COLUMBIA SPORTSWEAR CO
Form 10-Q
November 03, 2016

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

FORM 10-Q

x QUARTERLY REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934
For the quarterly period ended September 30, 2016
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, or a smaller reporting company. See the definitions of "large accelerated filer," "accelerated filer" and "smaller reporting 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 ¨

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 October 21, 2016 was 69,799,352.

COLUMBIA SPORTSWEAR COMPANY
SEPTEMBER 30, 2016
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PART I—FINANCIAL INFORMATION
Item 1. FINANCIAL STATEMENTS
COLUMBIA SPORTSWEAR COMPANY
CONDENSED CONSOLIDATED BALANCE SHEETS
(In thousands)
(Unaudited)

	September 30, 2016	December 31, 2015	September 30, 2015
ASSETS			
Current Assets:			
Cash and cash equivalents	$ 219,189	$ 369,770	$ 173,410
Short-term investments	467	629	629
Accounts receivable, net of allowance of $8,519, $9,928 and $9,043, respectively	486,236	371,953	529,844
Inventories	588,021	473,637	546,685
Deferred income taxes	—	—	62,888
Prepaid expenses and other current assets	33,514	33,400	35,140
Total current assets	1,327,427	1,249,389	1,348,596
Property, plant and equipment, at cost, net of accumulated depreciation of $403,244, $363,278 and $354,273, respectively	285,514	291,687	294,926
Intangible assets, net (Note 4)	134,724	138,584	139,871
Goodwill	68,594	68,594	68,594
Deferred income taxes	79,934	76,181	2,972
Other non-current assets	25,622	21,718	21,917
Total assets	$ 1,921,815	$ 1,846,153	$ 1,876,876
LIABILITIES AND EQUITY			
Current Liabilities:			
Short-term borrowings	$ 20	$ 1,940	$ 21,045
Accounts payable	136,667	217,230	170,168
Accrued liabilities (Note 5)	166,496	141,862	163,897
Income taxes payable	29,332	5,038	30,515
Deferred income taxes	—	—	126
Total current liabilities	332,515	366,070	385,751
Note payable to related party (Note 13)	14,629	15,030	15,356
Other long-term liabilities	43,066	40,172	38,625
Income taxes payable	10,724	8,839	11,256
Deferred income taxes	229	229	4,364
Total liabilities	401,163	430,340	455,352
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; 69,792, 69,277, and 70,376, issued and outstanding, respectively (Note 8)	49,091	34,776	86,869
Retained earnings	1,457,495	1,385,860	1,334,390
Accumulated other comprehensive loss (Note 7)	(6,934)	(20,836)	(14,862)
Total Columbia Sportswear Company shareholders' equity	1,499,652	1,399,800	1,406,397
Non-controlling interest (Note 3)	21,000	16,013	15,127
Total equity	1,520,652	1,415,813	1,421,524
Total liabilities and equity	$ 1,921,815	$ 1,846,153	$ 1,876,876

See accompanying notes to condensed consolidated financial statements.

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

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2016	2015	2016	2015
Net sales	$745,714	$767,550	$1,659,595	$1,626,766
Cost of sales	400,002	411,090	886,922	870,214
Gross profit	345,712	356,460	772,673	756,552
Selling, general and administrative expenses	224,497	226,778	622,843	594,782
Net licensing income	2,415	2,587	6,279	5,659
Income from operations	123,630	132,269	156,109	167,429
Interest income, net	393	309	1,576	1,260
Interest expense on note payable to related party (Note 13)	(253)	(275)	(779)	(827)
Other non-operating expense	(620)	(1,558)	(736)	(3,287)
Income before income tax	123,150	130,745	156,170	164,575
Income tax expense	(36,598)	(37,805)	(43,297)	(49,520)
Net income	86,552	92,940	112,873	115,055
Net income attributable to non-controlling interest	2,967	1,879	5,690	4,068
Net income attributable to Columbia Sportswear Company	$83,585	$91,061	$107,183	$110,987
Earnings per share attributable to Columbia Sportswear Company (Note 8):				
Basic	$1.20	$1.29	$1.54	$1.58
Diluted	1.18	1.28	1.52	1.56
Cash dividends per share	$0.17	$0.15	$0.51	$0.45
Weighted average shares outstanding (Note 8):				
Basic	69,761	70,338	69,632	70,253
Diluted	70,630	71,239	70,586	71,201

See accompanying notes to condensed consolidated financial statements.

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

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2016	2015	2016	2015
Net income	$86,552	$92,940	$112,873	$115,055
Other comprehensive income (loss):				
Unrealized holding losses on available-for-sale securities (net of tax benefit of $0, $0, $0 and $3, respectively)	(4)	(4)	(2)	(6)
Unrealized gains (losses) on derivative transactions (net of tax effect of ($200), ($990), $3,360 and ($1,279), respectively)	399	(6,667)	(9,025)	(4,947)
Foreign currency translation adjustments (net of tax benefit (expense) of ($123), ($448), ($306) and $622, respectively)	3,390	(12,206)	22,226	(26,314)
Other comprehensive income (loss)	3,785	(18,877)	13,199	(31,267)
Comprehensive income	90,337	74,063	126,072	83,788
Comprehensive income attributable to non-controlling interest	2,913	1,281	4,987	3,496
Comprehensive income attributable to Columbia Sportswear Company	$87,424	$72,782	$121,085	$80,292

See accompanying notes to condensed consolidated financial statements.

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

	Nine Months Ended September 30,	
	2016	2015
Cash flows from operating activities:		
Net income	$112,873	$115,055
Adjustments to reconcile net income to net cash used in operating activities:		
Depreciation and amortization	44,478	41,921
Loss on disposal and impairment of property, plant, and equipment	3,646	679
Deferred income taxes	927	3,181
Stock-based compensation	8,454	8,731
Excess tax benefit from employee stock plans	—	(7,642)
Changes in operating assets and liabilities:		
Accounts receivable	(106,906)	(195,018)
Inventories	(103,475)	(173,444)
Prepaid expenses and other current assets	429	2,762
Other assets	(2,552)	(2,676)
Accounts payable	(82,590)	(41,327)
Accrued liabilities	10,999	16,747
Income taxes payable	26,045	16,799
Other liabilities	2,505	3,367
Net cash used in operating activities	(85,167)	(210,865)
Cash flows from investing activities:		
Purchases of short-term investments	(21,263)	(38,208)
Sales of short-term investments	21,263	64,980
Capital expenditures	(35,588)	(47,796)
Proceeds from sale of property, plant, and equipment	52	126
Net cash used in investing activities	(35,536)	(20,898)
Cash flows from financing activities:		
Proceeds from credit facilities	59,277	36,519
Repayments on credit facilities	(61,197)	(15,343)
Proceeds from issuance of common stock under employee stock plans	10,742	16,901
Tax payments related to restricted stock unit issuances	(4,870)	(4,633)
Excess tax benefit from employee stock plans	—	7,642
Repurchase of common stock	(11)	(14,525)
Cash dividends paid	(35,548)	(31,667)
Net cash used in financing activities	(31,607)	(5,106)
Net effect of exchange rate changes on cash	1,729	(3,279)
Net decrease in cash and cash equivalents	(150,581)	(240,148)
Cash and cash equivalents, beginning of period	369,770	413,558
Cash and cash equivalents, end of period	$219,189	$173,410
Supplemental disclosures of cash flow information:		
Cash paid during the period for income taxes	$14,601	$26,413
Cash paid during the period for interest on note payable to related party	792	834
Supplemental disclosures of non-cash investing and financing activities:		
Capital expenditures incurred but not yet paid	$3,656	$9,150

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 September 30, 2016 and 2015, and the results of operations and cash flows for the three and nine months ended September 30, 2016 and 2015. The December 31, 2015 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, 2015. A significant part of the Company’s business is of a seasonal nature; therefore, results of operations for the three and nine months ended September 30, 2016 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 ("generally accepted accounting principles") have been condensed or omitted pursuant to the rules and regulations of the Securities and Exchange Commission. The Company, however, believes that the disclosures contained in this report comply with the requirements of Section 13(a) of the Securities Exchange Act of 1934 for a Quarterly Report on Form 10-Q and are adequate to make the information presented not misleading. These unaudited condensed consolidated financial statements should be read in conjunction with the consolidated financial statements and notes thereto included in the Company’s Annual Report on Form 10-K for the year ended December 31, 2015.

