COLUMBIA SPORTSWEAR CO
Form 10-Q
November 01, 2018

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, 2018
OR
¨ TRANSITION REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE EXCHANGE ACT OF 1934

For the transition period from_______to_______
Commission file number 0-23939

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

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

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

Indicate by check mark whether registrant (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days. Yes x No ¨
Indicate by check mark whether the registrant has submitted electronically every Interactive Data File required to be submitted 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 such files). Yes x No ¨
Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, a non-accelerated filer, smaller reporting company, or an emerging growth company. See the definitions of "large accelerated filer," "accelerated filer," "smaller reporting company," and "emerging growth company" in Rule 12b-2 of the Exchange Act.

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

If an emerging growth company, indicate by check mark if the registrant has elected not to use the extended transition period for complying with any new or revised financial accounting standards provided pursuant to Section 13(a) of the Exchange Act ¨
Indicate by check mark whether the registrant is a shell company (as defined in Rule 12b-2 of the Exchange Act). Yes ¨ No x
The number of shares of Common Stock outstanding on October 19, 2018 was 69,005,295.

COLUMBIA SPORTSWEAR COMPANY
SEPTEMBER 30, 2018
INDEX TO FORM 10-Q

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

	September 30, 2018	December 31, 2017	September 30, 2017
ASSETS			
Current Assets:			
Cash and cash equivalents	$ 182,175	$ 673,166	$ 411,805
Restricted cash (Note 4)	13,970	—	—
Short-term investments	269,313	94,983	18,469
Accounts receivable, net of allowance of $9,176, $9,043, and $10,789, respectively	552,442	364,862	466,852
Inventories	617,194	457,927	558,558
Prepaid expenses and other current assets	77,763	58,559	36,113
Total current assets	1,712,857	1,649,497	1,491,797
Property, plant and equipment, at cost, net of accumulated depreciation of $483,857, $455,811, and $450,079, respectively	284,744	281,394	285,582
Intangible assets, net (Note 5)	127,320	129,555	130,300
Goodwill (Note 5)	68,594	68,594	68,594
Deferred income taxes	68,913	56,804	98,062
Other non-current assets	36,911	27,058	26,479
Total assets	$ 2,299,339	$ 2,212,902	$ 2,100,814
LIABILITIES AND EQUITY			
Current Liabilities:			
Short-term borrowings (Note 6)	$ 8,311	$ —	$ —
Accounts payable	237,344	252,301	190,634
Accrued liabilities (Note 7)	255,682	182,228	170,909
Income taxes payable	8,247	19,107	22,921
Total current liabilities	509,584	453,636	384,464
Other long-term liabilities	46,056	48,735	47,129
Income taxes payable	62,090	58,104	10,647
Deferred income taxes	13	168	154
Total liabilities	617,743	560,643	442,394
Commitments and contingencies (Note 13)			
Columbia Sportswear Company Shareholders' Equity:			
Preferred stock; 10,000 shares authorized; none issued and outstanding	—	—	—
Common stock (no par value); 250,000 shares authorized; 69,270, 69,995, and 69,863, issued and outstanding, respectively (Note 10)	210	45,829	39,007
Retained earnings	1,669,390	1,585,009	1,604,214
Accumulated other comprehensive loss (Note 9)	(4,235)	(8,887)	(13,929)
Total Columbia Sportswear Company shareholders' equity	1,665,365	1,621,951	1,629,292
Non-controlling interest (Note 4)	16,231	30,308	29,128
Total equity	1,681,596	1,652,259	1,658,420
Total liabilities and equity	$ 2,299,339	$ 2,212,902	$ 2,100,814

See accompanying notes to condensed consolidated financial statements.

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

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2018	2017	2018	2017
Net sales	$795,801	$747,367	$1,884,728	$1,690,064
Cost of sales	412,098	398,177	972,966	901,545
Gross profit	383,703	349,190	911,762	788,519
Selling, general and administrative expenses	259,267	230,446	724,827	643,859
Net licensing income	4,708	4,143	11,279	8,947
Income from operations	129,144	122,887	198,214	153,607
Interest income, net	2,524	1,035	7,748	3,240
Interest expense on note payable to related party (Note 15)	—	—	—	(429)
Other non-operating income (expense), net	736	(104)	372	203
Income before income tax	132,404	123,818	206,334	156,621
Income tax expense	(30,029)	(32,716)	(44,735)	(37,950)
Net income	102,375	91,102	161,599	118,671
Net income attributable to non-controlling interest	2,223	3,378	6,603	6,476
Net income attributable to Columbia Sportswear Company	$100,152	$87,724	$154,996	$112,195
Earnings per share attributable to Columbia Sportswear Company (Note 10):				
Basic	$1.44	$1.26	$2.22	$1.61
Diluted	$1.42	$1.25	$2.19	$1.59
Cash dividends per share	$0.22	$0.18	$0.66	$0.54
Weighted average shares outstanding (Note 10):				
Basic	69,589	69,815	69,895	69,698
Diluted	70,357	70,389	70,685	70,390

