has materially affected, or is reasonably likely to materially affect, the registrant's internal control over financial reporting; and
5. The registrant's other certifying officer(s) and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant's auditors and the audit committee of the registrant's board of directors (or persons performing the equivalent functions):
 - (a) All significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the registrant's ability to record, process, summarize and report financial information; and
 - (b) Any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal control over financial reporting.

Date: November 7, 2003

/s/ BRYAN L. TIMM

Bryan L. Timm
Chief Financial Officer

SECTION 1350 CERTIFICATION

In connection with the Quarterly Report of Columbia Sportswear Company (the "Company") on Form 10-Q for the period ended September 30, 2003 as filed with the Securities and Exchange Commission on the date hereof (the "Form 10-Q"), I, Timothy P. Boyle, Chief Executive Officer of the Company, certify, pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002, that to my knowledge:

- (1) The Form 10-Q fully complies with the requirements of Section 13(a) or 15(d) of the Securities Exchange Act of 1934; and
- (2) The information contained in the Form 10-Q fairly presents, in all material respects, the financial condition and results of the operation of the Company.

Dated: November 7, 2003

/s/ TIMOTHY P. BOYLE

Timothy P. Boyle
Chief Executive Officer
Columbia Sportswear Company

SECTION 1350 CERTIFICATION

In connection with the Quarterly Report of Columbia Sportswear Company (the "Company") on Form 10-Q for the period ended September 30, 2003 as filed with the Securities and Exchange Commission on the date hereof (the "Form 10-Q"), I, Bryan L. Timm, Chief Financial Officer of the Company, certify, pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002, that to my knowledge:

- (1) The Form 10-Q fully complies with the requirements of Section 13(a) or 15(d) of the Securities Exchange Act of 1934; and
- (2) The information contained in the Form 10-Q fairly presents, in all material respects, the financial condition and results of the operation of the Company.

Dated: November 7, 2003

/s/ BRYAN L. TIMM

Bryan L. Timm
Chief Financial Officer
Columbia Sportswear Company