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 generally accepted accounting principles requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the 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.

Changes Affecting Comparability

In November 2015, the Financial Accounting Standards Board ("FASB") issued Accounting Standards Update ("ASU") No. 2015-17, Balance Sheet Classification of Deferred Taxes: Topic 740, which simplifies the presentation of deferred income taxes. This ASU requires that deferred tax assets and liabilities be classified as non-current in a statement of financial position. The Company early-adopted ASU 2015-17 effective December 31, 2015 on a prospective basis. Therefore, prior periods have not been adjusted to reflect this guidance. If the Company had retrospectively adopted this guidance, the effects on September 30, 2015 balances would have been a $62,888,000 decrease in current deferred tax assets, a $62,922,000 increase in long-term deferred tax assets, a $126,000 decrease in current deferred tax liabilities and a $160,000 increase in long-term deferred tax liabilities.

In March 2016, the FASB issued ASU No. 2016-09, Improvements to Employee Share-Based Payment Accounting: Topic 718, which simplifies how several aspects of share-based payments are accounted for and presented in the financial statements. The Company elected to early-adopt ASU 2016-09 with an effective date of January 1, 2016. Under previous guidance, excess tax benefits and deficiencies from stock-based compensation arrangements were recorded in equity when the awards vested or were settled. ASU 2016-09 requires prospective recognition of excess tax benefits and deficiencies in the income statement, resulting in the recognition of excess tax benefits of $465,000

and $4,940,000 in income tax expense, rather than in paid-in capital, for the three and nine months ended September 30, 2016, respectively.
In addition, under ASU 2016-09, excess income tax benefits from stock-based compensation arrangements are classified as cash flow from operations, rather than as cash flow from financing activities. The Company has elected to apply the cash flow

classification guidance of ASU 2016-09 prospectively, resulting in an increase to operating cash flow of $4,973,000 for the nine months ended September 30, 2016; the prior year period has not been adjusted.
The Company has elected to continue to estimate the number of stock-based awards expected to vest, as permitted by ASU 2016-09, rather than electing to account for forfeitures as they occur.
ASU 2016-09 requires excess tax benefits and deficiencies to be prospectively excluded from assumed future proceeds in the calculation of diluted shares, resulting in an increase in diluted weighted average shares outstanding of 227,047 and 243,002 shares for the three and nine months ended September 30, 2016, respectively.

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, 2015, except as described in Note 1 under Changes affecting comparability.

Impairment of Long-lived Assets

Long-lived assets are amortized over their estimated useful lives and are measured for impairment only when events or circumstances indicate the carrying value may be impaired. In these cases, the Company estimates the future undiscounted cash flows to be derived from the asset or asset group to determine whether a potential impairment exists. If the sum of the estimated undiscounted cash flows is less than the carrying value of the asset, the Company recognizes an impairment loss, measured as the amount by which the carrying value exceeds the estimated fair value of the asset. Impairment charges for long-lived assets are included in selling, general and administrative ("SG&A") expense and were $3,258,000 for the nine months ended September 30, 2016. These charges were recorded in the United States segment for certain underperforming retail stores. There were no such charges for the three months ended September 30, 2016 or the nine months ended September 30, 2015.

Recent Accounting Pronouncements

In May 2014, the FASB issued ASU No. 2014-09, Revenue from Contracts with Customers: Topic 606. ASU 2014-09 outlines a single comprehensive model for entities to use in accounting for revenue arising from contracts with customers and supersedes most current revenue recognition guidance. The FASB continues to clarify this guidance and most recently issued ASU 2016-08, Principal versus Agent Considerations (Reporting Revenue Gross versus Net), ASU No. 2016-10, Identifying Performance Obligations and Licensing, and ASU No. 2016-12, Narrow-Scope Improvements and Practical Expedients, which have the same effective date as ASU 2014-09. These new standards will become effective beginning in the first quarter of 2018 and can be adopted either retrospectively to each prior reporting period presented or as a cumulative effect adjustment as of the date of adoption. The Company has not yet selected a transition method and continues to evaluate the expected impacts on the Company's financial position, results of operations or cash flows.
In January 2016, the FASB issued ASU 2016-01, Recognition and Measurement of Financial Assets and Financial Liabilities, an update to their 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 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 those 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 expects that this standard will have a material impact on its consolidated balance sheet and is currently evaluating the impact.
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.

Effective December 31, 2015, the Company adopted ASU 2015-17, Balance Sheet Classification of Deferred Taxes: Topic 740. See Changes affecting comparability under Note 1.

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

Effective January 1, 2016, the Company adopted ASU 2016-09, Improvements to Employee Share-Based Payment Accounting: Topic 718. See Changes affecting comparability under Note 1.

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 joint venture began operations on January 1, 2014. 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 nine months ended September 30, 2016 and 2015. 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 September 30, 2016 and 2015, and December 31, 2015.

The following table presents the changes in Columbia Sportswear Company shareholders' equity and non-controlling interest for the nine months ended September 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	107,183	5,690	112,873
Other comprehensive income (loss), net of tax:			
Unrealized holding losses on available-for-sale securities	(2)	—	(2)
Derivative holding gains (losses)	(9,078)	53	(9,025)
Foreign currency translation adjustments	22,982	(756)	22,226
Cash dividends ($0.51 per share)	(35,548)	—	(35,548)
Issuance of common stock under employee stock plans, net	5,872	—	5,872
Stock-based compensation expense	8,454	—	8,454
Repurchase of common stock	(11)	—	(11)
Balance at September 30, 2016	$1,499,652	$ 21,000	$1,520,652

The following table presents the changes in Columbia Sportswear Company shareholders' equity and non-controlling interest for the nine months ended September 30, 2015 (in thousands, except per share amounts):

	Columbia Sportswear Company	Non-Controlling Interest	Total
Balance at December 31, 2014	$1,343,603	$ 11,631	$1,355,234
Net income	110,987	4,068	115,055
Other comprehensive income (loss), net of tax:			
Unrealized holding losses on available-for-sale securities	(6)	—	(6)
Derivative holding losses	(4,947)	—	(4,947)
Foreign currency translation adjustments	(25,742)	(572)	(26,314)
Cash dividends ($0.45 per share)	(31,667)	—	(31,667)
Issuance of common stock under employee stock plans, net	12,268	—	12,268
Tax adjustment from stock plans	7,695	—	7,695
Stock-based compensation expense	8,731	—	8,731
Repurchase of common stock	(14,525)	—	(14,525)
Balance at September 30, 2015	$1,406,397	$ 15,127	$1,421,524

NOTE 4—INTANGIBLE ASSETS, NET

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

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.