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,	
	2018	2017	2018	2017
Net income	102,375	$91,102	161,599	118,671
Other comprehensive income (loss):				
Unrealized holding losses on available-for-sale securities, net	(162)	—	(158)	—
Unrealized gains (losses) on derivative transactions (net of tax effects of ($1,062), $3,953, ($6,036), and $8,194, respectively)	2,896	(8,606)	18,542	(16,368)
Foreign currency translation adjustments (net of tax effects of $(39), ($20), $1,780, and ($18), respectively)	(562)	8,333	(12,565)	27,017
Other comprehensive income (loss)	2,172	(273)	5,819	10,649
Comprehensive income	104,547	90,829	167,418	129,320
Comprehensive income attributable to non-controlling interest	2,256	3,738	7,255	8,437
Comprehensive income attributable to Columbia Sportswear Company	$102,291	$87,091	$160,163	$120,883

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,	
	2018	2017
Cash flows from operating activities:		
Net income	$161,599	$118,671
Adjustments to reconcile net income to net cash used by operating activities:		
Depreciation and amortization	43,544	44,660
Loss on disposal and impairment of property, plant, and equipment	1,979	970
Deferred income taxes	2,103	3,871
Stock-based compensation	10,247	8,277
Changes in operating assets and liabilities:		
Accounts receivable	(125,433)	(127,003)
Inventories	(188,544)	(56,576)
Prepaid expenses and other current assets	(7,968)	2,959
Other assets	(9,782)	1,567
Accounts payable	(14,263)	(30,716)
Accrued liabilities	38,193	1,595
Income taxes payable	(7,200)	15,063
Other liabilities	(2,541)	4,231
Net cash used in operating activities	(98,066)	(12,431)
Cash flows from investing activities:		
Purchases of short-term investments	(426,278)	(50,697)
Sales of short-term investments	252,727	32,878
Capital expenditures	(45,189)	(41,791)
Proceeds from sale of property, plant, and equipment	18	239
Net cash used in investing activities	(218,722)	(59,371)
Cash flows from financing activities:		
Proceeds from credit facilities	36,051	3,374
Repayments on credit facilities	(27,740)	(3,374)
Proceeds from issuance of common stock under employee stock plans	16,508	16,056
Tax payments related to restricted stock unit issuances	(4,221)	(3,585)
Repurchase of common stock	(107,222)	(35,542)
Cash dividends paid	(46,160)	(37,617)
Cash dividends paid to non-controlling interest	(19,949)	—
Payment of related party note payable	—	(14,236)
Net cash used in financing activities	(152,733)	(74,924)
Net effect of exchange rate changes on cash	(7,500)	7,142
Net decrease in cash, cash equivalents and restricted cash	(477,021)	(139,584)
Cash, cash equivalents and restricted cash, beginning of period	673,166	551,389
Cash, cash equivalents and restricted cash, end of period	$196,145	$411,805
Supplemental disclosures of cash flow information:		
Cash paid during the period for income taxes, net of refunds	$47,041	$25,282
Cash paid during the period for interest on note payable to related party	—	685
Supplemental disclosures of non-cash investing and financing activities:		
Capital expenditures incurred but not yet paid	$7,380	$3,682

See accompanying notes to condensed consolidated financial statements.

5

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, 2018 and 2017, the results of operations for the three and nine months ended September 30, 2018 and 2017, and cash flows for the nine months ended September 30, 2018 and 2017. The December 31, 2017 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, 2017. 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, 2018 are not necessarily indicative of results to be expected for other quarterly periods or for the full year.

Certain information and footnote disclosures normally included in financial statements prepared in accordance with accounting principles generally accepted in the United States of America ("GAAP") have been condensed or omitted pursuant to the rules and regulations of the Securities and Exchange Commission. The Company, however, believes that the disclosures contained in this report comply with the requirements of Section 13(a) of the Securities Exchange Act of 1934 for a Quarterly Report on Form 10-Q and are adequate to make the information presented not misleading. These unaudited condensed consolidated financial statements should be read in conjunction with the consolidated financial statements and notes thereto included in the Company's Annual Report on Form 10-K for the year ended December 31, 2017.

Principles of Consolidation

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

Estimates and Assumptions

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

NOTE 2—SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Except as disclosed below and in Note 3, pertaining to our adoption of new accounting pronouncements, 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, 2017.

Recently Adopted Accounting Pronouncements:

On January 1, 2018, the Company adopted Accounting Standards Update ("ASU") No. 2014-09, Revenue from Contracts with Customers, which outlines a single comprehensive model for entities to use in accounting for revenue arising from contracts with customers that superseded the previous revenue recognition guidance (Topic 605). The updated guidance, and subsequent clarifications, collectively referred to as ASC 606, require an entity to recognize revenue when it transfers control of promised goods or services to customers in an amount that reflects the consideration to which the entity expects to be entitled in exchange for those goods or services. In addition, the guidance requires disclosure of the nature, amount, timing and uncertainty of revenue and cash flows arising from contracts with customers. The Company adopted this standard, utilizing the modified retrospective approach, with the cumulative effect of initially applying the new standard recognized in retained earnings. Accordingly, comparative

prior period information has not been restated and continues to be reported under the accounting standards in effect for those periods.
In addition, the adoption of ASC 606 had the following effects: (1) fees paid to or retained by third parties in conjunction with certain concession-based retail arrangements in our Latin America and Asia Pacific ("LAAP") region, historically comprising approximately 2% of net sales, are now recognized as a component of selling, general and administrative ("SG&A") expenses; (2) wholesale sales returns reserves, estimated chargebacks and markdowns, and other provisions for customer refunds are now presented as accrued liabilities rather than netted within accounts receivable; and (3) the estimated cost of inventory associated with sales returns reserves are now presented within other current assets rather than inventories. The Company expects the timing of revenue recognition for its significant revenue streams to remain substantially unchanged, with no material effect on net sales. See the table below for the effect of the adoption of the standard on our Condensed Consolidated Balance Sheets as of January 1, 2018.

