COLUMBIA SPORTSWEAR CO
Form 10-Q
August 03, 2017

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

FORM 10-Q

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

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

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

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

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

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

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

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

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

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

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

COLUMBIA SPORTSWEAR COMPANY
JUNE 30, 2017
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PART I—FINANCIAL INFORMATION
Item 1. FINANCIAL STATEMENTS
COLUMBIA SPORTSWEAR COMPANY
CONDENSED CONSOLIDATED BALANCE SHEETS
(In thousands)
(Unaudited)

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

See accompanying notes to condensed consolidated financial statements.

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

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

See accompanying notes to condensed consolidated financial statements.

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

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

See accompanying notes to condensed consolidated financial statements.

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

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

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

See accompanying notes to condensed consolidated financial statements.

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

NOTE 1—BASIS OF PRESENTATION AND ORGANIZATION

The accompanying unaudited condensed consolidated financial statements have been prepared by the management of Columbia Sportswear Company (together with its wholly owned subsidiaries and entities in which it maintains a controlling financial interest, the "Company") and in the opinion of management include all normal recurring material adjustments necessary to present fairly the Company's financial position as of June 30, 2017 and 2016, and the results of operations and cash flows for the three and six months ended June 30, 2017 and 2016. The December 31, 2016 financial information was derived from the Company's audited financial statements included in the Company's Annual Report on Form 10-K for the year ended December 31, 2016. A significant part of the Company's business is of a seasonal nature; therefore, results of operations for the three and six months ended June 30, 2017 are not necessarily indicative of results to be expected for other quarterly periods or for the full year.

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

Principles of Consolidation

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

Estimates and Assumptions

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

NOTE 2—SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

There have been no significant changes to the Company's significant accounting policies as described in the Company's Annual Report on Form 10-K for the year ended December 31, 2016.

Recent Accounting Pronouncements

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

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

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

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

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

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

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

NOTE 3—NON-CONTROLLING INTEREST

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

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

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

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

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

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

NOTE 4—INTANGIBLE ASSETS, NET

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

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

Intangible Assets

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

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

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

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

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

NOTE 5—PRODUCT WARRANTY

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

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

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

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

NOTE 6—STOCK-BASED COMPENSATION

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

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

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

Stock Options

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

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

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

During the six months ended June 30, 2017 and 2016, the Company granted a total of 496,384 and 422,973 stock options, respectively. At June 30, 2017, unrecognized costs related to outstanding stock options totaled approximately $9,241,000, before any related tax benefit. The unrecognized costs related to stock options are amortized over the related vesting period using the straight-line attribution method. Unrecognized costs related to stock options at June 30, 2017 are expected to be recognized over a weighted average period of 2.72 years.

Restricted Stock Units

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

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

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

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

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

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

NOTE 7—ACCUMULATED OTHER COMPREHENSIVE LOSS

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

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

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

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

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

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

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

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

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

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

NOTE 8—EARNINGS PER SHARE

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

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

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

Stock options and service-based restricted stock units representing 2,641,676 and 2,793,715 shares of common stock for the three months ended June 30, 2017 and 2016, respectively, were outstanding but were excluded from the computation of diluted EPS because their effect would have been anti-dilutive due to a net loss in the period. Stock options and service-based restricted stock units representing 862,559 and 471,964 shares of common stock for the six months ended June 30, 2017 and 2016, respectively, were outstanding but were excluded from the computation of diluted EPS because their effect would be anti-dilutive as a result of applying the treasury stock method. In addition, performance-based restricted stock units representing 50,403 and 76,742 shares of common stock for the three months ended June 30, 2017 and 2016, respectively, and 46,485 and 69,472 shares of common stock for the six months ended June 30, 2017 and 2016, respectively, were outstanding but were excluded from the computation of diluted EPS because these shares were subject to performance conditions that had not been met.

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

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

NOTE 9—SEGMENT INFORMATION

The Company has aggregated its operating segments into four geographic segments: (1) United States, (2) Latin America and Asia Pacific ("LAAP"), (3) Europe, Middle East and Africa ("EMEA") and (4) Canada, which are reflective of the Company's internal organization, management and oversight structure. Each geographic segment operates predominantly in one industry: the design, development, marketing and distribution of outdoor and active lifestyle apparel, footwear, accessories, and equipment. Intersegment net sales and intersegment profits, which are recorded at a negotiated mark-up and eliminated in consolidation, are not material. Unallocated corporate expenses consist of expenses incurred by centrally-managed departments, including global information systems, finance and legal, executive compensation, unallocated benefit program expense, and other miscellaneous costs.
The geographic distribution of the Company's net sales and income from operations are summarized in the following table (in thousands) for the three and six months ended June 30, 2017 and 2016.

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

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

NOTE 10—FINANCIAL INSTRUMENTS AND RISK MANAGEMENT

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

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

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

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

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

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

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

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

derivative positions.

COLUMBIA SPORTSWEAR COMPANY
NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS—(Continued)
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The following table presents the balance sheet classification and fair value of derivative instruments (in thousands):

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

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

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

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

NOTE 11—COMMITMENTS AND CONTINGENCIES
Inventory Purchase Obligations
Inventory purchase obligations consist of open production purchase orders and other commitments for raw materials and sourced apparel, footwear, accessories, and equipment. At June 30, 2017, inventory purchase obligations were $319,714,000.
Litigation
The Company is a party to various legal claims, actions and complaints from time to time. Although the ultimate resolution of legal proceedings cannot be predicted with certainty, management believes that disposition of these matters will not have a material adverse effect on the Company's consolidated financial statements.
NOTE 12—FAIR VALUE MEASURES
Certain assets and liabilities are reported at fair value on either a recurring or nonrecurring basis. Fair value is defined as an exit price, representing the amount that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants, under a three-tier fair value hierarchy that prioritizes the inputs used in measuring fair value as follows:
Level 1 — observable inputs such as quoted prices for identical assets or liabilities in active liquid markets;
Level 2 — inputs, other than the quoted market prices in active markets, that are observable, either directly or indirectly; or observable market prices in markets with insufficient volume or infrequent transactions; and
Level 3 — unobservable inputs for which there is little or no market data available, that require the reporting entity to develop its own assumptions.
Assets and liabilities measured at fair value on a recurring basis as of June 30, 2017 are as follows (in thousands):

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

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NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS—(Continued)
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Assets and liabilities measured at fair value on a recurring basis as of December 31, 2016 are as follows (in thousands):

	Level 1	Level 2	Level 3	Total
Assets:				
Cash equivalents:				
Money market funds	$299,769	$—	$ —	$299,769
Time deposits	73,127	—	—	73,127
Other short-term investments:				
Mutual fund shares	472	—	—	472
Other current assets:				
Derivative financial instruments (Note 10)	—	11,166	—	11,166
Other non-current assets:				
Derivative financial instruments (Note 10)	—	1,969	—	1,969
Mutual fund shares	8,411	—	—	8,411
Total assets measured at fair value	$381,779	$13,135	$ —	$394,914
Liabilities:				
Accrued liabilities:				
Derivative financial instruments (Note 10)	$—	$286	$ —	$286
Total liabilities measured at fair value	$—	$286	$ —	$286

Assets and liabilities measured at fair value on a recurring basis as of June 30, 2016 are as follows (in thousands):

	Level 1	Level 2	Level 3	Total
Assets:				
Cash equivalents:				
Money market funds	$166,000	$—	$ —	$166,000
Time deposits	105,212	—	—	105,212
Reverse repurchase agreements	—	30,000	—	30,000
U.S. Government-backed municipal bonds	—	12,149	—	12,149
Available-for-sale short-term investments [(1)]:				
U.S. Government-backed municipal bonds	—	12,410	—	12,410
Other short-term investments:				
Mutual funds shares	449	—	—	449
Other current assets:				
Derivative financial instruments (Note 10)	—	2,686	—	2,686
Other non-current assets:				
Derivative financial instruments (Note 10)	—	1,079	—	1,079
Mutual fund shares	7,874	—	—	7,874
Total assets measured at fair value	$279,535	$58,324	$ —	$337,859
Liabilities:				
Accrued liabilities:				
Derivative financial instruments (Note 10)	$—	$7,714	$ —	$7,714
Other long-term liabilities				
Derivative financial instruments (Note 10)	—	1,456	—	1,456
Total liabilities measured at fair value	$—	$9,170	$ —	$9,170

[(1)] Investments have remaining maturities of less than one year.

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

Non-recurring Fair Value Measurements

There were no material assets and liabilities measured at fair value on a nonrecurring basis as of June 30, 2017, December 31, 2016 or June 30, 2016.

NOTE 13—RELATED PARTY TRANSACTIONS

The Company owns a 60% controlling interest in a joint venture formed with Swire, which is a related party. The joint venture arrangement involves Transition Services Agreements ("TSAs") with Swire, under which Swire provides administrative and information technology services to the joint venture. The Company continues to reduce its costs under the TSAs as it internalizes the back-office functions and related personnel, including the transition of the joint venture's systems to the Company's platform in the second quarter of 2017. The joint venture incurred service fees, valued under the TSAs at Swire's cost, of $329,000 and $1,042,000 during the three months ended June 30, 2017 and 2016, respectively and $845,000 and $1,895,000 during the six months ended June 30, 2017 and 2016, respectively. These fees are included in selling, general and administrative expenses in the Condensed Consolidated Statements of Operations. In addition, the joint venture pays Swire sourcing fees related to the purchase of certain inventory. These sourcing fees are capitalized into inventories and charged to cost of sales as the inventories are sold. The Company incurred sourcing fees of $4,000 and $10,000, for the three months ended June 30, 2017 and 2016, respectively, and $5,000 and $61,000, for the six months ended June 30, 2017 and 2016, respectively.

In 2014, both the Company and Swire funded long-term loans to the joint venture. The Company's loan has been eliminated in consolidation, while the Swire loan is reflected as a note payable to related party in the Condensed Consolidated Balance Sheets as of December 31, 2016 and June 30, 2016. In June 2017, the Company repaid these loans, including the note with Swire in the principal amount of RMB 97,600,000 (USD $14,236,000), and as such, the balance on the Condensed Consolidated Balance Sheets is zero at June 30, 2017. Interest expense related to this note was $180,000 and $262,000 for the three months ended June 30, 2017 and 2016, respectively, and $429,000 and $526,000 for the six months ended June 30, 2017 and 2016, respectively.