Intangible Assets

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

	September 30, 2016	December 31, 2015	September 30, 2015
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	(8,989)	(7,992)	(7,659)
Customer relationships	(8,906)	(6,043)	(5,089)
Total accumulated amortization	(17,895)	(14,035)	(12,748)
Net carrying amount	19,303	23,163	24,450
Intangible assets not subject to amortization	115,421	115,421	115,421
Intangible assets, net	$ 134,724	$ 138,584	$ 139,871

Amortization expense for intangible assets subject to amortization was $1,287,000 for both the three months ended September 30, 2016 and 2015, and was $3,860,000 for both the nine months ended September 30, 2016 and 2015.

Annual amortization expense is estimated to be as follows for the years 2016-2020 (in thousands):

2016	$5,147
2017	3,883
2018	2,980
2019	2,980
2020	2,537

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 September 30,		Nine Months Ended September 30,	
	2016	2015	2016	2015
Balance at beginning of period	$11,653	$10,966	$11,487	$11,148
Provision for warranty claims	922	921	3,360	3,246
Warranty claims	(462)	(478)	(2,894)	(2,711)
Other	76	(138)	236	(412)
Balance at end of period	$12,189	$11,271	$12,189	$11,271

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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 September 30,		Nine Months Ended September 30,	
	2016	2015	2016	2015
Stock options	$1,008	$898	$2,989	$2,727
Restricted stock units	1,993	1,894	5,465	6,004
Total	$3,001	$2,792	$8,454	$8,731

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 September 30,		Nine Months Ended September 30,	
	2016	2015	2016	2015
Expected option term	4.37 years	4.37 years	4.63 years	4.60 years
Expected stock price volatility	29.34%	29.37%	29.80%	26.56%
Risk-free interest rate	0.94%	1.27%	1.17%	1.20%
Expected annual dividend yield	1.17%	0.84%	1.20%	1.26%
Weighted average grant date fair value	$13.12	$17.12	$13.38	$10.36

During the nine months ended September 30, 2016 and 2015, the Company granted a total of 428,500 and 499,240 stock options, respectively. At September 30, 2016, unrecognized costs related to outstanding stock options totaled approximately $7,866,000, 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 September 30, 2016 are expected to be recognized over a weighted average period of 2.34 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 September 30,		Nine Months Ended September 30,	
	2016	2015	2016	2015
Vesting period	4.01 years	4.00 years	3.83 years	3.82 years
Expected annual dividend yield	1.17%	0.93%	1.16%	1.14%
Estimated average grant date fair value per restricted stock unit	$55.43	$62.53	$55.94	$51.09

During the nine months ended September 30, 2016 and 2015, the Company granted 190,119 and 195,873 restricted stock units, respectively. At September 30, 2016, unrecognized costs related to outstanding restricted stock units totaled approximately $14,739,000, before any related tax benefit. The unrecognized costs related to restricted stock units are being amortized over the

COLUMBIA SPORTSWEAR COMPANY
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related vesting period using the straight-line attribution method. These unrecognized costs at September 30, 2016 are expected to be recognized over a weighted average period of 2.18 years.

NOTE 7—ACCUMULATED OTHER COMPREHENSIVE INCOME (LOSS)

Accumulated other comprehensive income (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 September 30, 2016 (in thousands):

	Unrealized losses on available-for-sale securities	Unrealized holding gains (losses) on derivative transactions	Foreign currency translation adjustments	Total
Balance at June 30, 2016	$ —	$ (3,337)	$ (7,436)	$ (10,773)
Other comprehensive income (loss) before reclassifications	(4)	(319)	3,497	3,174
Amounts reclassified from other comprehensive income	—	665	—	665
Net other comprehensive income (loss) during the period	(4)	346	3,497	3,839
Balance at September 30, 2016	$ (4)	$ (2,991)	$ (3,939)	$ (6,934)

The following table sets forth the changes in accumulated other comprehensive income (loss) attributable to Columbia Sportswear Company, net of tax, for the three months ended September 30, 2015 (in thousands):

	Unrealized gains (losses) on available-for-sale securities	Unrealized holding gains (losses) on derivative transactions	Foreign currency translation adjustments	Total
Balance at June 30, 2015	$ 2	$ 10,715	$ (7,300)	$ 3,417
Other comprehensive income (loss) before reclassifications	(4)	789	(11,608)	(10,823)
Amounts reclassified from other comprehensive income	—	(7,456)	—	(7,456)
Net other comprehensive loss during the period	(4)	(6,667)	(11,608)	(18,279)
Balance at September 30, 2015	$ (2)	$ 4,048	$ (18,908)	$ (14,862)

The following table sets forth the changes in accumulated other comprehensive loss attributable to Columbia Sportswear Company, net of tax, for the nine months ended September 30, 2016 (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, 2015	$ (2)	$ 6,087	$ (26,921)	$ (20,836)
Other comprehensive income (loss) before reclassifications	(2)	(8,244)	22,982	14,736
Amounts reclassified from other comprehensive income	—	(834)	—	(834)
Net other comprehensive loss during the period	(2)	(9,078)	22,982	13,902
Balance at September 30, 2016	$ (4)	$ (2,991)	$ (3,939)	$ (6,934)

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The following table sets forth the changes in accumulated other comprehensive income (loss) attributable to Columbia Sportswear Company, net of tax, for the nine months ended September 30, 2015 (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, 2014	$ 4	$ 8,995	$ 6,834	$ 15,833
Other comprehensive income (loss) before reclassifications	(6)	5,629	(25,742)	(20,119)
Amounts reclassified from other comprehensive income	—	(10,576)	—	(10,576)
Net other comprehensive loss during the period	(6)	(4,947)	(25,742)	(30,695)
Balance at September 30, 2015	$ (2)	$ 4,048	$ (18,908)	$ (14,862)

All reclassification adjustments related to derivative transactions are recorded in cost of sales in the Condensed Consolidated Statements of Operations. See Note 10 for further information regarding derivative instrument reclassification adjustments.

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.

The Company early-adopted ASU 2016-09 on a prospective basis, effective January 1, 2016, which resulted in additional diluted weighted average shares of 227,047 and 243,002 for the three and nine months ended September 30, 2016. See Note 1 under Changes affecting comparability for further discussion.

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 September 30,		Nine Months Ended September 30,	
	2016	2015	2016	2015
Weighted average shares of common stock outstanding, used in computing basic earnings per share	69,761	70,338	69,632	70,253
Effect of dilutive stock options and restricted stock units	869	901	954	948
Weighted average shares of common stock outstanding, used in computing diluted earnings per share	70,630	71,239	70,586	71,201
Earnings per share of common stock attributable to Columbia Sportswear Company:				
Basic	$ 1.20	$ 1.29	$ 1.54	$ 1.58
Diluted	1.18	1.28	1.52	1.56

Stock options and service-based restricted stock units representing 575,541 and 192,652 shares of common stock for the three months ended September 30, 2016 and 2015, respectively, and 506,437 and 141,844 shares of common stock for the nine months ended September 30, 2016 and 2015, respectively, were outstanding but were excluded from the computation of diluted EPS as a result of applying the treasury stock method. In addition, performance-based restricted stock units representing 71,243 and 122,857 shares of common stock for the three months ended September 30, 2016 and 2015, respectively, and 68,897 and 123,075 shares of common stock for the nine months ended September 30, 2016 and 2015, 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.

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Common Stock Repurchase Plan

Since the inception of the Company’s stock repurchase plan in 2004 through September 30, 2016, 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 September 30, 2016, the Company had repurchased 20,992,940 shares under this program at an aggregate purchase price of approximately $526,522,000. During the nine months ended September 30, 2016, the Company repurchased 200 shares of the Company's common stock at an aggregate purchase price of $11,000. During the nine months ended September 30, 2015, the Company repurchased 258,874 shares of the Company's common stock at an aggregate purchase price of $14,525,000.