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

On January 1, 2018, the Company adopted ASU No. 2016-16, Income Taxes (Topic 740): Intra-Entity Transfer of Assets Other than Inventory, which requires the recognition of the income tax effects of an intra-entity transfer of an asset, other than inventory, when the transfer occurs, eliminating an exception under previous GAAP in which the tax effects of intra-entity asset transfers were deferred until the transferred asset is sold to a third party or otherwise recovered through use. Income tax effects of intra-entity transfers of inventory will continue to be deferred until the inventory has been sold to a third party. The Company adopted this standard effective January 1, 2018 by applying the required modified retrospective approach with a cumulative-effect adjustment to retained earnings of certain previously deferred tax benefits. The Company anticipates the adoption of this standard will result in increased volatility in its future effective income tax rate. See the table below for the effect of the adoption of the standard on our Condensed Consolidated Balance Sheets as of January 1, 2018.

On January 1, 2018, the Company early-adopted ASU No. 2017-12, Derivatives and Hedging (Topic 815): Targeted Improvements to Accounting for Hedging Activities, which simplifies the application of hedge accounting guidance to better portray the economic results of risk management activities in the financial statements. The guidance aligns the recognition and presentation of the effects of hedging instruments and hedged items in the financial statements and includes certain targeted improvements to ease the application of the assessment of hedge effectiveness. The Company utilized the required modified retrospective transition method with the cumulative effect of initially applying the new standard recognized in retained earnings. See the table below for the effect of the adoption of the standard on our Condensed Consolidated Balance Sheets as of January 1, 2018.

On January 1, 2018, the Company adopted ASU No. 2016-01, Financial Instruments - Overall (Subtopic 825-10): Recognition and Measurement of Financial Assets and Financial Liabilities, which 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. The adoption of this standard did not have a material effect on the Company's financial position, results of operations or cash flows.

The following table presents the effect of the adoption of ASC 606, ASU 2016-16 and ASU 2017-12 on our Condensed Consolidated Balance Sheets as of January 1, 2018 (in thousands):

	January 1, 2018				
	December 31, 2017	Adjustments due to ASC 606	Adjustments due to ASU 2016-16	Adjustments due to ASU 2017-12	January 1, 2018
Accounts receivable, net	$364,862	$ 64,519	$ —	$ —	$429,381
Inventories	457,927	(24,037)	—	—	433,890
Prepaid expenses and other current assets	58,559	24,037	(11,814)	—	70,782
Total current assets	1,649,497	64,519	(11,814)	—	1,702,202
Deferred income taxes	56,804	(519)	23,484	—	79,769
Total assets	2,212,902	64,000	11,670	—	2,288,572
Accrued liabilities	182,228	61,340	—	—	243,568
Income taxes payable	19,107	230	—	—	19,337
Total current liabilities	453,636	61,570	—	—	515,206
Total liabilities	560,643	61,570	—	—	622,213
Retained earnings	1,585,009	2,430	11,670	515	1,599,624
Accumulated other comprehensive loss	(8,887)	—	—	(515)	(9,402)
Total liabilities and equity	$2,212,902	$ 64,000	$ 11,670	$ —	$2,288,572

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

In accordance with the requirements of ASC 606, the effects of adoption of this standard on our Condensed Consolidated Balance Sheets and Condensed Consolidated Statements of Operations were as follows (in thousands):

	September 30, 2018		
	As Reported	Effect of Standard	Balances Without Adoption of ASC 606
Accounts receivable, net	$552,442	$59,921	$492,521
Inventories	617,194	(16,012)	633,206
Prepaid expenses and other current assets	77,763	16,012	61,751
Total current assets	1,712,857	59,921	1,652,936
Total assets	2,299,339	59,921	2,239,418
Accrued liabilities	255,682	59,921	195,761
Total current liabilities	509,584	59,921	449,663
Total liabilities	617,743	59,921	557,822
Total liabilities and equity	$2,299,339	$59,921	$2,239,418

	Three Months Ended September 30, 2018			Nine Months Ended September 30, 2018		
	As Reported	Effect of Standard	Balances Without Adoption of ASC 606	As Reported	Effect of Standard	Balances Without Adoption of ASC 606
Net sales	$795,801	$ 6,913	$788,888	$1,884,728	$22,657	$1,862,071
Gross profit	383,703	6,913	376,790	911,762	22,657	889,105
Selling, general and administrative expenses	$259,267	$ 6,913	$252,354	$724,827	$22,657	$702,170

Recent Accounting Pronouncements Not Yet Adopted

In February 2016, the Financial Accounting Standards Board ("FASB") issued ASU No. 2016-02, Leases (Topic 842), to increase transparency and comparability among organizations by recognizing lease assets and lease liabilities on the balance sheet for most leases previously classified as operating leases. Subsequently, the FASB has issued amendments to clarify the codification or to correct unintended application of the new guidance. The new standard is required to be applied using a modified retrospective approach, with two adoption methods permissible: (1) apply the leases standard to each lease that existed at the beginning of the earliest comparative period presented in the financial statements or (2) apply the guidance to each lease that had commenced as of the beginning of the reporting period in which the entity first applies the new lease standard.