As of June 30, 2017 and 2016, and December 31, 2016, net payables to Swire for service fees, interest expense and miscellaneous expenses totaled $340,000, $1,042,000 and $707,000, respectively, and were included in accounts payable in the Condensed Consolidated Balance Sheets.

In addition to the transactions described above, Swire is also a third-party distributor of the Company's brands in certain regions outside of mainland China and purchases products from the Company under the Company's standard third-party distributor terms and pricing.

Item 2. MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS

This quarterly report contains forward-looking statements. Forward-looking statements include any statements related to our expectations regarding future performance or market position, including any statements regarding anticipated sales, gross margins and operating margins across markets, profitability and the effect of specified factors on profitability for 2017, expenses, sourcing costs, effects of unseasonable weather on our results of operations, inventory levels, investments in our business, investments in and implementation of our information technology systems, our operating model assessment or subsequent actions, intellectual property disputes, our direct-to-consumer channels and other capital expenditures, including planned store additions, access to raw materials and factory capacity, financing and working capital requirements and resources, income tax rates and pre-tax income, and our exposure to market risk associated with interest rates and foreign currency exchange rates.

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

Our Business

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

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

Seasonality and Variability of Business

Our business is affected by the general seasonal trends common to the industry, including seasonal weather and discretionary consumer shopping and spending patterns. Our products are marketed on a seasonal basis and our sales are weighted substantially toward the third and fourth quarters, while our operating costs are more equally distributed throughout the year. In 2016, approximately 60% of our net sales and approximately 90% of our profitability was realized in the second half of the year, illustrating our dependence upon sales results in the second half of the year, as well as the less seasonal nature of our operating costs. The expansion of our direct-to-consumer channels has increased the proportion of sales, profits and cash flows that we generate in the second half of the year, particularly in the fourth quarter.

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

Results of operations in any period should not be considered indicative of the results to be expected for any future period, particularly in light of persistent volatility in global economic and geopolitical conditions and volatility of foreign currency exchange rates which, when combined with seasonal weather patterns and inflationary or volatile sourcing costs, reduce the predictability of our business.

Business Outlook

The global business climate continues to present us with a great deal of uncertainty, making it difficult to predict future results. Consistent with the historical seasonality of the business, we anticipate 2017 profitability to be heavily concentrated in the second half of the year. Factors that could significantly affect our full year 2017 financial results include:

- Performance and profitability of our owned brick-and-mortar stores and e-commerce direct-to-consumer sales globally;

- Unseasonable weather conditions or other unforeseen factors affecting consumer demand and the resulting effect on cancellations of advance wholesale orders, sales returns, wholesale customer accommodations, replenishment orders and reorders, direct-to-consumer sales, changes in mix and volume of full price sales in relation to promotional and closeout product sales, and suppressed wholesale and end-consumer demand in subsequent seasons;
- Industry trends affecting consumer traffic and spending in brick and mortar retail channels, which are creating uncertainty regarding the long-term financial health of several of our U.S. wholesale customers, including some who have recently closed stores, or initiated restructuring activities, bankruptcy proceedings or liquidation;
- Difficult economic and competitive environments in certain key markets within our Latin America and Asia Pacific ("LAAP") region, in particular, Korea;
- Continued sales growth and profitability contributed by our Europe-direct business;
- The effects of changes in foreign currency exchange rates on sales, gross margin, operating income, and net income;
- A reduction in the rate of net sales growth of our prAna business;
- Performance of our Mountain Hardwear business as we work to re-invigorate that brand in the marketplace; and
- The financial impact of activities associated with and resulting from our operating model assessment or subsequent actions.

These factors and others may have a material effect on our financial condition, results of operations or cash flows, particularly with respect to quarterly comparisons.

During the second quarter of 2017, we commenced an initiative to invest in a global retail platform ("GRP"), which encompasses the IT systems infrastructure to support the growth and expansion of our direct-to-consumer businesses. The objective of this initiative is to deliver an improved consumer experience and to modernize and standardize our processes and systems to enable us to better anticipate and deliver against the needs of our consumers. This GRP initiative is currently in the early design phase and we expect to incur related costs beginning in the second half of 2017, targeting regional implementations beginning in the first half of 2019.

In addition, we are continuing to invest in our ongoing multi-year global enterprise resource planning ("ERP") implementation, which has been executed in the majority of our operations to date. During the second quarter of 2017, we implemented the ERP system in our China joint venture and plan to transition our Europe-direct business onto the system in mid-2018.

During the first quarter of 2017, we commenced a thorough assessment of our operating model to ensure that the business is aligned and organized to successfully execute our strategic plan. We completed the operational assessment phase of this initiative during the second quarter of 2017, and as a result, we announced a realignment of our senior leadership team to evolve to a brand-led, consumer-focused organization. We have now entered the second phase of this initiative that we have named Project CONNECT, which will consist of identifying and implementing initiatives intended to enhance our ability to execute against our strategic plan to drive sustainable, profitable growth through our brand portfolio. We anticipate providing updates as the project progresses.

We remain focused on driving sustainable, profitable sales growth by providing innovative, stylish products at accessible prices through effective sales channels, nurturing stronger emotional connections with consumers through compelling marketing communications, transforming our global supply chain and information technology platforms and effectively managing inventory and other working capital assets.

Results of Operations

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

To supplement financial information reported in accordance with accounting principles generally accepted in the United States ("GAAP"), we disclose constant-currency net sales information, which is a non-GAAP financial measure, to provide a framework to assess how the business performed excluding the effects of changes in the exchange rates used to translate net sales generated in foreign currencies into U.S. dollars. Management believes that this non-GAAP financial measure reflects an additional and useful way of viewing an aspect of our operations that, when viewed in conjunction with our GAAP results, provides a more comprehensive understanding of our business and operations. In particular, investors may find the non-GAAP measures useful by reviewing our net sales results without the volatility in foreign currency exchange rates. This non-GAAP financial measure also facilitates

management's internal comparisons to our historical net sales results and comparisons to competitors' net sales results. Constant-currency financial measures should be viewed in addition to, and not in lieu of or superior to, our financial measures calculated in accordance with GAAP. The following discussion includes references to constant-currency net sales, and

we provide a reconciliation of this non-GAAP measure to the most directly comparable financial measure calculated in accordance with GAAP.

Highlights of the Second Quarter of 2017

- Net sales for the second quarter of 2017 increased $10.1 million, or 3%, to $398.9 million from $388.8 million for the second quarter of 2016.
- Net loss attributable to Columbia Sportswear Company increased $3.3 million, or 40%, for the second quarter of 2017 to $11.5 million, or $(0.17) per share, compared to net loss of $8.2 million, or $(0.12) per share, for the second quarter of 2016.
- We paid a quarterly cash dividend of $0.18 per share, or $12.5 million, in the second quarter of 2017.

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

	Three Months Ended June 30,		Six Months Ended June 30,	
	2017	2016	2017	2016
Net sales	100.0 %	100.0 %	100.0 %	100.0 %
Cost of sales	54.7	53.8	53.4	53.3
Gross profit	45.3	46.2	46.6	46.7
Selling, general and administrative expenses	50.3	49.7	43.9	43.6
Net licensing income	0.6	0.5	0.5	0.5
Income (loss) from operations	(4.4)	(3.0)	3.2	3.6
Interest income, net	0.3	0.2	0.2	—
Interest expense on note payable to related party	—	(0.2)	—	—
Other non-operating income	0.1	0.1	—	—
Income (loss) before income tax	(4.0)	(2.9)	3.4	3.6
Income tax benefit (expense)	1.2	0.9	(0.6)	(0.7)
Net income (loss)	(2.8)	(2.0)	2.8	2.9
Net income attributable to non-controlling interest	0.1	0.1	0.3	0.3
Net income (loss) attributable to Columbia Sportswear Company	(2.9)%	(2.1)%	2.5 %	2.6 %

Quarter Ended June 30, 2017 Compared to Quarter Ended June 30, 2016

Net Sales: Consolidated net sales increased $10.1 million, or 3%, to $398.9 million for the second quarter of 2017 from $388.8 million for the comparable period in 2016.

Sales by Geographic Region

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

	Three Months Ended June 30,					
	Reported Net Sales 2017	Adjust for Foreign Currency Translation	Constant-currency Net Sales 2017[1]	Reported Net Sales 2016	Reported Net Sales % Change	Constant-currency Net Sales % Change[1]
	(In millions, except for percentage changes)					
United States	$238.2	$ —	$ 238.2	$ 228.8	4%	4%
LAAP	79.5	1.0	80.5	87.3	(9)%	(8)%
EMEA	67.3	1.1	68.4	59.1	14%	16%
Canada	13.9	0.4	14.3	13.6	2%	5%
	$398.9	$ 2.5	$ 401.4	$ 388.8	3%	3%

[1] Constant-currency net sales information is a non-GAAP financial measure, which excludes the effect of changes in foreign currency exchange rates against the U.S. dollar between comparable reporting periods. We calculate constant-currency net sales by translating net sales in foreign currencies for the current period into U.S. dollars at the average exchange rates that were in effect during the comparable period of the prior year.

Net sales in the United States increased $9.4 million, or 4%, to $238.2 million for the second quarter of 2017 from $228.8 million for the comparable period in 2016. The net sales increase in the United States was led by the Columbia brand, followed by the prAna and SOREL brands. The United States net sales increase was led by an increase in net sales in our direct-to-consumer business, partially offset by a net sales decrease in our wholesale business. The net sales increase in our direct-to-consumer business was led by increased net sales from our retail stores, followed by increased e-commerce net sales. At June 30, 2017, we operated 122 retail stores, compared with 113 retail stores at June 30, 2016. The net sales decrease in our wholesale business resulted primarily from the combined effects of U.S. wholesale customer bankruptcies, liquidations and store closures that have occurred over the past 18 months.