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 nine months ended September 30, 2016 and 2015.

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2016	2015	2016	2015
Net sales to unrelated entities:				
United States	$484,758	$513,148	$1,049,779	$1,008,940
LAAP	112,718	109,407	301,777	319,537
EMEA	73,062	67,295	183,436	175,025
Canada	75,176	77,700	124,603	123,264
	$745,714	$767,550	$1,659,595	$1,626,766
Segment income from operations:				
United States	$138,682	$148,062	$226,661	$223,586
LAAP	17,698	14,967	37,196	38,894
EMEA	6,599	7,828	7,963	11,308
Canada	13,548	16,563	14,234	19,352
Total segment income from operations	176,527	187,420	286,054	293,140
Unallocated corporate expenses	(52,897)	(55,151)	(129,945)	(125,711)
Interest income, net	393	309	1,576	1,260
Interest expense on note payable to related party	(253)	(275)	(779)	(827)
Other non-operating expense	(620)	(1,558)	(736)	(3,287)
Income before income taxes	$123,150	$130,745	$156,170	$164,575

NOTE 10—FINANCIAL INSTRUMENTS AND RISK MANAGEMENT

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

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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 nine months ended September 30, 2016 and 2015.

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 Chinese 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):

	September 30, 2016	December 31, 2015	September 30, 2015
Derivative instruments designated as cash flow hedges:			
Currency forward contracts	$ 204,000	$ 161,000	$ 133,500
Derivative instruments not designated as cash flow hedges:			
Currency forward contracts	189,159	113,195	81,000

At September 30, 2016, approximately $3,130,000 of deferred net losses on both designated and dedesignated cash flow hedges 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 European euro, Chinese renminbi, Canadian dollar and Japanese yen when outstanding derivative contracts mature.
At September 30, 2016, 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 $1,000,000 at September 30, 2016. 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.

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

	Balance Sheet Classification	September 30, 2016	December 31, 2015	September 30, 2015
Derivative instruments designated as cash flow hedges:				
Derivative instruments in asset positions:				
Currency forward contracts	Prepaid expenses and other current assets	$ 1,880	$ 5,394	$ 2,101
Currency forward contracts	Other non-current assets	344	566	309
Derivative instruments in liability positions:				
Currency forward contracts	Accrued liabilities	3,295	224	170
Currency forward contracts	Other long-term liabilities	559	—	—
Derivative instruments not designated as cash flow hedges:				
Derivative instruments in asset positions:				
Currency forward contracts	Prepaid expenses and other current assets	99	1,328	391
Derivative instruments in liability positions:				
Currency forward contracts	Accrued liabilities	850	1,693	489

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

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	Statement of Operations Classification	Three Months Ended September 30,		Nine Months Ended September 30,	
		2016	2015	2016	2015
Currency Forward and Option Contracts:					
Derivative instruments designated as cash flow hedges:					
Gain (loss) recognized in other comprehensive income or loss	—	$(266)	$789	$(8,191)	$5,629
Gain (loss) reclassified from accumulated other comprehensive income or loss to income for the effective portion	Net sales	(46)	187	115	187
Gain (loss) reclassified from accumulated other comprehensive income or loss to income for the effective portion	Cost of sales	(784)	8,878	821	12,825
Loss reclassified from accumulated other comprehensive income or loss to income as a result of cash flow hedge discontinuance	Cost of sales	—	—	(81)	—
Gain (loss) recognized in income for amount excluded from effectiveness testing and for the ineffective portion	Net sales	(4)	(3)	1	(20)
Gain (loss) recognized in income for amount excluded from effectiveness testing and for the ineffective portion	Cost of sales	143	84	1,105	(126)
Derivative instruments not designated as cash flow hedges:					
Gain (loss) recognized in income	Other non-operating expense	(444)	260	(3,885)	2,840

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 September 30, 2016, inventory purchase obligations were $282,129,000.
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 and/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.

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

	Level 1	Level 2	Level 3	Total
Assets:				
Cash equivalents:				
Money market funds	$96,994	$—	$ —	$96,994
Time deposits	42,248	—	—	42,248
Other short-term investments:				
Mutual fund shares	467	—	—	467
Other current assets:				
Derivative financial instruments (Note 10)	—	1,979	—	1,979
Other non-current assets:				
Derivative financial instruments (Note 10)	—	344	—	344
Mutual fund shares	8,245	—	—	8,245
Total assets measured at fair value	$147,954	$2,323	$ —	$150,277
Liabilities:				
Accrued liabilities:				
Derivative financial instruments (Note 10)	$—	$4,145	$ —	$4,145
Other long-term liabilities:				
Derivative financial instruments (Note 10)	—	559	—	559
Total liabilities measured at fair value	$—	$4,704	$ —	$4,704

Assets and liabilities measured at fair value on a recurring basis as of December 31, 2015 are as follows (in thousands):

	Level 1	Level 2	Level 3	Total
Assets:				
Cash equivalents:				
Money market funds	$114,247	$—	$ —	$114,247
Time deposits	63,327	—	—	63,327
Other short-term investments:				
Mutual fund shares	629	—	—	629
Other current assets:				
Derivative financial instruments (Note 10)	—	6,722	—	6,722
Other non-current assets:				
Derivative financial instruments (Note 10)	—	566	—	566
Mutual fund shares	6,887	—	—	6,887
Total assets measured at fair value	$185,090	$7,288	$ —	$192,378
Liabilities:				
Accrued liabilities:				
Derivative financial instruments (Note 10)	$—	$1,917	$ —	$1,917
Total liabilities measured at fair value	$—	$1,917	$ —	$1,917

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Assets and liabilities measured at fair value on a recurring basis as of September 30, 2015 are as follows (in thousands):

	Level 1	Level 2	Level 3	Total
Assets:				
Cash equivalents:				
Money market funds	$82,137	$—	$ —	$82,137
Time deposits	23,600	—	—	23,600
Other short-term investments:				
Mutual funds shares	629	—	—	629
Other current assets:				
Derivative financial instruments (Note 10)	—	2,492	—	2,492
Other non-current assets:				
Derivative financial instruments (Note 10)	—	309	—	309
Mutual fund shares	6,596	—	—	6,596
Total assets measured at fair value	$112,962	$2,801	$ —	$115,763
Liabilities:				
Accrued liabilities:				
Derivative financial instruments (Note 10)	$—	$659	$ —	$659
Total liabilities measured at fair value	$—	$659	$ —	$659

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 September 30, 2016, December 31, 2015 or September 30, 2015.

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, and begins to transition the joint venture's systems to the Company's platform. The joint venture incurred service fees, valued under the TSAs at Swire's cost, of $765,000 and $1,225,000 during the three months ended September 30, 2016 and 2015, respectively, and $2,660,000 and $5,099,000 during the nine months ended September 30, 2016 and 2015, 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 did not incur these sourcing fees for the three months ended September 30, 2016. The Company incurred $73,000 of these sourcing fees for the three months ended September 30, 2015. The Company incurred $61,000 and $362,000 of these sourcing fees for the nine months ended September 30, 2016 and 2015, 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 note payable to related party in the Condensed Consolidated Balance Sheet as of September 30, 2016 and 2015 and December 31, 2015. The note with Swire, in the principal amount of RMB 97,600,000 (US $14,629,000 at September 30, 2016), matures on December 31, 2018 and bears interest at a fixed annual rate of 7%. Interest expense related to this note was $253,000 and $275,000 for the

three months ended September 30, 2016 and 2015, respectively, and $779,000 and $827,000 for the nine months ended September 30, 2016 and 2015, respectively.