The Company will adopt the new standard on January 1, 2019 and anticipates applying the second modified retrospective method noted above. The Company is continuing to evaluate the impact of the guidance, including reviewing the standard's provisions, gathering and analyzing data to support further evaluation of real estate and non-real estate leases, identifying arrangements that may contain embedded leases and assessing practical expedients. The Company is also evaluating the impact of the new accounting standard on the Company's financial statement disclosures, systems, processes and controls. Based on these efforts, the Company expects the adoption will result in a material increase in the assets and liabilities on its Consolidated Balance Sheets and is not expected to have a material effect on the results of operations or cash flows.

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. Subsequently, the FASB issued an amendment to clarify the implementation dates and items that fall within the scope of this pronouncement. This standard is effective beginning in the first quarter of 2020. The adoption of ASU 2016-13 is not expected to have a material effect on the Company's financial position, results of operations or cash flows.

In January 2017, the FASB issued ASU No. 2017-04, Intangibles - Goodwill and Other (Topic 350): Simplifying the Test for Goodwill Impairment, which simplifies the accounting for goodwill impairments by eliminating step two from the goodwill impairment test. Under this guidance, if the carrying amount of a reporting unit exceeds its estimated fair value, an impairment charge shall be recognized in an amount

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

equal to that excess, limited to the total amount of goodwill allocated to that reporting unit. This standard is effective beginning in the first quarter of 2019, with early adoption permitted. The Company is evaluating the impact and expects the adoption of ASU 2017-04 to affect the amount and timing of future goodwill impairment charges, if any.
In June 2018, the FASB issued ASU No. 2018-07, Compensation - Stock Compensation (Topic 718): Improvements to Nonemployee Share-Based Payment Accounting, which simplifies the accounting for share-based payments granted to nonemployees for goods and services. Under the ASU, most of the guidance on such payments to nonemployees would be aligned with the requirements for share-based payments granted to employees. As a result, most of the guidance in ASC 718 associated with employee share-based payments, including most requirements related to classification and measurement, applies to nonemployee share-based payment arrangements. This standard is effective beginning in the first quarter of 2019, with early adoption permitted. The Company is currently evaluating the impact this accounting standard will have on the Company's financial position, results of operations or cash flows.
In August 2018, the FASB issued ASU No. 2018-15, Intangibles - Goodwill and Other - Internal-Use Software (Subtopic 350-40), which clarifies certain aspects of accounting for implementation costs incurred in a cloud computing arrangement ("CCA") that is a service contract. Under the ASU, an entity would expense costs incurred in the preliminary-project and post-implementation-operation stages. The entity would also capitalize certain costs incurred during the application-development stage, as well as certain costs related to enhancements. The ASU does not change the accounting for the service component of a CCA. This standard is effective beginning in the first quarter of 2020, with early adoption permitted. The Company is currently evaluating the impact this accounting standard will have on the Company's financial position, results of operations or cash flows.

NOTE 3—REVENUES

Disaggregated Revenue

As disclosed below in Note 11, the Company has aggregated its operating segments into four geographic segments: (1) United States, (2) LAAP, (3) Europe, Middle East and Africa ("EMEA") and (4) Canada, which are reflective of the Company's internal organization, management and oversight structure. The following tables disaggregate our operating segment revenue by product category and sales channel (in thousands), which we believe provides a meaningful depiction how the nature, timing, and uncertainty of revenues are affected by economic factors:

	Three Months Ended September 30, 2018				
	United States	LAAP	EMEA	Canada	Total
Product category revenues					
Apparel, Accessories and Equipment	$406,474	$92,869	$63,950	$54,294	$617,587
Footwear	89,687	25,510	36,401	26,616	178,214
Total	$496,161	$118,379	$100,351	$80,910	$795,801
Sales channel revenues					
Wholesale	$320,102	$67,154	$87,434	$70,099	$544,789
Direct-to-consumer	176,059	51,225	12,917	10,811	251,012
Total	$496,161	$118,379	$100,351	$80,910	$795,801

	Three Months Ended September 30, 2017				
	United States	LAAP	EMEA	Canada	Total
Product category revenues					
Apparel, Accessories and Equipment	$379,387	$91,843	$55,172	$53,518	$579,920
Footwear	76,583	31,153	32,350	27,361	167,447
Total	$455,970	$122,996	$87,522	$80,879	$747,367
Sales channel revenues					
Wholesale	$310,607	$82,148	$78,126	$72,875	$543,756
Direct-to-consumer	145,363	40,848	9,396	8,004	203,611

