COLUMBIA SPORTSWEAR CO
Form 10-Q
May 08, 2009
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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, 2009

OR

¨ **TRANSITION REPORT PURSUANT TO SECTION 13 OR 15(D) OF THE EXCHANGE ACT OF 1934**
For the transition period from __________ to __________

Commission file number 0-23939

COLUMBIA SPORTSWEAR COMPANY

(Exact name of registrant as specified in its charter)

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

(503) 985-4000

(Registrant s telephone number, including area code)

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

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

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

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

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

The number of shares of Common Stock outstanding on April 24, 2009 was 33,897,105.

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COLUMBIA SPORTSWEAR COMPANY

MARCH 31, 2009

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PART I. FINANCIAL INFORMATION

Item 1 ***FINANCIAL STATEMENTS***

COLUMBIA SPORTSWEAR COMPANY

CONDENSED CONSOLIDATED BALANCE SHEETS

(In thousands)

(Unaudited)

	March 31, 2009	December 31, 2008
ASSETS		
Current Assets:		
Cash and cash equivalents	$ 272,112	$ 230,617
Short-term investments	27,705	22,433
Accounts receivable, net of allowance of $8,326 and $9,542, respectively	213,486	299,585
Inventories, net (Note 2)	223,701	256,312
Deferred income taxes	28,257	33,867
Prepaid expenses and other current assets	28,696	29,705
Total current assets	793,957	872,519
Property, plant and equipment, net of accumulated depreciation of $195,057 and $190,906, respectively	228,264	229,693
Intangibles and other non-current assets (Note 3)	38,174	33,365
Goodwill (Note 3)	12,659	12,659
Total assets	$ 1,073,054	$ 1,148,236
LIABILITIES AND SHAREHOLDERS EQUITY		
Current Liabilities:		
Accounts payable	$ 48,398	$ 104,354
Accrued liabilities	50,023	58,085
Income taxes payable	6,374	8,718
Deferred income taxes	1,907	1,969
Other current liabilities	66	63
Total current liabilities	106,768	173,189
Income taxes payable	20,863	20,412
Other long-term liabilities	11,422	10,545
Total liabilities	139,053	204,146
Commitments and contingencies (Note 9)		
Shareholders Equity:		
Preferred stock; 10,000 shares authorized; none issued and outstanding		
Common stock (no par value); 125,000 shares authorized; 33,894 and 33,865 issued and outstanding (Note 6)	2,409	1,481
Retained earnings	910,922	909,443
Accumulated other comprehensive income (Note 5)	20,670	33,166
Total shareholders equity	934,001	944,090
Total liabilities and shareholders equity	$ 1,073,054	$ 1,148,236

See accompanying notes to condensed consolidated financial statements.

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COLUMBIA SPORTSWEAR COMPANY

CONDENSED CONSOLIDATED STATEMENTS OF OPERATIONS

(In thousands, except per share amounts)

(Unaudited)

	Three Months Ended March 31, 2009	Three Months Ended March 31, 2008
Net sales	$ 271,966	$ 297,363
Cost of sales	161,471	166,808
Gross profit	110,495	130,555
Selling, general, and administrative expenses	102,009	103,912
Net licensing income	1,908	843
Income from operations	10,394	27,486
Interest income, net	914	2,262
Income before income tax	11,308	29,748
Income tax expense	(4,410)	(9,817)
Net income	$ 6,898	$ 19,931
Earnings per share:		
Basic	$ 0.20	$ 0.56
Diluted	0.20	0.56
Cash dividends per share	$ 0.16	$ 0.16
Weighted average shares outstanding (Note 6):		
Basic	33,873	35,359
Diluted	33,968	35,513

See accompanying notes to condensed consolidated financial statements.

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COLUMBIA SPORTSWEAR COMPANY

CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS

(In thousands)

(Unaudited)