As of September 30, 2016 and 2015, and December 31, 2015, net payables to Swire for service fees, interest expense and miscellaneous expenses totaled $948,000, $2,995,000 and $1,472,000, 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 normal 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 2016, 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, 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 active outdoor and lifestyle apparel, footwear, accessories and equipment primarily under the Columbia, Mountain Hardwear, SOREL and prAna brands. Our products are sold through a mix of wholesale distribution channels, our own direct-to-consumer channels and independent 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 by adjusting our product offerings, developing new products with innovative performance features and designs and creating persuasive and memorable marketing communications and consumer experiences 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. The expansion of our direct-to-consumer operations has increased the proportion of sales, profits and cash flows that we generate in the fourth calendar quarter. As a result, our sales and profits tend to be highest in the third and fourth calendar quarters. In 2015, approximately 60% of our net sales and approximately 90% of our profitability were 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.

We generally solicit orders from wholesale customers and independent 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 fall season orders to customers beginning in July and continuing through December. Similarly, we typically ship the majority of our advance spring season orders to customers beginning in January and continuing through June. 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 of global economic and geopolitical conditions and volatility of foreign currency exchange rates which, when combined with seasonal weather patterns and inflationary or volatile input 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 2016 profitability to be heavily concentrated in the second half of the year. Factors that could significantly affect our full year 2016 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 initiated restructuring activities, bankruptcy proceedings or liquidation;
- Difficult economic and/or competitive environments in certain key markets within our Europe, Middle East and Africa ("EMEA") and Latin America and Asia Pacific ("LAAP") regions, in particular, Russia and Korea;
- Continued recovery and sales growth contributed by our Europe direct business;
- The transactional effects of changes in foreign currency exchange rates on sales, gross margin, operating income and net income; and
- Performance of our Mountain Hardwear business as we work to re-establish that brand in the marketplace.

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.

We are continuing to invest in our multi-year global enterprise resource planning ("ERP") implementation. To date, we have implemented our new ERP system in our North American operations and international distributor businesses, excluding prAna, as well as the majority of our global supply chain operations.

We remain focused on driving sustainable, profitable sales growth by providing innovative, stylish products at accessible prices, 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. 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. All references to quarters relate to the quarter ended September 30 of the particular year.

Highlights of the Third Quarter of 2016

- Net sales for the third quarter of 2016 decreased $21.9 million, or 3% (3% constant-currency), to $745.7 million from $767.6 million for the third quarter of 2015.
- Net income attributable to Columbia Sportswear Company decreased $7.5 million, or 8%, for the third quarter of 2016 to $83.6 million, or $1.18 per diluted share, compared to net income of $91.1 million, or $1.28 per diluted share, for the third quarter of 2015.
- We paid a quarterly cash dividend of $0.17 per share, or $11.9 million, in the third quarter of 2016.

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:

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	Three Months Ended September 30,		Nine Months Ended September 30,	
	2016	2015	2016	2015
Net sales	100.0 %	100.0 %	100.0 %	100.0 %
Cost of sales	53.6	53.6	53.4	53.5
Gross profit	46.4	46.4	46.6	46.5
Selling, general and administrative expenses	30.1	29.5	37.5	36.6
Net licensing income	0.3	0.3	0.3	0.4
Income from operations	16.6	17.2	9.4	10.3
Interest income, net	—	—	0.1	—
Interest expense on note payable to related party	—	—	(0.1)	—
Other non-operating expense	(0.1)	(0.2)	—	(0.2)
Income before income tax	16.5	17.0	9.4	10.1
Income tax expense	(4.9)	(4.9)	(2.6)	(3.0)
Net income	11.6	12.1	6.8	7.1
Net income attributable to non-controlling interest	0.4	0.2	0.3	0.3
Net income attributable to Columbia Sportswear Company	11.2 %	11.9 %	6.5 %	6.8 %

Quarter Ended September 30, 2016 Compared to Quarter Ended September 30, 2015

Net Sales: Consolidated net sales decreased $21.9 million, or 3% (3% constant-currency), to $745.7 million for the third quarter of 2016 from $767.6 million for the comparable period in 2015.

Sales by Geographic Region

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

	Three Months Ended September 30,					
	Reported Net Sales 2016	Adjust for Foreign Currency Translation	Constant-currency Net Sales 2016[1]	Reported Net Sales 2015	Reported Net Sales % Change	Constant-currency Net Sales % Change[1]
	(In millions, except for percentage changes)					
United States	$484.8	$ —	$ 484.8	$ 513.1	(6)%	(6)%
LAAP	112.7	(2.5)	110.2	109.4	3%	1%
EMEA	73.0	(0.1)	72.9	67.4	8%	8%
Canada	75.2	0.3	75.5	77.7	(3)%	(3)%
	$745.7	$ (2.3)	$ 743.4	$ 767.6	(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 decreased $28.3 million, or 6%, to $484.8 million for the third quarter of 2016 from $513.1 million for the comparable period in 2015. The net sales decrease in the United States was concentrated in the Columbia brand, followed by the Mountain Hardwear brand, partially offset by a net sales increase in the SOREL and prAna brands. The United States net sales decrease was led by a decrease in net sales in our wholesale business, partially offset by a net sales increase in our direct-to-consumer business. The net sales decrease in our wholesale business was driven by the combined effects of a shift in the timing of shipments of fall 2016 advance orders from the third quarter into the fourth quarter of 2016 compared to the same period last year, when a larger amount of fall 2015 advance orders shipped in the third quarter compared to the fourth quarter, as well as the impact of U.S. wholesale customer bankruptcies during 2016. 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 September 30, 2016, we operated 115 retail stores, compared with 102 retail stores at September 30, 2015.

Net sales in the LAAP region increased $3.3 million, or 3% (1% in constant-currency), to $112.7 million for the third quarter of 2016 from $109.4 million for the comparable period in 2015. The net sales increase in the LAAP region was concentrated in the Columbia brand, partially offset by a net sales decrease in the Mountain Hardwear brand. The LAAP net sales increase was

concentrated in Japan and China, partially offset by net sales decreases in Korea and our LAAP distributor business. The net sales increase in Japan was driven by the positive effects of foreign currency exchange rates, which offset a net sales decrease in local currency. The net sales increase in China was concentrated in the Columbia brand. The net sales decrease in Korea reflected changing consumer preferences away from the outdoor category of merchandise that has resulted in industry-wide excess inventory in that country. The net sales decrease in our LAAP distributor business was due to decreased fall 2016 advance orders.

Net sales in the EMEA region increased $5.6 million, or 8% (8% constant-currency), to $73.0 million for the third quarter of 2016 from $67.4 million for the comparable period in 2015. The EMEA net sales increase consisted of net sales increases across all brands. The EMEA net sales increase consisted of a net sales increase in our EMEA direct business, driven by net sales increases in the Columbia and SOREL brands, partially offset by a net sales decrease in our EMEA distributor business, reflecting a decline in net sales to our Russia distributor as it continues to adapt its business to macroeconomic challenges in that region.

Net sales in Canada decreased $2.5 million, or 3% (3% constant-currency), to $75.2 million for the third quarter of 2016 from $77.7 million for the comparable period in 2015. The decrease in net sales in Canada was led by the SOREL brand, followed by the prAna brand, partially offset by net sales increases in the Columbia and Mountain Hardwear brands. The net sales decrease in Canada reflected a net sales decrease in our wholesale business, partially offset by a net sales increase in our direct-to-consumer business.