Total	$455,970	$122,996	$87,522	$80,879	$747,367

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

	Nine Months Ended September 30, 2018				
	United States	LAAP	EMEA	Canada	Total
Product category revenues					
Apparel, Accessories and Equipment	$970,194	$263,849	$168,306	$99,854	$1,502,203
Footwear	168,981	86,983	88,806	37,755	382,525
Total	$1,139,175	$350,832	$257,112	$137,609	$1,884,728
Sales channel revenues					
Wholesale	$636,108	$181,487	$223,018	$109,324	$1,149,937
Direct-to-consumer	503,067	169,345	34,094	28,285	734,791
Total	$1,139,175	$350,832	$257,112	$137,609	$1,884,728
	Nine Months Ended September 30, 2017				
	United States	LAAP	EMEA	Canada	Total
Product category revenues					
Apparel, Accessories and Equipment	$882,224	$237,025	$135,868	$94,574	$1,349,691
Footwear	145,126	83,782	74,380	37,085	340,373
Total	$1,027,350	$320,807	$210,248	$131,659	$1,690,064
Sales channel revenues					
Wholesale	$601,789	$184,912	$186,745	$110,720	$1,084,166
Direct-to-consumer	425,561	135,895	23,503	20,939	605,898
Total	$1,027,350	$320,807	$210,248	$131,659	$1,690,064

Accounting Policies

Revenues are recognized when our performance obligations are satisfied as evidenced by transfer of control of promised goods to our customers, in an amount that reflects the consideration we expect to be entitled to receive in exchange for those goods or services. Within our wholesale channel, control generally transfers to the customer upon shipment to, or upon receipt by, the customer depending on the terms of sale with the customer. Within our direct-to-consumer ("DTC") channel, control generally transfers to the customer at the time of sale within our retail stores and concession-based arrangements and upon shipment to the customer with respect to e-commerce transactions.

The amount of consideration we receive and revenue we recognize across both wholesale and DTC channels varies with changes in sales returns and other accommodations and incentives we offer to our customers. When we give our customers the right to return products or provide other accommodations such as chargebacks and markdowns, we estimate the expected returns and claims based on historical rates as well as events and circumstances that indicate changes to historical rates of product returns and claims. We adjust our estimates of revenue at the earlier of when the most likely amount of consideration we expect to receive changes or when the amount of consideration becomes fixed.

Licensing income, which is presented separately as Net licensing income on the Condensed Consolidated Statements of Operations and represents less than 1% of total revenue, is recognized over time based on the greater of contractual minimum royalty guarantees and actual, or estimated, sales of licensed products by our licensees.

We expense sales commissions when incurred, which is generally at the time of sale, because the amortization period would have been one year or less. These costs are recorded within SG&A expenses.

We treat shipping and handling activities as fulfillment costs, and as such recognize the costs for these activities at the time related revenue is recognized. The majority of these costs are recorded as SG&A expenses, and the direct costs associated with shipping goods to customers and consumers are recorded as Costs of goods sold. Shipping and handling fees billed to customers are recorded as revenue.

Revenue recognized from contracts with customers is recorded net of sales taxes, value added taxes, or similar taxes that are collected on behalf of local taxing authorities.

Performance Obligations

For the three and nine months ended September 30, 2018, revenue recognized from performance obligations related to prior periods was not material. Revenue expected to be recognized in any future period related to remaining performance obligations is not material.

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

Contract Balances
As of September 30, 2018, contract liabilities recorded on the Condensed Consolidated Balance Sheets, which consisted of obligations associated with our gift card and customer loyalty programs, were not material.
NOTE 4—NON-CONTROLLING INTEREST
The Company owns a 60% controlling interest in a joint venture formed with Swire Resources Limited ("Swire") to support the development and operation of the Company's business in China. The accounts of the joint venture are included in the Condensed Consolidated Financial Statements. Swire's share of net income from the joint venture is included in Net income attributable to non-controlling interest in the Condensed Consolidated Statements of Operations for the three and nine months ended September 30, 2018 and 2017. 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, 2018 and 2017, and December 31, 2017.
In September 2018, the Company and Swire entered into an Equity Interest Transfer Agreement ("EITA"), in which the Company will buy out the 40% non-controlling interest in the joint venture. The buyout is subject to various terms and conditions, including regulatory approval in China and is expected to be completed in early 2019. As part of the buyout arrangement, the Company has placed approximately $13,970,000 in an escrow account as a portion of the funds needed to complete the buyout in 2019. These funds are included as Restricted cash in the Condensed Consolidated Balance Sheets at September 30, 2018. In addition, the China joint venture declared a dividend on June 14, 2018 of which Swire's share was approximately RMB136,539,000 (approximately US$21,332,000 at the date of declaration). The renminbi denominated dividend was paid in full in September 2018 and equated to approximately $19,949,000 on the date of payment.
The following table presents the changes in Columbia Sportswear Company shareholders' equity and non-controlling interest for the nine months ended September 30, 2018 (in thousands, except per share amounts):