Net sales in the LAAP region decreased $7.8 million, or 9% (8% constant-currency), to $79.5 million for the second quarter of 2017 from $87.3 million for the comparable period in 2016. The net sales decrease in the LAAP region was concentrated in the Columbia brand and was driven by net sales decreases in China and Korea. The net sales decrease in China was affected by accelerated first quarter shipments to wholesale customers in advance of the ERP go-live that occurred in the second quarter of 2017. The net sales decrease in Korea reflected continued business weakness amid the extremely promotional outdoor sector in that country.

Net sales in the EMEA region increased $8.2 million, or 14% (16% constant-currency), to $67.3 million for the second quarter of 2017 from $59.1 million for the comparable period in 2016. The net sales increase in the EMEA region was concentrated in the Columbia brand and was driven by increased shipments of fall 2017 advance orders to our EMEA distributors, reflecting increased net sales to our Russian distributor and increased spring 2017 advance wholesale orders within our Europe-direct business.

Net sales in Canada increased $0.3 million, or 2% (5% constant-currency), to $13.9 million for the second quarter of 2017 from $13.6 million for the comparable period in 2016. The increase in net sales in Canada was driven by a net sales increase in the SOREL brand, partially offset by a decline in Columbia brand net sales, and was also negatively affected by changes in foreign currency exchange rates.

Sales by Brand

Net sales by brand are summarized in the following table:

	Three Months Ended June 30,					
	Reported Net Sales 2017	Adjust for Foreign Currency Translation	Constant-currency Net Sales 2017	Reported Net Sales 2016	Reported Net Sales % Change	Constant-currency Net Sales % Change
	(In millions, except for percentage changes)					
Columbia	$340.5	$ 2.3	$ 342.8	$ 333.4	2%	3%
SOREL	6.0	0.1	6.1	3.5	71%	74%
prAna	35.0	—	35.0	32.2	9%	9%
Mountain Hardwear	16.1	—	16.1	17.0	(5)%	(5)%
Other	1.3	0.1	1.4	2.7	(52)%	(48)%
	$398.9	$ 2.5	$ 401.4	$ 388.8	3%	3%

Columbia brand net sales increased $7.1 million, or 2% (3% constant currency), to $340.5 million, including increased net sales in the U.S. direct-to-consumer channel and EMEA region, partially offset by lower net sales in the U.S. wholesale business and lower net sales in China.

SOREL brand net sales increased $2.5 million, or 71% (74% constant currency), to $6.0 million, driven by increased sales of the brand's expanded spring season assortment, concentrated in the United States.

prAna brand net sales increased $2.8 million, or 9%, to $35.0 million, led by the U.S. direct-to-consumer business, followed by increased net sales in the U.S. wholesale business.

Mountain Hardwear brand net sales decreased $0.9 million, or 5%, to $16.1 million, primarily reflecting net sales declines in Korea and the United States.

Sales by Product Category

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

	Three Months Ended June 30,					
	Reported Net Sales 2017	Adjust for Foreign Currency Translation	Constant-currency Net Sales 2017	Reported Net Sales 2016	Reported Net Sales % Change	Constant-currency Net Sales % Change
	(In millions, except for percentage changes)					
Apparel, Accessories and Equipment	$329.7	$ 1.6	$ 331.3	$ 321.5	3%	3%
Footwear	69.2	0.9	70.1	67.3	3%	4%
	$398.9	$ 2.5	$ 401.4	$ 388.8	3%	3%

Net sales of apparel, accessories and equipment increased $8.2 million, or 3%, to $329.7 million for the second quarter of 2017 from $321.5 million for the comparable period in 2016. The apparel, accessories and equipment net sales increase was led by the Columbia brand, followed by the prAna brand, partially offset by a net sales decrease in the Mountain Hardwear brand. The apparel, accessories and equipment net sales increase was led by the United States and EMEA regions, partially offset by a net sales decrease in the LAAP region.

Net sales of footwear increased $1.9 million, or 3% (4% constant-currency), to $69.2 million for the second quarter of 2017 from $67.3 million for the comparable period in 2016. The increase in footwear net sales consisted of a net sales increase in the SOREL brand. The footwear net sales increase was driven by a net sales increase in the EMEA region and Canada, partially offset by a net sales decrease in the LAAP region.

Gross Profit: Gross profit, as a percentage of net sales, decreased to 45.3% for the second quarter of 2017, from 46.2% for the comparable period in 2016. Gross profit contraction was primarily due to:

- Increased promotional activity in the U.S. in order to liquidate aged inventory primarily through our outlet stores;

partially offset by:

- Favorable changes in sales channel mix with a higher proportion of direct-to-consumer net sales, which generally carry higher gross margins, and a lower proportion of net sales to our wholesale customers and international distributors, which generally carry lower gross margins.

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

Selling, General and Administrative Expense: SG&A expense includes all costs associated with design, merchandising, marketing, distribution, store occupancy and corporate functions, including related depreciation and amortization.

SG&A expense increased $7.3 million, or 4%, to $200.6 million, or 50.3% of net sales, for the second quarter of 2017 from $193.3 million, or 49.7% of net sales, for the comparable period in 2016. The SG&A expense increase was primarily due to:

- Increased costs to support our expanding global direct-to-consumer businesses;
- Increased costs related to our operating model assessment; and
- Increased personnel related expenses;

partially offset by:

- Changes in the timing of receipt of local tax subsidies related to the company's China joint venture; and
- The favorable impact of foreign currency translation.

Depreciation and amortization included in SG&A expense totaled $14.8 million for the second quarter of 2017, compared to $14.6 million for the same period in 2016.

Income Tax Benefit: Income tax benefit increased to $4.5 million for the second quarter of 2017 from $3.2 million for the comparable period in 2016. Our effective income tax rate was 28.6% for the second quarter of 2017 compared to 29.1% for the same period in 2016.

Net Loss Attributable to Columbia Sportswear Company: Net loss increased $3.3 million, or 40%, to $11.5 million, or $(0.17) per share, for the second quarter of 2017 from $8.2 million, or $(0.12) per share, for the comparable period in 2016.

Six Months Ended June 30, 2017 Compared to the Six Months Ended June 30, 2016

Net Sales: Consolidated net sales increased $28.8 million, or 3%, to $942.7 million for the six months ended June 30, 2017 from $913.9 million for the comparable period in 2016.

Sales by Geographic Region

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

	Six Months Ended June 30,					
	Reported Net Sales 2017	Adjust for Foreign Currency Translation	Constant-currency Net Sales 2017	Reported Net Sales 2016	Reported Net Sales % Change	Constant-currency Net Sales % Change
	(In millions, except for percentage changes)					
United States	$571.4	$ —	$ 571.4	$ 565.0	1%	1%
LAAP	197.8	2.3	200.1	189.1	5%	6%
EMEA	122.7	2.0	124.7	110.4	11%	13%
Canada	50.8	(0.9)	49.9	49.4	3%	1%
	$942.7	$ 3.4	$ 946.1	$ 913.9	3%	4%

Net sales in the United States increased $6.4 million, or 1%, to $571.4 million for the six months ended June 30, 2017 from $565.0 million for the comparable period in 2016. The net sales increase in the United States was concentrated in the SOREL and Mountain Hardwear brands, partially offset by a decrease in Columbia brand net sales. The United States net sales increase was led by an increase in net sales in our direct-to-consumer business, partially offset by a net sales decrease in our wholesale business. The net sales increase in our direct-to-consumer business was led by our retail stores, followed by increased e-commerce net sales.

The net sales decrease in our wholesale business resulted primarily from the combined effects of U.S. wholesale customer bankruptcies, liquidations, and store closures that have occurred over the past 18 months.
Net sales in the LAAP region increased $8.7 million, or 5% (6% in constant-currency), to $197.8 million for the six months ended June 30, 2017 from $189.1 million for the comparable period in 2016. The net sales increase in the LAAP region was concentrated in the Columbia brand and was led by our LAAP distributor business and Japan, partially offset by a net sales decrease in Korea. The net sales increase in our LAAP distributor business was driven by increased spring 2017 advance orders combined with a shift in the timing of shipments of spring 2017 advance wholesale orders from the fourth quarter of 2016 into the first quarter of 2017. The net sales increase in Japan was driven by increased direct-to-consumer net sales. The net sales decrease in Korea reflected continued business weakness amid the extremely promotional outdoor sector in that country.
Net sales in the EMEA region increased $12.3 million, or 11% (13% constant-currency), to $122.7 million for the six months ended June 30, 2017 from $110.4 million for the comparable period in 2016. The EMEA net sales increase consisted of net sales increases in the Columbia and SOREL brands, partially offset by a net sales decrease in the prAna brand. The EMEA net sales increase was led by our Europe-direct business, followed by net sales growth from our EMEA distributor business. The net sales increase in our Europe-direct business was driven by increased spring 2017 advance wholesale orders, increased fall 2016 close-out sales and reorders, and increased direct-to-consumer net sales. The net sales increase in our EMEA distributor business was driven by increased shipments of fall 2017 advance orders partially offset by a shift in timing of shipments of spring 2017 advance orders from the first quarter of 2017 into the fourth quarter of 2016 compared to the same period last year, when a larger proportion of spring 2016 advance orders shipped in the first quarter of 2016 than in the fourth quarter of 2015.
Net sales in Canada increased $1.4 million, or 3% (1% constant-currency), to $50.8 million for the six months ended June 30, 2017 from $49.4 million for the comparable period in 2016. The net sales increase in Canada was concentrated in the SOREL brand.
Sales by Brand
Net sales by brand are summarized in the following table:

	Six Months Ended June 30,					
	Reported Net Sales 2017	Adjust for Foreign Currency Translation	Constant-currency Net Sales 2017	Reported Net Sales 2016	Reported Net Sales % Change	Constant-currency Net Sales % Change
	(In millions, except for percentage changes)					
Columbia	$789.6	$ 3.4	$ 793.0	$ 770.5	2%	3%
SOREL	33.2	—	33.2	21.6	54%	54%
prAna	73.7	—	73.7	73.6	—%	—%
Mountain Hardwear	43.8	(0.1)	43.7	42.2	4%	4%
Other	2.4	0.1	2.5	6.0	(60)%	(58)%
	$942.7	$ 3.4	$ 946.1	$ 913.9	3%	4%

Columbia brand net sales increased $19.1 million, or 2% (3% constant currency), to $789.6 million, including increased net sales in the U.S. direct-to-consumer channel, the EMEA region and the LAAP region, partially offset by lower U.S. wholesale net sales.
SOREL brand net sales increased $11.6 million, or 54%, to $33.2 million, driven by increased sales of the brand's expanded spring season assortment concentrated in the United States and increased fall 2016 close-out product sales.
prAna brand net sales of $73.7 million remained relatively flat compared to the same period in 2016.
Mountain Hardwear brand net sales increased $1.6 million, or 4%, to $43.8 million, driven by increased net sales in the U.S. direct-to-consumer channel.