Sales by Brand

Net sales by brand are summarized in the following table:

	Three Months Ended September 30,					
	Reported Net Sales 2016	Adjust for Foreign Currency Translation	Constant-currency Net Sales 2016	Reported Net Sales 2015	Reported Net Sales % Change	Constant-currency Net Sales % Change
	(In millions, except for percentage changes)					
Columbia	$587.3	$ (1.8)	$ 585.5	$ 609.7	(4)%	(4)%
SOREL	87.6	(0.3)	87.3	86.2	2%	1%
prAna	38.1	—	38.1	34.4	11%	11%
Mountain Hardwear	30.5	(0.2)	30.3	34.8	(12)%	(13)%
Other	2.2	—	2.2	2.5	(12)%	(12)%
	$745.7	$ (2.3)	$ 743.4	$ 767.6	(3)%	(3)%

The net sales decrease in the third quarter of 2016 compared to the third quarter of 2015 was led by a net sales decrease in the Columbia brand, followed by the Mountain Hardwear brand, partially offset by net sales increases in the prAna and SOREL brands. The Columbia brand net sales decrease consisted of a net sales decrease in the United States, partially offset by increases in the LAAP region, the EMEA region and Canada.

Sales by Product Category

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

	Three Months Ended September 30,					
	Reported Net Sales 2016	Adjust for Foreign Currency Translation	Constant-currency Net Sales 2016	Reported Net Sales 2015	Reported Net Sales % Change	Constant-currency Net Sales % Change
	(In millions, except for percentage changes)					
Apparel, Accessories and Equipment	$574.1	$ (1.7)	$ 572.4	$ 596.1	(4)%	(4)%
Footwear	171.6	(0.6)	171.0	171.5	—%	—%
	$745.7	$ (2.3)	$ 743.4	$ 767.6	(3)%	(3)%

Net sales of apparel, accessories and equipment decreased $22.0 million, or 4% (4% constant-currency), to $574.1 million for the third quarter of 2016 from $596.1 million for the comparable period in 2015. The decrease in apparel,

accessories and equipment net sales was concentrated in the Columbia brand, followed by the Mountain Hardwear brand, partially offset by a net

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sales increase in the prAna brand. The apparel, accessories and equipment net sales decrease was driven by a net sales decrease in the United States, partially offset by net sales increases in Canada, the EMEA region and the LAAP region. The apparel, accessories and equipment net sales decrease in the United States was led by wholesale net sales, partially offset by an increase in direct-to-consumer net sales.
Net sales of footwear were essentially unchanged with an increase of $0.1 million, or less than 1% (less than 1% constant-currency), to $171.6 million for the third quarter of 2016 from $171.5 million for the comparable period in 2015.
Gross Profit: Gross profit, as a percentage of net sales, was unchanged at 46.4% for the third quarter of 2016 and the comparable period in 2015, and was affected by:

- Favorable changes in sales channel mix with a higher proportion of direct-to-consumer net sales, which carry higher gross margins, and a lower proportion of sales to international distributors, which carry lower gross margins;
- Selective price increases across product categories and geographies; and
- A favorable sourcing environment;

offset by:

- Unfavorable foreign currency hedge rates in Europe, Canada and Japan.

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 decreased $2.3 million, or 1%, to $224.5 million, or 30.1% of net sales, for the third quarter of 2016 from $226.8 million, or 29.5% of net sales, for the comparable period in 2015. The SG&A expense decrease was primarily due to:

- Cost containment measures that have been implemented throughout the year;
- Lower incentive compensation expense; and
- Lower demand creation expense;

partially offset by:

- Increased costs to support our expanding global direct-to-consumer businesses; and
- Increased personnel costs to support strategic initiatives and business growth.

Depreciation and amortization included in SG&A expense totaled $14.8 million for the third quarter of 2016, compared to $13.9 million for the same period in 2015.
Other Non-operating Expense: Other non-operating expense decreased $1.0 million, or 60%, to $0.6 million, for the third quarter of 2016, compared to $1.6 million, for the comparable period in 2015. The decrease was attributed to lower net losses on the revaluation of foreign currency denominated assets and liabilities and settlement of foreign-currency denominated intercompany transactions.
Income Tax Expense: Income tax expense decreased to $36.6 million for the third quarter of 2016 from $37.8 million for the comparable period in 2015. Our effective income tax rate was 29.7% for the third quarter of 2016 compared to 28.9% for the same period in 2015. The increase in our effective income tax rate was primarily due to a non-recurring income tax benefit of $6.3 million, or $0.09 per diluted share, that was recognized in the third quarter of 2015 related to a reduction in the valuation allowance associated with net operating losses in certain international tax jurisdictions, partially offset by the effect of generating a higher proportion of taxable income in international jurisdictions, where income tax rates are generally lower than in the United States, during the three months ended September 30, 2016, compared to the three months ended September 30, 2015.

Net Income Attributable to Columbia Sportswear Company: Net income decreased $7.5 million, or 8%, to $83.6 million, or $1.18 per diluted share, for the third quarter of 2016 from $91.1 million, or $1.28 per diluted share, for the comparable period in 2015.

Nine Months Ended September 30, 2016 Compared to the Nine Months Ended September 30, 2015

Net Sales: Consolidated net sales increased $32.8 million, or 2% (3% constant-currency), to $1,659.6 million for the nine months ended September 30, 2016 from $1,626.8 million for the comparable period in 2015.

Sales by Geographic Region

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

	Nine Months Ended September 30,					
	Reported Net Sales 2016	Adjust for Foreign Currency Translation	Constant-currency Net Sales 2016	Reported Net Sales 2015	Reported Net Sales % Change	Constant-currency Net Sales % Change
	(In millions, except for percentage changes)					
United States	$1,049.8	$ —	$1,049.8	$1,009.0	4%	4%
LAAP	301.8	0.3	302.1	319.5	(6)%	(5)%
EMEA	183.4	2.4	185.8	175.0	5%	6%
Canada	124.6	5.6	130.2	123.3	1%	6%
	$1,659.6	$ 8.3	$1,667.9	$1,626.8	2%	3%

Net sales in the United States increased $40.8 million, or 4%, to $1,049.8 million for the nine months ended September 30, 2016 from $1,009.0 million for the comparable period in 2015. The net sales increase in the United States was primarily the result of a net sales increase in the Columbia, prAna and SOREL brands, partially offset by a net sales decrease in the Mountain Hardwear brand. 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 within our retail stores, followed by increased e-commerce net sales. At September 30, 2016, we operated 115 retail stores, compared with 102 retail stores at September 30, 2015. The net sales decrease in our wholesale business was driven by the combined effects of a shift in the timing of shipments of fall 2016 advance orders from the third quarter into the fourth quarter of 2016 compared to the same period last year when a larger amount of fall 2015 advance orders shipped in the third quarter compared to the fourth quarter, as well as the impact of U.S. wholesale customer bankruptcies during 2016.

Net sales in the LAAP region decreased $17.7 million, or 6% (5% constant-currency), to $301.8 million for the nine months ended September 30, 2016 from $319.5 million for the comparable period in 2015. The net sales decrease in the LAAP region was led by a net sales decrease in Korea, followed by lower net sales to our LAAP distributors, partially offset by a net sales increase in Japan. The net sales decrease in Korea reflected changing consumer preferences away from the outdoor category of merchandise that has resulted in industry-wide excess inventory in that country. The LAAP distributor net sales decrease was driven by reduced spring 2016 and fall 2016 advance orders. The net sales increase in Japan was driven by the positive effects of foreign currency exchange rates, as net sales in local currency were essentially unchanged.

Net sales in the EMEA region increased $8.4 million, or 5% (6% constant-currency), to $183.4 million for the nine months ended September 30, 2016 from $175.0 million for the comparable period in 2015. The EMEA net sales increase consisted of a net sales increase in our EMEA direct business, primarily concentrated in the Columbia brand, partially offset by a net sales decrease in our EMEA distributor business, reflecting a decline in net sales to our Russia distributor as it continues to adapt its business to macroeconomic challenges in that region. The EMEA direct net sales increase primarily reflected increased advance orders from European wholesale customers.