	Columbia Sportswear Company	Non-Controlling Interest	Total
Balance at December 31, 2017	$1,621,951	$ 30,308	$1,652,259
Net income	154,996	6,603	161,599
Other comprehensive income (loss), net of tax:			
Unrealized holding losses on available-for-sale securities	(158)	—	(158)
Derivative holding gains	17,472	1,070	18,542
Foreign currency translation adjustments	(12,147)	(418)	(12,565)
Cash dividends ($0.66 per share)	(46,160)	—	(46,160)
Dividends to non-controlling interest	—	(21,332)	(21,332)
Issuance of common stock under employee stock plans, net of tax	12,286	—	12,286
Adoption of new accounting pronouncements (Note 2)	14,100	—	14,100
Stock-based compensation expense	10,247	—	10,247
Repurchase of common stock	(107,222)	—	(107,222)
Balance at September 30, 2018	$1,665,365	$ 16,231	$1,681,596

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

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

	Columbia Sportswear Company	Non-Controlling Interest	Total
Balance at December 31, 2016	$1,560,820	$ 20,691	$1,581,511
Net income	112,195	6,476	118,671
Other comprehensive income (loss), net of tax:			
Derivative holding losses	(15,993)	(375)	(16,368)
Foreign currency translation adjustments	24,681	2,336	27,017
Cash dividends ($0.54 per share)	(37,617)	—	(37,617)
Issuance of common stock under employee stock plans, net	12,471	—	12,471
Stock-based compensation expense	8,277	—	8,277
Repurchase of common stock	(35,542)	—	(35,542)
Balance at September 30, 2017	$1,629,292	$ 29,128	$1,658,420

NOTE 5—INTANGIBLE ASSETS, NET

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

Intangible Assets

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

	September 30, 2018	December 31, 2017	September 30, 2017
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	(11,649)	(10,651)	(10,319)
Customer relationships	(13,650)	(12,413)	(12,000)
Total accumulated amortization	(25,299)	(23,064)	(22,319)
Net carrying amount	11,899	14,134	14,879
Intangible assets not subject to amortization	115,421	115,421	115,421
Intangible assets, net	$ 127,320	$ 129,555	$ 130,300

Amortization expense for intangible assets subject to amortization was approximately $745,000 for the three months ended September 30, 2018 and 2017, respectively, and was approximately $2,235,000 and $3,138,000 for the nine months ended September 30, 2018 and 2017, respectively.

Annual amortization expense is estimated to be as follows for the years 2018 through 2022 (in thousands):

2018	$2,980
2019	2,980
2020	2,537
2021	1,650
2022	1,650

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

NOTE 6—SHORT-TERM BORROWINGS AND CREDIT LINES

In the third quarter of 2018, the Company's China joint venture established an unsecured and uncommitted line of credit guaranteed by the Company providing for borrowings of advances or overdrafts up to a maximum of US$20,000,000 (RMB137,806,000), and is available at September 30, 2018. Once the line is drawn upon, the revolving line accrues interest on advances of RMB based on the People's Bank of China ("PBOC") base rate, advances of USD based on LIBOR +1.8% per annum or overdrafts of RMB based on 110% of the PBOC base rate. As of September 30, 2018, the balance outstanding on an advance of RMB was approximately RMB57,266,000 (approximately US$8,311,000).

Except as disclosed above, there have been no significant changes to the Company's short-term borrowing and credit lines as described in Note 8 in the Company's Annual Report on Form 10-K for the year ended December 31, 2017.

NOTE 7—PRODUCT WARRANTY

Some of the Company's products carry assurance-type 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, replacements and refunds 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,	
	2018	2017	2018	2017
Balance at beginning of period	$11,857	$11,213	$12,339	$11,455
Provision for warranty claims	555	1,373	2,997	3,304
Warranty claims	(378)	(877)	(3,088)	(3,365)
Other	50	108	(164)	423
Balance at end of period	$12,084	$11,817	$12,084	$11,817

NOTE 8—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,	
	2018	2017	2018	2017
Stock options	$1,277	$834	$3,571	$2,843
Restricted stock units	2,371	1,724	6,676	5,434
Total	$3,648	$2,558	$10,247	$8,277

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:

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

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2018	2017	2018	2017
Expected option term	4.30 years	4.35 years	4.49 years	4.54 years
Expected stock price volatility	27.75%	28.79%	28.41%	28.91%
Risk-free interest rate	2.81%	1.68%	2.47%	1.72%
Expected annual dividend yield	1.01%	1.23%	1.15%	1.30%
Weighted average grant date fair value	$21.37	$13.47	$18.80	$13.03

During the nine months ended September 30, 2018 and 2017, the Company granted a total of 397,667 and 528,477 stock options, respectively. At September 30, 2018, unrecognized costs related to outstanding stock options totaled approximately $9,828,000, 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, 2018 are expected to be recognized over a weighted average period of 2.47 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,	
	2018	2017	2018	2017
Vesting period	3.51 years	4.03 years	3.88 years	3.87 years
Expected annual dividend yield	1.01%	1.23%	1.15%	1.30%
Estimated average grant date fair value per restricted stock unit	$84.32	$55.61	$73.10	$52.65

During the nine months ended September 30, 2018 and 2017, the Company granted 178,761 and 255,032 restricted stock units, respectively. At September 30, 2018, unrecognized costs related to outstanding restricted stock units totaled approximately $17,905,000, before any related tax benefit. The unrecognized costs related to restricted stock units are being amortized over the related vesting period using the straight-line attribution method. These unrecognized costs at September 30, 2018 are expected to be recognized over a weighted average period of 2.45 years.