Sales by Product Category

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

	Six Months Ended June 30,					
	Reported Net Sales 2017	Adjust for Foreign Currency Translation	Constant-currency Net Sales 2017	Reported Net Sales 2016	Reported Net Sales % Change	Constant-currency Net Sales % Change
	(In millions, except for percentage changes)					
Apparel, Accessories and Equipment	$769.7	$ 1.8	$ 771.5	$ 755.5	2%	2%
Footwear	173.0	1.6	174.6	158.4	9%	10%
	$942.7	$ 3.4	$ 946.1	$ 913.9	3%	4%

Net sales of apparel, accessories and equipment increased $14.2 million, or 2%, to $769.7 million for the six months ended June 30, 2017 from $755.5 million for the comparable period in 2016. The apparel, accessories and equipment net sales increase was led by the Columbia brand, followed by the Mountain Hardwear brand. The apparel, accessories and equipment net sales increase was led by the LAAP region, followed by net sales increases in the EMEA region and in the United States.

Net sales of footwear increased $14.6 million, or 9% (10% constant-currency), to $173.0 million for the second quarter of 2017 from $158.4 million for the comparable period in 2016. The increase in footwear net sales was led by the SOREL brand, followed by the Columbia brand. The footwear net sales increase was driven by a net sales increase in the EMEA region, followed by the United States, Canada, and the LAAP region.

Gross Profit: Gross profit, as a percentage of net sales, was 46.6% for the six months ended June 30, 2017, compared to 46.7% for the same period in 2016. Gross profit contraction was primarily due to:

- Increased promotional activity in the U.S. in order to liquidate aged inventory primarily through our outlet stores;

partially offset by:

- Favorable changes in sales channel mix with a higher proportion of direct-to-consumer net sales, which generally carry higher gross margins, and a lower proportion of net sales to our wholesale customers and international distributors, which generally carry lower gross margins.

Selling, General and Administrative Expense: SG&A expense increased $15.1 million, or 4%, to $413.4 million, or 43.9% of net sales, for the six months ended June 30, 2017 from $398.3 million, or 43.6% of net sales, for the comparable period in 2016. The SG&A expense increase was primarily due to:

- Increased costs to support our expanding global direct-to-consumer businesses;
- Increased costs related to our operating model assessment;
- Increased personnel related expenses; and
- Increased demand creation expenses;

partially offset by:

- The favorable impact of foreign currency translation; and
- A decrease in information technology investments.

Depreciation and amortization included in SG&A expense totaled $29.5 million for the six months ended June 30, 2017, compared to $29.1 million for the same period in 2016.

Income Tax Expense: Income tax expense decreased to $5.2 million for the six months ended June 30, 2017 from $6.7 million for the comparable period in 2016. Our effective income tax rate was 16.0% for the six months ended June 30, 2017 compared to 20.3% for the same period in 2016. The lower effective income tax rate was primarily due to the resolution of tax audits in certain jurisdictions.

Net Income Attributable to Columbia Sportswear Company: Net income increased $0.9 million, or 3.7%, to $24.5 million, or $0.35 per diluted share, for the six months ended June 30, 2017 from $23.6 million, or $0.33 per diluted

share, for the comparable period in 2016.

Liquidity and Capital Resources

Our primary ongoing funding requirements are for working capital, investing activities associated with our global direct-to-consumer expansion, ongoing ERP and GRP initiatives and complementary systems implementations, general corporate needs, strategic business initiatives, and the expansion of our global operations. At June 30, 2017, we had total cash and cash equivalents of $620.6 million, compared to $551.4 million at December 31, 2016 and $415.9 million at June 30, 2016. In addition, we had short-term investments of $1.6 million at June 30, 2017, compared to $0.5 million at December 31, 2016 and $12.9 million at June 30, 2016. At June 30, 2017, approximately 55% of our cash and short-term investments were held by foreign subsidiaries, from which repatriation of those funds to the United States would likely result in a significant tax expense for us. However, based on the capital and liquidity needs of our foreign operations, as well as the status of current United States tax law, we intend to indefinitely reinvest these funds outside the United States. In addition, our United States operations do not require the repatriation of these funds to meet our currently projected liquidity needs.

Net cash provided by operating activities was $157.0 million for the six months ended June 30, 2017, compared to $102.7 million for the same period in 2016. The increase in cash provided by operating activities was primarily driven by favorable changes in inventory, partially offset by a lower decrease in accounts receivable during the six months ended June 30, 2017 compared to the same period in 2016.

Net cash used in investing activities was $25.1 million for the six months ended June 30, 2017, compared to $35.3 million for the comparable period in 2016. For the 2017 period, cash used in investing activities primarily consisted of $24.3 million for capital expenditures. For the same period in 2016, net cash used in investing activities primarily consisted of $23.0 million for capital expenditures and $12.4 million for purchases of short-term investments.

Net cash used in financing activities was $67.8 million for the six months ended June 30, 2017, compared to $19.0 million for the comparable period in 2016. For the 2017 period, net cash used in financing activities primarily consisted of repurchases of common stock of $35.5 million, dividend payments of $25.0 million and payment of a related-party note payable of $14.2 million, partially offset by net proceeds from stock plan activity of $7.1 million. For the same period in 2016, net cash used in financing activities primarily consisted of dividend payments of $23.7 million, partially offset by net proceeds from stock plan activity of $4.3 million.

Short-term borrowings and credit lines

We have an unsecured, committed revolving line of credit available to fund our domestic working capital requirements. Monthly variable commitments available for funding average $100.0 million over the course of a calendar year. At June 30, 2017, no balance was outstanding under this line of credit. At June 30, 2017, we were in compliance with all associated covenants. Internationally, our subsidiaries have operating lines of credit in place guaranteed by the parent company with a combined credit limit of approximately $88.0 million at June 30, 2017, of which $3.2 million is designated as a European customs guarantee. At June 30, 2017, no amount was outstanding under these subsidiary lines of credit.

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

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

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 GAAP. The preparation of these financial statements requires us to make various estimates and judgments that affect reported amounts of assets, liabilities, sales, cost of sales and expenses and related disclosure of contingent assets and liabilities. We believe that

the estimates, assumptions and judgments involved in the accounting policies referred to in our Annual Report on Form 10-K for the year ended December 31, 2016 have the greatest potential effect 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 may differ from the estimates we use in applying these critical accounting policies. We base our ongoing estimates on historical experience and other assumptions that we believe to be reasonable in the

circumstances. Some of these critical accounting policies affect working capital account balances, including the policy for revenue recognition, including sales returns and claims from customers, the allowance for doubtful accounts, the provision for potential excess, slow-moving and closeout inventories, product warranty, income taxes and stock-based compensation.

Management regularly discusses with our audit committee each of our critical accounting estimates, the development and selection of these accounting estimates, and the disclosure about each estimate in Management's Discussion and Analysis of Financial Condition and Results of Operations. These discussions typically occur at our quarterly audit committee meetings and include the basis and methodology used in developing and selecting these estimates, the trends in and amounts of these estimates, specific matters affecting the amount of and changes in these estimates and any other relevant matters related to these estimates, including significant issues concerning accounting principles and financial statement presentation.

There have been no significant changes to our critical accounting policies as described in our Annual Report on Form 10-K for the year ended December 31, 2016.

Recent Accounting Pronouncements

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

Item 3. QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK

There has not been any material change in the market risk disclosure contained in our Annual Report on Form 10-K for the year ended December 31, 2016.

Item 4. CONTROLS AND PROCEDURES

Disclosure Controls and Procedures

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

Changes in Internal Control over Financial Reporting

We are implementing an ERP system and complementary systems that support our operations and financial reporting. This implementation is occurring in phases globally over several years, and has been executed in the majority of our operations to date. During the second quarter of 2017, we implemented the ERP system in our China joint venture and plan to transition our Europe-direct business onto the system in mid-2018. Each implementation phase involves changes to the processes that constitute our internal control over financial reporting. We are taking steps to monitor and maintain appropriate internal control over financial reporting and will continue to evaluate these controls for effectiveness.

There were no other changes in our internal control over financial reporting that occurred during the quarter ended June 30, 2017 that have materially affected, or are reasonably likely to materially affect, our internal controls over financial reporting.

PART II—OTHER INFORMATION

Item 1. LEGAL PROCEEDINGS

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

Item 1A. RISK FACTORS

In addition to the other information contained in this Form 10-Q, the following risk factors should be considered carefully in evaluating our business. Our business, financial condition, results of operations, or cash flows may be materially adversely affected by these and other risks. Please note that additional risks not presently known to us or that we currently deem immaterial may also impair our business and operations. The following risk factors include changes to and supersede the description of the risk factors associated with our business previously disclosed in Part I, Item 1A of our Annual Report on Form 10-K for the fiscal year ended December 31, 2016.

We Face Many Challenges Executing Growth Strategies

Our business strategies aim to achieve sustainable, profitable growth by creating innovative products at competitive prices, focusing on product design, utilizing innovations to differentiate our brands from competitors, working to ensure that our products are sold through strong distribution partners capable of effectively presenting our brands to consumers, increasing the impact of consumer communications to drive demand for our brands and sell-through of our products, making sure our products are merchandised and displayed appropriately in retail environments, expanding our presence in key markets around the world, and continuing to build brand-enhancing direct-to-consumer businesses. We intend to pursue these strategies across our portfolio of brands, product categories and geographic markets. Our failure to implement our business strategies, including those identified in connection with our operating model assessment, successfully could have a material adverse effect on our financial condition, results of operations or cash flows.