	Three Months Ended March 31, 2009	Three Months Ended March 31, 2008
Cash flows from operating activities:		
Net income	$ 6,898	$ 19,931
Adjustments to reconcile net income to net cash provided by operating activities:		
Depreciation and amortization	8,150	7,867
Loss on disposal of property, plant, and equipment	41	101
Deferred income taxes	(174)	(655)
Stock-based compensation	1,398	2,000
Excess tax benefit from employee stock plans	(15)	(8)
Changes in operating assets and liabilities:		
Accounts receivable	80,851	58,027
Inventories	27,539	30,877
Prepaid expenses and other current assets	728	(6,460)
Intangibles and other assets	(273)	83
Accounts payable	(58,836)	(49,467)
Accrued liabilities	(6,788)	(3,789)
Income taxes payable	(1,678)	(768)
Other liabilities	941	3,165
Net cash provided by operating activities	58,782	60,904
Cash flows from investing activities:		
Purchases of short-term investments	(5,163)	(51,555)
Sales of short-term investments		131,565
Capital expenditures	(5,161)	(9,541)
Proceeds from sale of property, plant, and equipment	1	27
Net cash provided by (used in) investing activities	(10,323)	70,496
Cash flows from financing activities:		
Proceeds from notes payable	18,390	4,663
Repayments on notes payable	(18,390)	(4,663)
Proceeds from long-term debt		25
Repayment of long-term debt and other liabilities	(5)	(6)
Proceeds from issuance of common stock	165	64
Excess tax benefit from employee stock plans	15	8
Repurchase of common stock	(307)	(40,260)
Cash dividends paid	(5,419)	(5,605)
Net cash used in financing activities	(5,551)	(45,774)
Net effect of exchange rate changes on cash	(1,413)	(1,331)
Net increase in cash and cash equivalents	41,495	84,295

Cash and cash equivalents, beginning of period	230,617	191,950
Cash and cash equivalents, end of period	$ 272,112	$ 276,245
Supplemental disclosures of cash flow information:		
Cash paid during the period for interest, net of capitalized interest	$ 8	$ 15
Cash paid during the period for income taxes	6,398	10,218
Supplemental disclosures of non-cash investing activities:	5,180	4,631
Capital expenditures incurred but not yet paid		

See accompanying notes to condensed consolidated financial statements.

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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 include all material adjustments, consisting only of normal recurring adjustments, necessary to present fairly the Company s financial position as of March 31, 2009, the results of operations for the three months ended March 31, 2009 and 2008 and cash flows for the three months ended March 31, 2009 and 2008. A significant part of the Company s business is of a seasonal nature; therefore, the results of operations for the three months ended March 31, 2009 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 in this report comply with the requirements of Section 13(a) of the Securities Exchange Act of 1934 for a Quarterly Report on Form 10-Q and are adequate to make the information presented not misleading. These unaudited condensed consolidated financial statements should be read in conjunction with the financial statements and notes thereto included in the Company s Annual Report on Form 10-K for the year ended December 31, 2008.

Estimates and assumptions:

The preparation of financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the consolidated financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results may differ from these estimates and assumptions. Some of these more significant estimates relate to revenue recognition, allowance for doubtful accounts, inventory, product warranty, intangible assets and income taxes.

Reclassifications:

Certain immaterial reclassifications of amounts reported in the prior period financial statements have been made to conform to classifications used in the current period financial statements.

Concentration of credit risk:

Trade Receivables

At March 31, 2009, the Company had one customer included in both its United States and Canada segments that accounted for approximately 10.5% of consolidated accounts receivable. At December 31, 2008, the Company had one customer in its Europe, Middle East and Africa (EMEA) segment and one customer in its Canadian segment that accounted for approximately 13.5% and 10.2% of consolidated accounts receivable, respectively. No single customer accounted for greater than or equal to 10% of consolidated net sales for the three months ended March 31, 2009 or 2008.

Cash and Investments

At March 31, 2009, approximately 80% of the Company s cash and cash equivalents were concentrated in domestic and international money market mutual funds. Substantially all of the Company s money market mutual funds were assigned a AAA or analogous rating from Standard & Poor s (S&P), Moody s Investor Services (Moody s) or Fitch Ratings.

The U.S. Treasury Department temporarily guarantees certain amounts held in money market mutual funds up to the balance held at September 19, 2008. To qualify for the guarantee, the fund must be regulated under Rule 2a-7 of the Investment Company Act of 1940 and the managing institution must continue participation in the guarantee program. On September 19, 2008, the Company had a total of approximately $50,000,000 of investments with two institutions qualifying for this guarantee program. At March 31, 2009, the eligible $50,000,000 remained invested and both institutions were actively participating in the guarantee program.

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COLUMBIA SPORTSWEAR COMPANY

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (Continued)

(Unaudited)

All the Company s remaining cash and cash equivalents and short-term investments were deposited with various institutions in the Company s primary operating geographies. All institutions were rated investment grade by both S&P and Moody s and most were rated AA- / Aa1 or better.

Derivatives

The Company uses derivative instruments primarily to hedge the exchange rate risk of anticipated transactions denominated in non-functional currencies. At March 31, 2009, no contract had a remaining maturity longer than one year. All the counterparties to these transactions had a S&P / Moody s short-term credit rating of A-2 / P-1 or better. The net exposure to any single counterparty, which is generally limited to the aggregate unrealized gain of all contracts with that counterparty, was less than $2,000,000 at March 31, 2009. See Note 8 for further disclosures concerning derivatives.