NOTE 9—ACCUMULATED OTHER COMPREHENSIVE LOSS

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

The following table sets forth the changes in accumulated other comprehensive loss attributable to Columbia Sportswear Company, net of tax, for the three months ended September 30, 2018 (in thousands):

	Unrealized losses on available-for-sale securities	Unrealized holding gains on derivative transactions	Foreign currency translation adjustments	Total
Balance at June 30, 2018	$ —	$ 3,889	$ (10,263)	$ (6,374)
Other comprehensive (loss) income before reclassifications	(162)	541	(51)	328
Amounts reclassified from other comprehensive income	—	1,811	—	1,811
Net other comprehensive (loss) income during the period	(162)	2,352	(51)	2,139
Balance at September 30, 2018	$ (162)	$ 6,241	$ (10,314)	$ (4,235)

14

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

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

	Unrealized losses on available-for-sale securities	Unrealized holding losses on derivative transactions	Foreign currency translation adjustments	Total
Balance at June 30, 2017	$ (4)	$ (794)	$ (12,498)	$ (13,296)
Other comprehensive (loss) income before reclassifications	—	(7,391)	7,793	402
Amounts reclassified from other comprehensive income	—	(1,035)	—	(1,035)
Net other comprehensive (loss) income during the period	—	(8,426)	7,793	(633)
Balance at September 30, 2017	$ (4)	$ (9,220)	$ (4,705)	$ (13,929)

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, 2018 (in thousands):

	Unrealized losses on available-for-sale securities	Unrealized holding (losses) gains on derivative transactions	Foreign currency translation adjustments	Total
Balance at December 31, 2017	$ (4)	$ (10,716)	$ 1,833	$ (8,887)
Other comprehensive (loss) income before reclassifications	(158)	16,088	(12,147)	3,783
Amounts reclassified from other comprehensive income	—	1,384	—	1,384
Net other comprehensive (loss) income during the period	(158)	17,472	(12,147)	5,167
Adoption of ASU 2017-12 (Note 2)	—	(515)	—	(515)
Balance at September 30, 2018	$ (162)	$ 6,241	$ (10,314)	$ (4,235)

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, 2017 (in thousands):

	Unrealized losses on available-for-sale securities	Unrealized holding gains (losses) on derivative transactions	Foreign currency translation adjustments	Total
Balance at December 31, 2016	$ (4)	$ 6,773	$ (29,386)	$ (22,617)
Other comprehensive (loss) income before reclassifications	—	(14,366)	24,681	10,315
Amounts reclassified from other comprehensive income	—	(1,627)	—	(1,627)
Net other comprehensive (loss) income during the period	—	(15,993)	24,681	8,688
Balance at September 30, 2017	$ (4)	$ (9,220)	$ (4,705)	$ (13,929)

NOTE 10—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.

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

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,	
	2018	2017	2018	2017
Weighted average shares of common stock outstanding, used in computing basic earnings per share	69,589	69,815	69,895	69,698
Effect of dilutive stock options and restricted stock units	768	574	790	692
Weighted average shares of common stock outstanding, used in computing diluted earnings per share	70,357	70,389	70,685	70,390
Earnings per share of common stock attributable to Columbia Sportswear Company:				
Basic	$1.44	$1.26	$2.22	$1.61
Diluted	$1.42	$1.25	$2.19	$1.59

Stock options and service-based restricted stock units representing 216,386 and 931,524 shares of common stock for the three months ended September 30, 2018 and 2017, respectively, were outstanding but were excluded from the computation of diluted EPS because their effect would be anti-dilutive as a result of applying the treasury stock method. Stock options and service-based restricted stock units representing 325,410 and 887,508 shares of common stock for the nine months ended September 30, 2018 and 2017, respectively, were outstanding but were excluded from the computation of diluted EPS because their effect would be anti-dilutive as a result of applying the treasury stock method. In addition, performance-based restricted stock units representing 23,971 and 36,589 shares of common stock for the three months ended September 30, 2018 and 2017, respectively, and 23,971 and 43,292 shares of common stock for the nine months ended September 30, 2018 and 2017, 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.

Common Stock Repurchase Plan

Since the inception of the Company's stock repurchase plan in 2004 through September 30, 2018, the Company's Board of Directors has authorized the repurchase of $900,000,000 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, 2018, the Company had repurchased 22,918,221 shares under this program at an aggregate purchase price of approximately $669,285,000. During the three and nine months ended September 30, 2018, the Company repurchased 759,896 and 1,260,186 shares of the Company's common stock at an aggregate purchase price of approximately $67,116,000 and $107,222,000, respectively. The Company did not repurchase shares of the Company's common stock for the three months ended September 30, 2017. During the nine months ended September 30, 2017, the Company repurchased 665,095 shares of the Company's common stock at an aggregate purchase price of approximately $35,542,000.

NOTE 11—SEGMENT INFORMATION

The Company has aggregated its operating segments into four geographic segments: (1) United States, (2) LAAP, (3) 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.

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

The geographic distribution of the Company's Net sales and Income (loss) from operations in the Condensed Consolidated Statements of Operations are summarized in the following table (in thousands) for the three and nine months ended September 30, 2018 and 2017.