Net sales in Canada increased $1.3 million, or 1% (6% constant-currency), to $124.6 million for the nine months ended September 30, 2016 from $123.3 million for the comparable period in 2015. The increase in net sales in Canada was largely driven by a net sales increase in the Columbia brand, followed by the Mountain Hardwear brand, partially offset by a net sales decrease in the SOREL brand. The net sales increase in Canada reflected a net sales increase in our direct-to-consumer business, partially offset by a net sales decrease in our wholesale business.

Sales by Brand

Net sales by brand are summarized in the following table:

	Nine Months Ended September 30,					
	Reported Net Sales 2016	Adjust for Foreign Currency Translation	Constant-currency Net Sales 2016	Reported Net Sales 2015	Reported Net Sales % Change	Constant-currency Net Sales % Change
	(In millions, except for percentage changes)					
Columbia	$1,357.8	$ 7.7	$1,365.5	$1,335.8	2%	2%
SOREL	109.2	0.2	109.4	103.9	5%	5%
prAna	111.7	—	111.7	97.6	14%	14%
Mountain Hardwear	72.7	0.5	73.2	81.1	(10)%	(10)%
Other	8.2	(0.1)	8.1	8.4	(2)%	(4)%
	$1,659.6	$ 8.3	$1,667.9	$1,626.8	2%	3%

The net sales increase for the nine months ended September 30, 2016 compared to the nine months ended September 30, 2015 was led by increased Columbia brand net sales, followed by net sales increases in the prAna and SOREL brands, partially offset by a net sales decrease in the Mountain Hardwear brand. The Columbia brand net sales increase was led by the United States, followed by the EMEA region and Canada, partially offset by a net sales decrease in the LAAP region.

Sales by Product Category

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

	Nine Months Ended September 30,					
	Reported Net Sales 2016	Adjust for Foreign Currency Translation	Constant-currency Net Sales 2016	Reported Net Sales 2015	Reported Net Sales % Change	Constant-currency Net Sales % Change
	(In millions, except for percentage changes)					
Apparel, Accessories and Equipment	$1,329.6	$ 6.2	$1,335.8	$1,305.6	2%	2%
Footwear	330.0	2.1	332.1	321.2	3%	3%
	$1,659.6	$ 8.3	$1,667.9	$1,626.8	2%	3%

Net sales of apparel, accessories and equipment increased $24.0 million, or 2% (2% constant-currency), to $1,329.6 million for the nine months ended September 30, 2016 from $1,305.6 million for the comparable period in 2015. The increase in apparel, accessories and equipment net sales was led by an increase in Columbia brand net sales, 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 a net sales increase in the United States, followed by Canada and the EMEA region, partially offset by a net sales decrease in the LAAP region. The apparel, accessories and equipment net sales increase in the United States was led by an increase in direct-to-consumer net sales, partially offset by a net sales decrease in our wholesale business.

Net sales of footwear increased $8.8 million, or 3% (3% constant-currency), to $330.0 million for the nine months ended September 30, 2016 compared to $321.2 million for the comparable period in 2015. The increase in footwear net sales was led by a net sales increase in the SOREL brand, followed by the Columbia brand. The increase in footwear net sales was led by a net sales increase in the United States, followed by the EMEA region, partially offset by net sales decreases in Canada and the LAAP region. The increase in footwear net sales in the United States was led by an increase in direct-to-consumer net sales followed by wholesale net sales.

Gross Profit: Gross profit, as a percentage of net sales, increased to 46.6% for the nine months ended September 30, 2016 from 46.5% for the comparable period in 2015. Gross profit expansion was primarily due to:

- Favorable changes in sales channel mix with a higher proportion of direct-to-consumer net sales, which carry higher gross margins, and a lower proportion of sales to international distributors, which carry lower gross margins;
- Selective price increases across product categories and geographies; and
- A favorable sourcing environment;

partially offset by:

- Unfavorable foreign currency hedge rates in Europe, Canada and Japan.

Selling, General and Administrative Expense: SG&A expense increased $28.1 million, or 5%, to $622.8 million, or 37.5% of net sales, for the nine months ended September 30, 2016 from $594.8 million, or 36.6% of net sales, for the comparable period in 2015. The SG&A expense increase was primarily due to:

- Increased expenses related to the expansion of our global direct-to-consumer businesses;
- Increased personnel expenses to support strategic initiatives and business growth; and
- Increased information technology investments;

partially offset by:

- Lower incentive compensation expenses;
- Lower demand creation expenses; and
- Cost containment measures that have been implemented throughout the year.

Depreciation and amortization included in SG&A expense totaled $43.8 million for the nine months ended September 30, 2016, compared to $41.1 million for the same period in 2015.

Other Non-operating Expense: Other non-operating expense was $0.7 million for the nine months ended September 30, 2016, compared to $3.3 million for the comparable period in 2015. The $2.6 million decrease in non-operating expense was attributed to lower net losses on the revaluation of foreign currency denominated assets and liabilities and settlement of foreign-currency denominated intercompany transactions.

Income Tax Expense: Income tax expense decreased to $43.3 million for the nine months ended September 30, 2016 from $49.5 million for the nine months ended September 30, 2015. Our effective income tax rate was 27.7% for the nine months ended September 30, 2016 compared to 30.1% for the same period in 2015. The decrease in our effective income tax rate was primarily due to generating a higher proportion of taxable income in international jurisdictions, where income tax rates are generally lower than in the United States, and an income tax benefit of $4.9 million, or $0.07 per diluted share, representing excess tax benefits from share-based payment awards recorded in income tax expense resulting from the company's adoption of ASU 2016-09, Improvements to Employee Share-Based Payment Accounting: Topic 710, effective January 1, 2016. See Note 1 under Changes affecting comparability for further discussion. These decreases were partially offset by a non-recurring income tax benefit of $6.3 million, or $0.09 per diluted share, that was recognized in the third quarter of 2015 related to a reduction in the valuation allowance associated with net operating losses in certain international tax jurisdictions.

Net Income Attributable to Columbia Sportswear Company: Net income decreased $3.8 million, or 3%, to $107.2 million, or $1.52 per diluted share, for the nine months ended September 30, 2016 from $111.0 million, or $1.56 per diluted share for the comparable period in 2015.

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 complementary systems implementations, general corporate needs and the expansion of our global operations. At September 30, 2016, we had total cash and cash equivalents of $219.2 million, compared to $369.8 million at December 31, 2015 and $173.4 million at September 30, 2015. In addition, we had short-term investments of $0.5 million at September 30, 2016, compared to $0.6 million at December 31, 2015 and $0.6 million at September 30, 2015. At September 30, 2016, approximately 82% 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 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 used in operating activities was $85.2 million for the nine months ended September 30, 2016, compared to $210.9 million for the same period in 2015. The decrease in cash used in operating activities was primarily driven by lower increases in accounts receivable and inventory and lower accounts payable levels associated with earlier receipt and payment of fall 2016 inventory during the nine months ended September 30, 2016 compared to the same period in 2015.

Net cash used in investing activities was $35.5 million for the nine months ended September 30, 2016, compared to $20.9 million for the comparable period in 2015. For the 2016 period, cash used in investing activities primarily consisted of $35.6 million for capital expenditures. For the same period in 2015, net cash used in investing activities primarily consisted of $47.8 million for capital expenditures, offset by $26.8 million of net sales of short-term investments.