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

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

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

We regularly implement business process improvement initiatives to optimize our operational and financial performance. Our current initiatives include plans to improve business results through standardization of business processes and technologies that support our supply chain and go-to-market strategies through on-going implementation of and upgrades to integrated global ERP software solutions and other complementary information technology systems over the next several years. Implementation of and upgrades to these solutions and systems are highly dependent on coordination of numerous employees, contractors and software and system providers. The

interdependence of these solutions and systems is a significant risk to the successful completion of the initiatives, and the failure of any one contractor or system could have a material adverse effect on the implementation of our overall information technology infrastructure. We may experience difficulties as we transition to these new or upgraded systems and processes, including loss or corruption of data, delayed shipments, decreases in productivity as our personnel implement and become familiar with new systems, increased costs, and lost revenues. In addition, transitioning to these new or upgraded systems

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requires significant capital investments and personnel resources. Difficulties in implementing new or upgraded information systems or significant system failures, including system outages and loss of system availability, could disrupt our operations and have a material adverse effect on our financial condition, results of operations or cash flows.

Implementation of this information technology infrastructure has a pervasive effect on our business processes and information systems across a significant portion of our operations. As a result, we are undergoing significant changes in our operational processes and internal controls as our implementation progresses, which in turn require significant change management, including training of and testing by our personnel. If we are unable to successfully manage these changes as we implement these systems, including harmonizing our systems, data, processes and reporting analytics, our ability to conduct, manage and control routine business functions could be negatively affected and significant disruptions to our business could occur. In addition, we could incur material unanticipated expenses, including additional costs of implementation or costs of conducting business. These risks could result in significant business disruptions or divert management's attention from key strategic initiatives and have a material adverse effect on our financial condition, results of operations or cash flows.

We Rely on Our Highly Customized Information Management Systems

Our business is increasingly reliant on information technology. Information systems are used across our supply chain and retail operations, from design to distribution and sales, and are used as a method of communication among employees, with our subsidiaries and liaison offices overseas and with our customers and retail stores. We also rely on our information systems to allocate resources, pay vendors and collect from customers, manage product data, develop demand and supply plans, forecast and report operating results, and meet regulatory requirements.

Our legacy ERP, product development, retail point-of-sale and other systems, on which we continue to manage a substantial portion of our business activities, are highly customized. As a result, the availability of internal and external resources with the expertise to maintain these systems is limited. Our legacy systems may not support desired functionality for our operations and may inhibit our ability to operate efficiently, which could have an adverse effect on our financial condition, results of operations or cash flows. As we transition from our legacy ERP and supporting systems to our new ERP and supporting systems, certain functionality and information from our legacy systems, including that of third party systems that interface with our legacy systems, may not be fully compatible with the new systems. As a result, temporary processes or solutions may be required, including manual operations, which could significantly increase the risk of loss or corruption of data and information used by the business or result in business disruptions, which could have a material adverse effect on our financial condition, results of operations or cash flows.

A Breach in the Security of Our Systems, or the Privacy and Security of Company, Customer, Supplier, or Employee Information, Could Disrupt Our Operations, Damage Our Reputation or Cause Us to Incur Substantial Costs

We manage and store various types of proprietary information and sensitive and confidential data relating to our business, including personally identifiable information. Our information systems are subject to an increasing threat of continually evolving cybersecurity risks. Unauthorized parties may attempt to gain access to our systems or information through fraud or other means of deceiving our employees or third party service providers. Hardware, software or applications we develop or obtain from third parties may contain defects in design or manufacture or other problems that could unexpectedly compromise information security. The methods used to obtain unauthorized access, disable or degrade service, or sabotage systems are constantly changing and evolving, and may be difficult to anticipate or detect for long periods of time. We have implemented and regularly review and update processes and procedures to protect against unauthorized access to or use of secured data and to prevent data loss. However, the ever-evolving threats mean we must continually evaluate and adapt our systems and processes, and there is no guarantee that they will be adequate to safeguard against all data security breaches or misuses of data. For example, in February 2017, we reported the discovery of a cybersecurity incident involving our prAna.com e-commerce website. We referred the matter to the FBI for investigation and also notified potentially affected prAna customers.

In addition, any future breaches of our security measures, or the accidental loss, inadvertent disclosure or unapproved dissemination of proprietary information or sensitive and confidential data about us, our customers, our suppliers, or our employees, could expose us, our customers, our suppliers, our employees, or other individuals that may be affected to a risk of loss or misuse of this information, result in litigation and potential liability for us, damage our reputation, or otherwise harm our business and could have a material adverse effect on our financial condition, results

of operations or cash flows. In addition, as the regulatory environment related to information security, data collection and use and privacy becomes increasingly rigorous, with new and constantly changing requirements applicable to our business, compliance with those requirements could also result in additional costs.

We Depend on Contract Manufacturers

Our products are manufactured by contract manufacturers worldwide. Although we enter into purchase order commitments with these contract manufacturers each season, we generally do not maintain long-term manufacturing commitments with them. Without long-term or reserve commitments, there is no assurance that we will be able to secure adequate or timely production capacity or favorable pricing if growth or product demand differs from our forecasts. Contract manufacturers may fail to perform as expected or our competitors may obtain production capacities that effectively limit or eliminate the availability of these resources to us. If a contract manufacturer fails to ship orders in a timely manner or to meet our standards or if we are unable to obtain necessary capacities, this could cause supply disruptions that would hinder our ability to satisfy demand through our direct-to-consumer businesses and we may miss delivery deadlines or incur additional costs, which may cause our wholesale or distributor customers to cancel their orders, refuse to accept deliveries or demand a reduction in purchase prices, any of which could have a material adverse effect on our financial condition, results of operations or cash flows.

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

We also have license agreements that permit unaffiliated parties to manufacture or contract to manufacture products using our trademarks. We impose standards of manufacturing practices on our contract manufacturers and licensees for the benefit of workers and require compliance with our restricted substances list and product safety and other applicable environmental, health and safety laws. We also require our contract manufacturers and licensees to impose these practices, standards and laws on their contractors. If a contract manufacturer, licensee or subcontractor violates labor or other laws or engages in practices that are not generally accepted as safe or ethical, the manufacturer, licensee or subcontractor or its respective employees may suffer serious injury due to industrial accidents, the manufacturer may suffer disruptions to its operations due to work stoppages or employee protests and we may experience production disruptions, lost sales or significant negative publicity that could result in long-term damage to our reputation. In some circumstances, parties may assert that we are liable for our independent manufacturers', licensees' or subcontractors' labor and operational practices, which could have a material adverse effect on our brand image and our financial condition, results of operations or cash flows, in particular if such assertions are successful.

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

Our product costs are subject to substantial fluctuation based on:

- Availability and quality of raw materials;
- The prices of oil, leather, natural down, cotton, and other raw materials whose prices are determined by global commodity markets and can be very volatile;
- Changes in labor markets and wage rates paid by our independent factory partners, which are often mandated by governments in the countries where our products are manufactured, particularly in China and Vietnam;
- Disruption to shipping and transportation channels utilized to bring our products to market;
- Interest rates and currency exchange rates;
- Availability of skilled labor and production capacity at contract manufacturers; and
- General economic conditions.

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

In addition, since the majority of our products are manufactured outside of our principal sales markets, our products must be transported by third parties over large geographical distances. Shortages in ocean or air freight capacity and volatile fuel costs can result in rapidly changing transportation costs. Similarly, disruption to shipping and transportation channels due to labor disputes could cause us to rely more heavily on alternative modes of

transportation to achieve timely delivery to our customers, resulting in significantly higher freight costs. Because we price our products in advance and changes in transportation and other costs may be difficult to predict, we may not be able to pass all or any portion of these higher costs on to our customers or adjust

our pricing structure in a timely manner in order to remain competitive, either of which could have a material adverse effect on our financial condition, results of operations or cash flows.

We May Be Adversely Affected by Volatile Economic Conditions

We are a consumer products company and are highly dependent on consumer discretionary spending and retail traffic patterns. Purchasing patterns of our wholesale customers can vary year to year as they attempt to forecast and match their seasonal advance orders, in-season replenishment and at-once orders to eventual seasonal consumer demand. In addition, as we have expanded our direct-to-consumer businesses, we have increased our direct exposure to the risks associated with volatile and unpredictable consumer discretionary spending patterns. Consumer discretionary spending behavior is inherently unpredictable and consumer demand for our products may not reach our sales targets, or may decline, especially during periods of heightened economic uncertainty in our key markets. Our sensitivity to economic cycles and any related fluctuation in consumer demand may have a material adverse effect on our financial condition, results of operations or cash flows.

We May Be Adversely Affected by the Financial Health of Our Customers

In recent periods, sluggish economies and consumer uncertainty regarding future economic prospects in our key markets has had an adverse effect on the financial health of our customers, some of whom have reduced their store fleet, filed or may file for protection under bankruptcy laws, restructured, or ceased operations, which may in turn have a material adverse effect on our financial condition, results of operations, or cash flows. We extend credit to our customers based on an assessment of the customer's financial condition, generally without requiring collateral. To assist in the scheduling of production and the shipping of seasonal products, we offer customers discounts for placing advance orders and extended payment terms for taking delivery before the peak shipping season. These extended payment terms increase our exposure to the risk of uncollectable receivables. In addition, we face increased risk of order reduction or cancellation or reduced availability of credit insurance coverage when dealing with financially ailing retailers or retailers struggling with economic uncertainty. Some of our significant wholesale customers and international independent distributors have liquidated or reorganized, while others have had financial difficulties in the past or have experienced tightened credit markets, sales declines and reduced profitability, which in turn have had an adverse effect on our business. Future customer liquidations or reorganizations could have a material adverse effect on our financial condition, results of operations or cash flows. We may choose to limit our credit risk by reducing our level of business with customers experiencing financial difficulties and may not be able to replace those revenues with other customers or through our direct-to-consumer businesses within a reasonable period, which could have a material adverse effect on our financial condition, results of operations or cash flows.