Cash and cash equivalents:

Cash and cash equivalents are stated at cost, which approximates fair value, and include investments with maturities of three months or less at the date of acquisition. Cash and cash equivalents consisted of money market funds and bank deposits.

Short-term investments:

At March 31, 2009, short-term investments consisted of debt security mutual fund shares and a medium-term note, both available for use in current operations, and certificates of deposit with maturities of six months or less. At December 31, 2008, short-term investments consisted of debt security mutual fund shares available for use in current operations and certificates of deposit with maturities of six months or less. All short-term investments are classified as available-for-sale securities and are recorded at fair value with any unrealized gains and losses reported, net of tax, in other comprehensive income. Realized gains or losses are determined based on the specific identification method.

Property, plant and equipment:

Property, plant and equipment are stated at cost, net of accumulated depreciation. Depreciation is provided using the straight-line method over the estimated useful lives of the assets. The principal estimated useful lives are: buildings and building improvements, 15-30 years; land improvements, 15 years; furniture and fixtures, 3-10 years; and machinery and equipment, 3-5 years. Leasehold improvements are depreciated over the lesser of the estimated useful life of the improvement, which is most commonly 7 years, or the remaining term of the underlying lease.

Product warranty:

Some of the Company s products carry limited warranty provisions for defects in quality and workmanship. A warranty reserve is established at the time of sale to cover estimated costs based on the Company s history of warranty repairs and replacements and is recorded in cost of sales. A summary of accrued warranties for the three months ended March 31, 2009 and 2008 is as follows (in thousands):

	2009	**2008**
Balance at beginning of period	$ 9,746	$ 10,862
Charged to costs and expenses	884	1,217
Claims settled	(961)	(1,250)
Other	(177)	187
Balance at end of period	$ 9,492	$ 11,016

Recent accounting pronouncements:

In March 2008, the Financial Accounting Standards Board (FASB) issued Statement of Financial Accounting Standards (SFAS) No. 161, *Disclosures About Derivative Instruments and Hedging Activities*. This statement is intended to improve financial reporting about derivative instruments and hedging activities by requiring enhanced disclosures to enable investors to better understand their effects on an entity s financial position, financial performance and cash flows. The provisions of SFAS No. 161 are effective for the fiscal years and interim quarters beginning after November 15, 2008. The adoption of this statement did not have a material effect on the Company s consolidated financial position, results of operations or cash flows. See Note 8.

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NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (Continued)

(Unaudited)

In December 2007, the FASB issued SFAS No. 160, *Noncontrolling Interests in Consolidated Financial Statements*. This statement amends Accounting Research Bulletin No. 51, *Consolidated Financial Statements,* to establish accounting and reporting standards for the noncontrolling interest in a subsidiary and for the deconsolidation of a subsidiary. SFAS No. 160 is effective for fiscal years beginning after December 15, 2008. The adoption of this statement did not have a material effect on the Company s consolidated financial position, results of operations or cash flows.

In December 2007, the FASB issued SFAS No. 141R, *Business Combinations*. This statement replaces SFAS No. 141 and requires the acquirer of a business to recognize and measure the identifiable assets acquired, the liabilities assumed, and any non-controlling interest in the acquiree at fair value. SFAS No. 141R also requires transaction costs related to the business combination to be expensed as incurred. SFAS No. 141R is effective for business combinations for which the acquisition date is on or after fiscal years beginning after December 15, 2008. The adoption of this statement did not have a material effect on the Company s consolidated financial position, results of operations or cash flows.

NOTE 2 - INVENTORIES, NET

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

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

	March 31, 2009	December 31, 2008
Raw materials	$ 1,342	$ 621
Work in process	1,202	1,065
Finished goods	221,157	254,626
	$ 223,701	$ 256,312

NOTE 3 - INTANGIBLE ASSETS AND GOODWILL

Intangible assets with indefinite useful lives are not amortized and are periodically evaluated for impairment. Intangible assets that are determined to have finite lives are amortized over their useful lives.

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

	March 31, 2009		December 31, 2008	
	Carrying Amount	Accumulated Amortization	Carrying Amount	Accumulated Amortization
Intangible assets subject to amortization:				
Patents	$ 898	$ (561)	$ 898	$ (534)
Intangible assets not subject to amortization:				
Trademarks and trade names	$ 26,872		$ 26,872	

Goodwill	12,659	12,659