Net cash used in financing activities was $31.6 million for the nine months ended September 30, 2016, compared to $5.1 million for the comparable period in 2015. For the 2016 period, net cash used in financing activities primarily consisted of dividend payments of $35.5 million and net repayments on credit facilities of $1.9 million, partially offset by net proceeds from stock plan activity of $5.9 million. For the same period in 2015, net cash used in financing activities primarily consisted of dividend payments of $31.7 million and repurchases of common stock of $14.5 million, partially offset by net proceeds from credit facilities of $21.2 million and net proceeds from stock plan activity of $12.3 million.

Short-term borrowings and credit lines

We have an unsecured, committed $125.0 million revolving line of credit available to fund our domestic working capital requirements. At September 30, 2016, no balance was outstanding under this line of credit. At September 30, 2016, 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 $102.0 million at September 30, 2016, of which $2.2 million is designated as a European customs guarantee. At September 30, 2016, less than $0.1 million 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.

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, 2015 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, 2015.

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, 2015.

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, which significantly affect our business and financial transaction and reporting processes. This implementation is occurring in phases globally over several years, with implementation to date at our North American operations and international distributor businesses, excluding prAna, as well as the majority of our global supply chain operations. Each implementation phase of our worldwide ERP system and complementary systems 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 September 30, 2016 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, 2015.

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 a brand enhancing direct-to-consumer business. We intend to pursue these strategies across our portfolio of brands, product categories and geographic markets. Our failure to implement our business strategies 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 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 our joint venture business in China, which began operations in January 2014, and 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 performance. Our current business process 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 implementation of an integrated global enterprise resource planning ("ERP") software solution and other complementary information technology systems over the next several years. Implementation of these solutions and systems is 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 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 capital resources, financial condition, results of operations or cash flows.
Implementation of this new 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 capital resources, 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. System failures, breaches of confidential information or service interruptions may occur as the result of a number of factors, including our failure to properly maintain systems redundancy or to protect, repair, maintain or upgrade our systems, computer viruses, programming errors, hacking or other unlawful activities by third parties and disasters. Any breach or interruption of critical business information systems could have a material adverse effect on our financial condition, results of operations or cash flows.

Our legacy ERP, product development and 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 and/or result in business disruptions, which could have a material adverse effect on our capital resources, financial condition, results of operations or cash flows.

System Security Risks, Data Breaches and Cyber Attacks Could Disrupt Our Operations

We manage and store various proprietary information and sensitive or confidential data relating to our business, including sensitive and personally identifiable information. Breaches of our security measures or the accidental loss, inadvertent disclosure or unapproved dissemination of proprietary information or sensitive or confidential data about us, our customers or our employees, including the potential loss or disclosure of such information, data or assets as a result of hacking, fraud, trickery or other forms of deception, could expose us, our customers or the individuals affected to a risk of loss or misuse of this information, result in litigation and potential liability for us, damage our brand and reputation or otherwise harm our business. In addition, our current data protection measures might not protect us against increasingly sophisticated and aggressive threats and the cost and operational consequences of implementing further data protection measures could be significant.

Experienced computer programmers and hackers may be able to penetrate our network security and misappropriate or compromise our confidential information or that of third parties, create system disruptions or cause shutdowns. Computer programmers and hackers also may be able to develop and deploy viruses, worms and other malicious software programs that attack or otherwise exploit any security vulnerabilities of our systems. In addition, sophisticated hardware and operating system software and applications that we procure from third parties may contain

defects in design or manufacture, including "bugs" and other problems that could unexpectedly interfere with the operation of the system. The costs to us to eliminate or alleviate cyber or other security problems, bugs, viruses, worms, malicious software programs and security vulnerabilities could be significant, and our efforts to address these problems may not be successful and could result in significant financial losses and expenses, interruptions, delays, cessation of service and loss of existing or potential customers that may impede our sales, manufacturing, distribution or other critical functions.

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, we may miss delivery deadlines or incur additional costs, which may cause our wholesale 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, they and their 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, significant negative publicity or lost sales that could result in long-term damage to our brands and corporate reputation. In some circumstances parties may attempt to 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 financial condition, results of operations or cash flows.
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 product 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 operations, 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 had an adverse effect on the financial health of our customers, some of whom filed or may file for protection under bankruptcy laws, which may in turn have a material adverse effect on our results of operations and financial condition. 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 independent international distributors have liquidated or reorganized, while others have had financial difficulties in the past or have experienced tightened credit markets and sales declines and reduced profitability, which in turn have had an adverse effect on our business. We may reduce our level of business with customers experiencing financial difficulties and may not be able to replace that business with other customers, 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 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. 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 and/or significantly reduce its future purchases. 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. For example, economic turmoil has significantly devalued the Russian ruble, causing the U.S. dollar-denominated inventory purchased by our Russian distributor to be more expensive, resulting in reduced advance orders with us and leading the distributor to implement local-currency retail price increases in an effort to mitigate the effects of the weaker ruble.

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 world 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 Sales 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 the 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.

Our Retail Operations May Not Realize Returns on Our Investments

In recent years, our direct-to-consumer business has grown substantially and we anticipate further 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 our retail costs 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 sales 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 spending patterns of our consumers. In addition, 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, 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, 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 harm their sales and as a result harm our results of operations or cause reputational damage to our brands.

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 judgment 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 or consumer interest in outdoor activities may have a material adverse effect on our business. In addition, 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 business requires us and our customers to anticipate consumer preferences and respond to changing consumer demands 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. 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 by retailers, we must 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, 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 or wet 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, including 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 business, capital resources, cash flows, results of operations and financial position. We may not complete a potential acquisition for a variety of reasons, but we may nonetheless incur material costs in the

preliminary stages of 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 the following:

- 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 in China 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 participation in the joint venture could adversely affect the results of our operations.
- 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

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 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 addition, 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 impacts to 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.

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. As another example, 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. Although it is not possible to accurately determine the overall effect of these recommendations and proposals on our effective tax rate at this time, 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 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, equipment and accessories 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, 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 innovations such as electrical heating components and material treatments. 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. For example, in recent years we incurred costs in connection with recalls of some of our battery-powered electrically heated apparel. 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 our brand 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. Failure to choose appropriate licensees and licensed product categories may dilute or harm our brands. 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 and/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. Future litigation also may be 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, Robards, Kentucky and a leased facility in Carlsbad, California; 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 four distribution centers, all of which are 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 business in the United States. 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 and/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 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, to attract or to retain qualified employees, our ability to source, distribute and sell products in a timely and cost-effective manner may be impacted, 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 around 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 operations 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

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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 brand image, 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 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 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 and Timothy Boyle and his two adult children, 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
July 1, 2016 through July 31, 2016	—	—	—	$173,489,000
August 1, 2016 through August 31, 2016	—	—	—	173,489,000
September 1, 2016 through September 30, 2016	200	53.00	200	173,478,000
Total	200	$53.00	200	$173,478,000

[1] Our Board of Directors has authorized the repurchase of $700,000,000 of our common stock. As of September 30, 2016, we had repurchased 20,992,940 shares under this program at an aggregate purchase price of approximately $526,522,000. 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 6. EXHIBITS

(a) Exhibits

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

31.2 Rule 13a-14(a) Certification of Thomas B. Cusick, Executive Vice President of Finance, Chief Financial Officer and Treasurer

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

32.2 Section 1350 Certification of Thomas B. Cusick, Executive Vice President of Finance, Chief Financial Officer and Treasurer

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

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: November 3, 2016	/s/ THOMAS B. CUSICK
	Thomas B. Cusick
	Executive Vice President of Finance, Chief Financial Officer and Treasurer
	(Duly Authorized Officer and
	Principal Financial and Accounting Officer)