We May Be Adversely Affected by Retailer Consolidation

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

We May Be Adversely Affected by Global Credit Market Conditions

Economic downturns and economic uncertainty generally affect global credit markets. Our vendors, customers and other participants in our supply chain may require access to credit markets in order to do business. Credit market conditions may slow our collection efforts as customers find it more difficult to obtain necessary financing, leading to higher than normal accounts receivable. This could result in greater expense associated with collection efforts and increased bad debt expense. Credit conditions may impair our vendors' ability to finance the purchase of raw materials or general working capital needs to support our production requirements, resulting in a delay or non-receipt of inventory shipments during key seasons.

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

We May Be Adversely Affected by Currency Exchange Rate Fluctuations

We derive a significant portion of our net sales from markets outside the United States, comprised of sales to wholesale customers and directly to consumers by our consolidated subsidiaries in Europe, Korea, Japan, and Canada, and our China joint

venture, and sales to independent international distributors who operate within the EMEA and LAAP regions. Sales and related operational expenses of our foreign subsidiaries and China joint venture, as well as their respective assets and liabilities, are denominated in currencies other than the U.S. dollar and translated into U.S. dollars for periodic reporting purposes using the exchange rates in effect during each period. If the U.S. dollar strengthens against the foreign subsidiary's functional currency, translated revenues and expenses will decline on a relative basis.

The majority of our purchases of finished goods inventory from contract manufacturers are denominated in U.S. dollars, including purchases by our foreign subsidiaries and China joint venture. The cost of these products may be affected by relative changes in the value of the local currencies of these subsidiaries and the joint venture in relation to the U.S. dollar and in relation to the local currencies of our manufacturing vendors. In order to facilitate solicitation of advance orders from wholesale customers and distributors for the spring and fall seasons, we establish local-currency-denominated wholesale and retail price lists in each of our foreign subsidiaries approximately six to nine months prior to U.S. dollar-denominated seasonal inventory purchases. As a result, our consolidated results are directly exposed to transactional foreign currency exchange risk to the extent that the U.S. dollar strengthens during the six to nine months between when we establish seasonal local-currency prices and when we purchase inventory. We employ several tactics in an effort to mitigate this transactional currency risk, including the use of currency forward and option contracts. We may also implement local-currency wholesale and retail price increases in our subsidiary and joint venture markets in an effort to mitigate the effects of currency exchange rate fluctuations on inventory costs. There is no assurance that our use of currency forward and option contracts and implementation of price increases, in combination with other tactics, will succeed in fully mitigating the negative effects of adverse foreign currency exchange rate fluctuations on the cost of our finished goods in a given period or that price increases will be accepted by our wholesale customers, distributors, or consumers. Our gross margins are adversely affected whenever we are not able to offset the full extent of finished goods cost increases caused by adverse fluctuations in foreign currency exchange rates.

Because the functional currencies of our foreign subsidiaries and China joint venture are not the U.S. dollar, we are also exposed to potential material gains or losses from the remeasurement of U.S. dollar monetary transactions into the respective functional currencies of those entities. In an effort to mitigate this risk, we use foreign currency forward contracts to hedge net balance sheet exposures related primarily to our foreign subsidiaries' and joint venture's non-functional currency denominated monetary assets and liabilities. These consist primarily of cash and cash equivalents, short-term investments, payables, and intercompany loans for subsidiaries that use European euros, Swiss francs, Canadian dollars, Japanese yen, Korean won, or Chinese renminbi as their functional currency.

In addition to the direct currency exchange rate exposures described above, our business is indirectly exposed to currency exchange rate risks. For example, all of the EMEA and LAAP distributors to whom we sell purchase their inventory from us in U.S. dollars. Weakening of a distributor's functional currency relative to the U.S. dollar makes it more expensive for it to purchase finished goods inventory from us. In order to make those purchases and pay us on a timely basis, our distributors must exchange sufficient quantities of their functional currency for U.S. dollars through the financial markets. Some of our distributors have experienced periods during which they have been unable to obtain U.S. dollars in sufficient amounts to complete their purchase of finished goods inventory or to pay amounts owed for past purchases. Although each distributor bears the full risk of fluctuations in the value of its currency against the U.S. dollar, our business can be indirectly affected when adverse fluctuations cause a distributor to cancel portions of prior advance orders or significantly reduce its future purchases or both. In addition, price increases that our distributors implement in an effort to offset higher product costs may make our products less price-competitive in those markets and reduce consumer demand for our products.

Currency exchange rate fluctuations may also create indirect risk to our business by disrupting the business of independent finished goods manufacturers from which we purchase our products. When their functional currencies weaken in relation to other currencies, the raw materials they purchase on global commodities markets become more expensive and more difficult to finance. Although each manufacturer bears the full risk of fluctuations in the value of its currency against other currencies, our business can be indirectly affected when adverse fluctuations cause a manufacturer to raise the prices of goods it produces for us, disrupt the manufacturer's ability to purchase the necessary raw materials on a timely basis or disrupt the manufacturer's ability to function as an ongoing business.

Primarily for each of the reasons described above, currency fluctuations and disruptions in currency exchange markets may have a material adverse effect on our financial condition, results of operations or cash flows.

Our Orders from Customers Are Subject to Cancellation

We do not have long-term contracts with any of our wholesale customers. We do have contracts with our independent international distributors; however, although these contracts may have annual purchase minimums which must be met in order to retain distribution rights, the distributors are not otherwise obligated to purchase product. Sales to our wholesale customers and distributors are generally on an order-by-order basis and are subject to rights of cancellation and rescheduling. We consider the timing of delivery dates in our wholesale customer orders when we forecast our sales and earnings for future periods. If any of

our major customers, including distributors, experience a significant downturn in business or fail to remain committed to our products or brands, these customers could postpone, reduce, cancel, or discontinue purchases from us. As a result, we could experience a decline in sales or gross profit, write-downs of excess inventory, increased discounts, extended credit terms to our customers, or uncollectable accounts receivable, which could have a material adverse effect on our financial condition, results of operations or cash flows.

We May Not Realize Returns on Our Investments in Our Direct-to-Consumer Businesses

In recent years, our direct-to-consumer businesses have grown substantially and we anticipate continued growth in the future. Accordingly, we continue to make significant investments in our online platforms and physical retail locations, including system upgrades, entering into long-term store leases, constructing leasehold improvements, purchasing fixtures and equipment, and investing in inventory and personnel. Since many of the costs of our direct-to-consumer businesses are fixed, if we have insufficient sales, we may be unable to reduce expenses in order to avoid losses or negative cash flows. Our direct-to-consumer businesses are dependent upon our ability to operate in an increasingly complex and evolving marketplace and these businesses' results are highly dependent on retail traffic patterns in our physical locations and our on-line platforms where our products are sold, as well as the spending patterns of our consumers. If we are unable to effectively navigate the direct-to-consumer marketplace or anticipate consumer buying patterns, our ability to generate sales through our direct-to-consumer businesses may be adversely affected, which in turn could have a material adverse effect on our financial condition, results of operations or cash flows.

Labor costs and labor-related benefits are primary components in the cost of our retail operations and are affected by various federal, state and foreign laws governing matters such as minimum wage rates, overtime compensation and other requirements. For example, we have seen significant political pressure and legislative actions to increase the minimum wage rate in many of the jurisdictions within which our stores are located. If we are unable to operate profitable stores or if we close stores, we may experience significant reductions in sales and income or incur significant write-downs of inventory, severance costs, lease termination costs, impairment losses on long-lived assets, or loss of working capital, which could have a material adverse effect on our financial condition, results of operations or cash flows.

In addition, from time to time we license the right to operate retail stores for our brands to third parties, primarily to our independent international distributors. We provide training to support these stores and set operational standards. However, these third parties may not operate the stores in a manner consistent with our standards, which could cause reputational damage to our brands or harm the third parties' sales and as a result harm our financial condition, results of operations or cash flows.

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

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

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

- Unseasonable weather conditions;
- Our reliance, for certain demand and supply planning functions, on manual processes and judgments that are subject to human error;
- Consumer acceptance of our products or changes in consumer demand for products of our competitors, which could increase pressure on our product development cycle;
- Unanticipated changes in general market conditions or other factors, which may result in lower advance orders from wholesale customers and distributors, cancellations of advance orders or a reduction or increase in the rate of reorders placed by retailers; and
- Weak economic conditions or consumer confidence, which could reduce demand for discretionary items such as our products.

In some cases, we may produce quantities of product that exceed actual demand, which could result in higher inventory levels that we need to liquidate at discounted prices. During periods of unseasonable weather conditions, weak economic conditions, unfavorable currency fluctuations, or unfavorable geopolitical conditions in key markets, we may experience a significant increase in the volume of order cancellations by our customers, including cancellations resulting from the bankruptcy, liquidation or

contraction of some customers' operations. We may not be able to sell all of the products we have ordered from contract manufacturers or that we have in our inventory. Inventory levels in excess of customer demand may result in inventory write-downs and the sale of excess inventory at discounted prices through our owned outlet stores or third-party liquidation channels, which could have a material adverse effect on our brand image, financial condition, results of operations, or cash flows.

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

We Face Risks Associated with Consumer Preferences and Fashion Trends

Changes in consumer preferences, consumer purchasing behavior or consumer interest in outdoor activities may have a material adverse effect on our business and changes in fashion trends may have a greater effect than in the past as we expand our offerings to include more product categories in more geographic areas that are generally more sensitive to fashion trends. We also face risks because our success depends on our and our customers' abilities to anticipate consumer preferences and buying patterns, including the growth of e-commerce off-price retailing, and respond to changes in a timely manner. Lead times for many of our products may make it more difficult for us to respond rapidly to new or changing product trends or consumer preferences. In addition, our decisions about product designs often are made far in advance of consumer acceptance. Although we try to manage our inventory risk by soliciting advance order commitments from customers, we generally place a significant portion of our seasonal production orders with our contract manufacturers before we have received all of a season's advance orders from customers, and orders may be canceled by customers before shipment. If we or our customers fail to anticipate and respond to consumer preferences or fail to respond in a timely manner or if we or our customers are unable to effectively navigate a transforming retail marketplace, we could suffer reputational damage to our brands and we may experience lower sales, excess inventories and lower profit margins in current and future periods, any of which could have a material adverse effect on our financial condition, results of operations or cash flows.

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

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

A significant portion of our business is highly dependent on cold-weather seasons and patterns to generate consumer demand for our cold-weather apparel and footwear. Consumer demand for our cold-weather apparel and footwear may be negatively affected to the extent global weather patterns trend warmer, reducing typical patterns of cold-weather events or increasing weather volatility, which could have a material adverse effect on our financial condition, results of operations or cash flows.

Acquisitions Are Subject to Many Risks

From time to time, we may pursue growth through strategic acquisitions of assets or companies. Acquisitions, for instance our acquisition of prAna in May 2014, are subject to many risks, including potential loss of significant customers or key personnel of the acquired business as a result of the change in ownership, difficulty integrating the operations of the acquired business or achieving targeted efficiencies, the incurrence of substantial costs and expenses related to the acquisition effort, and diversion of management's attention from other aspects of our business operations.

Acquisitions may also cause us to incur debt or result in dilutive issuances of our equity securities. Our acquisitions may cause large one-time expenses or create goodwill or other intangible assets that could result in significant impairment charges in the future. We also make various estimates and assumptions in order to determine purchase

price allocation and estimate the fair value of assets acquired and liabilities assumed. If our estimates or assumptions used to value these assets and liabilities vary from actual or future projected results, we may be exposed to losses, including impairment losses, that could be material.

We do not provide any assurance that we will be able to successfully integrate the operations of any acquired businesses into our operations or achieve the expected benefits of any acquisitions. The failure to successfully integrate newly acquired businesses or achieve the expected benefits of strategic acquisitions in the future could have an adverse effect on our financial condition,

results of operations and cash flows. We may not complete a potential acquisition for a variety of reasons, but we may nonetheless incur material costs in the preliminary stages of evaluating and pursuing such an acquisition that we cannot recover.

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

Effective January 2014, our joint venture in China with Swire began operations. The joint venture, in which we hold a 60% interest, is subject to a number of risks and uncertainties, including those listed below:

- Our ability to effectively operate the joint venture depends upon our ability to manage the employees of the joint venture, and to attract new employees as necessary to supplement the skills, knowledge and expertise of the existing management team and other key personnel. We face intense competition for these individuals worldwide, including in China. We may not be able to attract qualified new employees or retain existing employees to operate the joint venture. Additionally, turnover in key management positions at the joint venture could impair our ability to execute our growth strategy, which may negatively affect the value of our investment in the joint venture and the growth of our sales in China.
- We rely, in part, on the operational skill of our joint venture partner. Additionally, because our joint venture partner has protective voting rights with respect to specified major business decisions of the joint venture, we may experience difficulty reaching agreement as to implementation of various changes to the joint venture's business. For these reasons, or as a result of other factors, we may not realize the anticipated benefits of the joint venture, and our results of operations could be adversely affected.
- Continued sales growth in China is an important part of our expectations for our joint venture business. Although China has experienced significant economic growth in recent years, that growth is slowing. Slowing economic growth in China could result in reduced consumer discretionary spending, which in turn could result in lower demand for our products, and thus could have a material adverse effect on our financial condition, results of operations or cash flows.
- Although we believe we have achieved a leading market position in China, many of our competitors who are significantly larger than we are and have substantially greater financial, distribution, marketing, and other resources, more stable manufacturing resources and greater brand strength are also concentrating on growing their businesses in China. In addition, the number of competitors in the marketplace has increased significantly in recent years. Increased investment by our competitors in this market could decrease our market share and competitive position in China.

Our International Operations Involve Many Risks, and Global Economic and Political Conditions as Well as Potential Changes in Legislation and Government Policy May Negatively Affect Our Business

We are subject to risks generally associated with doing business internationally. These risks include the effects of foreign laws and regulations, foreign government fiscal and political crises, political and economic disputes and sanctions, changes in consumer preferences, foreign currency exchange rate fluctuations, managing a diverse and widespread workforce, political unrest, terrorist acts, military operations, disruptions or delays in shipments, disease outbreaks, natural disasters, and changes in economic conditions in countries in which we manufacture or sell products. These factors, among others, may affect our ability to sell products in international markets, our ability to collect accounts receivable, our ability to manufacture products or procure materials, and our cost of doing business. For example, political and economic turmoil in certain South American distributor markets have resulted in currency and import restrictions, limiting our ability to sell products in some countries in this region. Also, Russia constitutes a significant portion of our non-U.S. sales and operating income and a significant change in conditions in that market has had an adverse effect on our results of operations in the past. The United Kingdom's June 23, 2016 referendum, in which voters approved its exit from the European Union (commonly referred to as "Brexit"), has created economic uncertainty and volatility in currency exchange rates, and the potential adverse effects of changes to the legal and regulatory framework that apply to the United Kingdom and its relationship with the European Union, and the associated effects on our European operations, are unknown. If any of these or other factors make the conduct of business in a particular country undesirable or impractical, our business may be materially and adversely affected.

In addition, the new U.S. administration has publicly supported potential trade proposals, including import tariffs, modifications to international trade policy, and other changes that may affect U.S. trade relations with other countries, any of which may require us to significantly modify our current business practices or may otherwise materially and adversely affect our business.

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As we expand our operations in geographic scope and product categories, we anticipate intellectual property disputes will increase, making it more expensive and challenging to establish and protect our intellectual property rights and to defend against claims of infringement by others. In addition, many of our imported products are subject to duties, tariffs or other import limitations that affect the cost and quantity of various types of goods imported into the United States and other markets. Any country in which our products are produced or sold may eliminate, adjust or impose new import limitations, duties, anti-dumping penalties, or other charges or restrictions, any of which could have a material adverse effect on our financial condition, results of operations or cash flows.

We May Have Additional Tax Liabilities

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

Changes in the tax laws of the jurisdictions where we do business, including an increase in tax rates or an adverse change in the treatment of an item of income or expense, could result in a material increase in our tax expense. For example, changes in the tax laws of foreign jurisdictions could arise as a result of the Base Erosion and Profit Shifting (BEPS) project undertaken by the Organization for Economic Co-operation and Development (OECD). The OECD, which represents a coalition of member countries, is recommending changes to numerous long-standing tax principles. If these changes are adopted by countries, tax uncertainty could increase and may adversely affect our provision for income taxes. In addition, in the United States, a number of proposals for broad reform of the corporate tax system are under evaluation by various legislative and administrative bodies, including a border-adjustment tax, other increased taxes on imports, and a limit on the ability to defer U.S. taxation on earnings outside the United States until those earnings are repatriated to the United States. Although it is not possible to accurately determine or predict at this time whether, when or to what extent new U.S. federal tax laws, regulations, interpretations, or rulings will be issued, or the overall effect of any such changes on our effective tax rate, changes such as these may have a material adverse effect on our financial condition, results of operations or cash flows.

We earn a significant amount of our operating income from outside the United States for which deferred taxes have not been provided. These earnings are considered indefinitely invested outside of the United States and a repatriation of these funds may result in a significant increase in our U.S. income taxes and foreign withholding taxes. If we become legally required to repatriate funds or we encounter a significant need for liquidity domestically or at a particular location that we cannot fulfill on favorable terms through borrowings, equity offerings or other internal or external sources, we may experience unfavorable tax and earnings consequences as a result of cash transfers.

We Operate in Highly Competitive Markets

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

Retailers who are our customers often pose our most significant competitive threat by designing and marketing apparel, footwear, accessories, and equipment under their own private labels. For example, in the United States and Europe, several of our largest customers have developed significant private label brands during the past decade that compete directly with our products. These retailers have assumed an increasing degree of inventory risk in their private label products and, as a result, may first cancel advance orders with us in order to manage their own inventory levels downward during periods of unseasonable weather or weak economic cycles. As our direct-to-consumer businesses grow, we also experience direct competition from retailers that are our customers, some of which primarily operate e-commerce operations and employ aggressive pricing strategies. We also compete with other companies for the production capacity of contract manufacturers from which we source our products and for import capacity. Many of our competitors are significantly larger than we are and have substantially greater financial, distribution, marketing, and other resources, more stable manufacturing resources and greater brand strength than we have. In addition, when

our competitors combine operations through mergers, acquisitions or other transactions, their competitive strengths may increase.
Increased competition may result in reduced access to production capacity, challenges in obtaining favorable locations for our retail stores, reductions in display areas in retail locations, reductions in sales, or reductions in our profit margins, any of which may have a material adverse effect on our financial condition, results of operations or cash flows.

We Rely on Innovation to Compete in the Market for Our Products

To distinguish our products in the marketplace and achieve commercial success, we rely on product innovations, including new or exclusive technologies, inventive and appealing design or other differentiating features. Although we are committed to designing innovative and functional products that deliver relevant performance benefits to consumers, who participate in a wide range of competitive and recreational outdoor activities, if we fail to introduce technical innovation in our products that address consumers' performance expectations, we could suffer reputational damage to our brands and demand for our products could decline.

As we strive to achieve product innovations, we face a greater risk of inadvertent infringements of third party rights or compliance issues with regulations applicable to products with technical features or components. In addition, technical innovations often involve more complex manufacturing processes, which may lead to higher instances of quality issues, and if we experience problems with the quality of our products, we may incur substantial expense to address the problems and any associated product risks. Failure to successfully bring to market innovations in our product lines could have a material adverse effect on our financial condition, results of operations or cash flows.

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

Our registered and common law trademarks and our patented or patent-pending designs and technologies have significant value and are important to our ability to differentiate our products from those of our competitors and to create and sustain demand for our products. We also place significant value on our trade dress, the overall appearance and image of our products. We regularly discover products that are counterfeit reproductions of our products or that otherwise infringe on our proprietary rights. Counterfeiting activities typically increase as brand recognition increases, especially in markets outside the United States. Increased instances of counterfeit manufacture and sales may adversely affect our sales and the reputation of our brands and result in a shift of consumer preference away from our products. The actions we take to establish and protect trademarks and other proprietary rights may not be adequate to prevent imitation of our products by others or to prevent others from seeking to block sales of our products as violations of proprietary rights. In markets outside of the United States, it may be more difficult for us to establish our proprietary rights and to successfully challenge use of those rights by other parties. We also license our proprietary rights to third parties. We could suffer reputational damage to our brands if we fail to choose appropriate licensees and licensed product categories. In addition to our own intellectual property rights, many of the intellectual property rights in the technology, fabrics and processes used to manufacture our products are generally owned or controlled by our suppliers and are generally not unique to us. In those cases, we may not be able to adequately protect our products or differentiate their performance characteristics and fabrications from those of our competitors. The management of our intellectual property portfolio may affect the strength of our brands, which may in turn have a material adverse effect on our financial condition, results of operations or cash flows.

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

Our Success Depends on Our Distribution Facilities

Our ability to meet customer expectations, manage inventory, complete sales, and achieve objectives for operating efficiencies depends on the proper operation of our existing distribution facilities, the development or expansion of

additional distribution capabilities and services, such as the transition of value-added services functions from contract manufacturers to our distribution centers, and the timely performance of services by third parties, including those involved in shipping product to and from our distribution facilities. In the United States, we rely primarily on our distribution centers in Portland, Oregon and Robards, Kentucky; in Canada, we rely primarily on our distribution facility in London, Ontario; in Europe, we rely primarily on our distribution center in Cambrai, France; in Japan, we rely primarily on a third-party logistics distribution provider in Tokyo; in Korea, we rely primarily on one leased distribution facility near Seoul that we manage and operate; and in China, we rely primarily on two distribution centers managed by third parties.

Our primary distribution facilities in the United States, France and Canada are highly automated, which means that their operations are complicated and may be subject to a number of risks related to computer viruses, the proper operation of software and hardware, electronic or power interruptions, and other system failures. Risks associated with upgrading or expanding these facilities may significantly disrupt or increase the cost of our operations. For example, in addition to supporting our traditional wholesale business, our existing distribution facilities have been modified to enable them to also support our e-commerce businesses in the United States, Canada and Europe. Failure to successfully maintain and update these modifications could disrupt our wholesale and e-commerce shipments and may have a material adverse effect on our financial condition, results of operations or cash flows.

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

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

Our Investments May Be Adversely Affected by Market Conditions

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

We May Be Adversely Affected by Labor Disruptions, Changes in Labor Laws and Other Labor Issues

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

Our ability to meet our labor needs at our distribution centers, retail stores, corporate headquarters, and regional subsidiaries, including our ability to find qualified employees while controlling wage and related labor costs, is generally subject to numerous external factors, including the availability of a sufficient number of qualified persons in the work force of the markets in which our operations are located, unemployment levels within those markets, prevailing and minimum wage rates, changing demographics, health and other insurance costs, and adoption of new or revised employment and labor laws and regulations. If we are unable to locate, attract or retain qualified employees, our ability to source, distribute and sell products in a timely and cost-effective manner may be negatively affected, which could have a material adverse effect on our financial condition, results of operations or cash flows.

We Depend on Key Suppliers

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

operations or cash flows.

We Depend on Key Personnel

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

Our Business Is Affected by Seasonality

Our business is affected by the general seasonal trends common to the outdoor industry. Our products are marketed on a seasonal basis and our annual net sales are weighted heavily toward the fall/winter season, while our operating expenses are more equally distributed throughout the year. As a result, the majority, and sometimes all, of our operating profits are generated in the second half of the year. The expansion of our direct-to-consumer businesses and sales growth in our winter footwear business has increased the proportion of sales and profits that we generate in the fourth calendar quarter. This seasonality, along with other factors that are beyond our control and that are discussed elsewhere in this section, may adversely affect our business and cause our results of operations to fluctuate. As a result, our profitability may be materially affected if management is not able to timely adjust expenses in reaction to adverse events such as unfavorable weather, weak consumer spending patterns or unanticipated levels of order cancellations. Results of operations in any period should not be considered indicative of the results to be expected for any future period.

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

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

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

Our Common Stock Price May Be Volatile

The price of our common stock has fluctuated substantially since our initial public offering. Our common stock is traded on the NASDAQ Global Select Market. Factors such as general market conditions, actions by institutional investors to rapidly accumulate or divest of a substantial number of our shares, fluctuations in financial results, variances from financial market expectations, changes in earnings estimates or recommendations by analysts, or announcements by us or our competitors may cause the market price of our common stock to fluctuate, perhaps substantially.

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

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

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

Period	Total Number of Shares Purchased	Average Price Paid per Share	Total Number of Shares Purchased as Part of Publicly Announced Plans or Programs [1]	Approximate Dollar Value of Shares that May Yet Be Purchased Under the Plans or Programs
April 1, 2017 through April 30, 2017	—	$ —	—	$ 140,478,000
May 1, 2017 through May 31, 2017	48,943	51.94	48,943	137,936,000
June 1, 2017 through June 30, 2017	—	—	—	137,936,000
Total	48,943	$ 51.94	48,943	$ 137,936,000

[1] Our Board of Directors has authorized the repurchase of $700,000,000 of our common stock. As of June 30, 2017, we had repurchased 21,658,035 shares under this program at an aggregate purchase price of approximately $562,064,000. Shares of our common stock may be purchased in the open market or through privately negotiated transactions, subject to market conditions. The repurchase program does not obligate us to acquire any specific number of shares or to acquire shares over any specified period of time.

Item 5. OTHER INFORMATION

On June 13, 2017, at the Company's annual meeting of shareholders, the shareholders approved the Columbia Sportswear Company 1997 Stock Incentive Plan, as amended (the "Stock Plan"). The Stock Plan provides for issuance of up to 20,800,000 shares of the Company's Common Stock. The Stock Plan allows for grants of incentive stock options, non-statutory stock options, restricted stock awards, restricted stock units and other stock-based awards, and all employees, officers and directors of the Company and its subsidiaries and non-employee agents, consultants, advisors, and independent contractors are eligible to participate in the Stock Plan. The Stock Plan is administered by the Company's Compensation Committee.

The Stock Plan will continue until all shares available for issuance under the Stock Plan have been issued and all restrictions on such shares have lapsed. The Board of Directors may suspend or terminate the Stock Plan at any time. The Board of Directors may also, at any time, modify or amend the Stock Plan, but any modification or amendment may not materially adversely affect a holder's rights under an outstanding award without the written consent of the holder.

The foregoing is a summary of the principal provisions of the Stock Plan. The summary does not purport to be complete and is qualified in its entirety by reference to the full text of the Stock Plan, which is filed as Exhibit 10.1.

On June 13, 2017, at the Company's annual meeting of shareholders, the shareholders approved the Columbia Sportswear Company Executive Incentive Compensation Plan, as amended (the "Compensation Plan"). By approving the Compensation Plan, our shareholders also re-approved the material terms of the performance goals for performance-based awards under the Compensation Plan for purposes of Section 162(m) of the Internal Revenue Code of 1986, as amended.

The Compensation Plan is administered by the Company's Compensation Committee. The Compensation Committee determines which executive officers of Columbia are eligible to participate in the Compensation Plan for any year no later than 90 days after the beginning of the plan year. No later than 90 days after the beginning of each plan year, the Compensation Committee establishes performance goals for each participating executive officer and the related cash performance awards related to achievement of those goals. The Committee may use its discretion to reduce the amount payable to any eligible executive officer by up to 100 percent, based on factors it determines warrant such a reduction. The maximum amount payable under the Compensation Plan to any participant for a calendar year will not exceed $4 million.

The Compensation Plan will remain in effect until terminated by the Board of Directors. The Board of Directors has the power to amend the Compensation Plan, in whole or in part, at any time, except that the Board of Directors does not have the right to change the performance goals established by the Compensation Committee under the Compensation Plan. The Compensation Committee may generally amend the Compensation Plan, with the approval of the Board, at any time.

The foregoing is a summary of the principal provisions of the Compensation Plan. The summary does not purport to be complete and is qualified in its entirety by reference to the full text of the Compensation Plan, which is filed as Exhibit 10.2.

Item 6. EXHIBITS

(a) Exhibits

	Exhibit	Description
	10.1	Ninth amendment to Credit Agreement dated May 24, 2017 among Columbia Sportswear Company, Wells Fargo Bank, National Association, as the administrator for the lenders and as a lender, and Bank of America, N.A., as a lender (incorporated by reference to the Company's Form 8-K filed on May 30, 2017) (File No. 0-23939)
+	10.2	Columbia Sportswear Company 1997 Stock Incentive Plan, as amended
+	10.3	Columbia Sportswear Company Executive Incentive Compensation Plan, as amended
	10.4	Columbia Sportswear Company Second Amendment Change in Control Severance Plan
	31.1	Rule 13a-14(a) Certification of Timothy P. Boyle, President and Chief Executive Officer
	31.2	Rule 13a-14(a) Certification of Jim A. Swanson, Senior Vice President, Chief Financial Officer
	32.1	Section 1350 Certification of Timothy P. Boyle, President and Chief Executive Officer
	32.2	Section 1350 Certification of Jim A. Swanson, Senior Vice President, Chief Financial Officer
	101	INS XBRL Instance Document
	101	SCH XBRL Taxonomy Extension Schema Document
	101	CAL XBRL Taxonomy Extension Calculation Linkbase Document
	101	DEF XBRL Taxonomy Extension Definition Linkbase Document
	101	LAB XBRL Taxonomy Extension Label Linkbase Document
	101	PRE XBRL Taxonomy Extension Presentation Linkbase Document

+ Management Contract or Compensatory Plan

SIGNATURES

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

	COLUMBIA SPORTSWEAR COMPANY
Date: August 3, 2017	/s/ JIM A. SWANSON
	Jim A. Swanson
	Senior Vice President, Chief Financial Officer
	(Duly Authorized Officer and
	Principal Financial and Accounting Officer)