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2018	2017	2018	2017
Net sales to unrelated entities:				
United States	$496,161	$455,970	$1,139,175	$1,027,350
LAAP	118,379	122,996	350,832	320,807
EMEA	100,351	87,522	257,112	210,248
Canada	80,910	80,879	137,609	131,659
	$795,801	$747,367	$1,884,728	$1,690,064
Segment income from operations:				
United States	$123,522	$117,901	$237,341	$202,857
LAAP	15,992	21,583	45,400	44,894
EMEA	15,130	10,212	27,687	11,688
Canada	17,611	18,971	21,606	22,235
Total segment income from operations	172,255	168,667	332,034	281,674
Unallocated corporate expenses	(43,111)	(45,780)	(133,820)	(128,067)
Interest income, net	2,524	1,035	7,748	3,240
Interest expense on note payable to related party	—	—	—	(429)
Other non-operating income (expense)	736	(104)	372	203
Income before income taxes	$132,404	$123,818	$206,334	$156,621

Concentrations

No single customer accounted for 10% or more of Accounts receivable, net of allowance as of September 30, 2018 and 2017. The Company had one customer that accounted for 12.3% of Accounts receivable, net of allowance as of December 31, 2017. No single customer accounted for 10% or more of Net sales in the Condensed Consolidated Statements of Operations for the three and nine months ended September 30, 2018 or 2017, or for the year ended December 31, 2017.

NOTE 12—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 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, forward points are excluded from the determination of hedge effectiveness and are 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 on a straight-line basis over the life of the contract. In each accounting period, any difference between the change in fair value of the forward points and the amount recognized in earnings on a straight-line basis is recognized in Other comprehensive income in the Condensed Consolidated Statements of Comprehensive Income. 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 in the Condensed Consolidated Statements of Operations. Hedge ineffectiveness was not material during the three and nine months ended September 30, 2018 and 2017.

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

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

U.S. dollars, euros, Canadian dollars, yen, won, or renminbi as their functional currency. Non-functional currency denominated monetary assets and liabilities consist primarily of cash and cash equivalents, short-term investments, receivables, payables, deferred income taxes, 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, 2018	December 31, 2017	September 30, 2017
Derivative instruments designated as cash flow hedges:			
Currency forward contracts	$ 434,738	$ 448,448	$ 390,500
Derivative instruments not designated as cash flow hedges:			
Currency forward contracts	289,772	231,161	181,045

At September 30, 2018, approximately $3,247,000 of deferred net gains on both outstanding and matured derivatives accumulated in Other comprehensive income are expected to be reclassified to net income during the next twelve months as a result of underlying hedged transactions also being recorded in net income. Actual amounts ultimately reclassified to Net income in the Condensed Consolidated Statements of Comprehensive Income are dependent on U.S. dollar exchange rates in effect against the euro, renminbi, Canadian dollar, and yen when outstanding derivative contracts mature.

At September 30, 2018, 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 $5,000,000 at September 30, 2018. 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. The Company has not pledged assets or posted collateral as a requirement for entering into or maintaining derivative positions.

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

	Balance Sheet Classification	September 30, 2018	December 31, 2017	September 30, 2017
Derivative instruments designated as cash flow hedges:				
Derivative instruments in asset positions:				
Currency forward contracts	Prepaid expenses and other current assets	$ 7,262	$ 1,648	$ 1,930
Currency forward contracts	Other non-current assets	7,963	335	509
Derivative instruments in liability positions:				
Currency forward contracts	Accrued liabilities	584	9,336	10,152
Currency forward contracts	Other long-term liabilities	—	3,820	3,048
Derivative instruments not designated as cash flow hedges:				
Derivative instruments in asset positions:				
Currency forward contracts	Prepaid expenses and other current assets	865	683	959

Derivative instruments in liability positions:				
Currency forward contracts	Accrued liabilities	154	1,229	407

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

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

	Statement of Operations Classification	Three Months Ended September 30,		Nine Months Ended September 30,	
		2018	2017	2018	2017
Currency Forward and Option Contracts:					
Derivative instruments designated as cash flow hedges:					
Gain (loss) recognized in other comprehensive income or loss, net of tax	—	$866	$(7,535)	$16,493	$(14,510)
Gain reclassified from accumulated other comprehensive income or loss to income for the effective portion	Net sales	17	—	41	144
(Loss) gain reclassified from accumulated other comprehensive income or loss to income for the effective portion	Cost of sales	(4,192)	1,549	(7,796)	2,500
Loss reclassified from accumulated other comprehensive income or loss to income as a result of cash flow hedge discontinuance	Other non-operating expense	—	(178)	—	(178)
Gain recognized in income for amount excluded from effectiveness testing and for the ineffective portion	Net sales	4	—	16	5
Gain recognized in income for amount excluded from effectiveness testing and for the ineffective portion	Cost of sales	1,637	1,203	5,458	2,489
Derivative instruments not designated as cash flow hedges:					
Gain (loss) recognized in income	Other non-operating expense	372	(634)	2,606	(4,045)

NOTE 13—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, 2018, inventory purchase obligations were approximately $333,670,000.

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 14—FAIR VALUE MEASURES

Certain assets and liabilities are reported at fair value on either a recurring or nonrecurring basis. Fair value is defined as an exit price, representing the amount that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants, under a three-tier fair value hierarchy that prioritizes the inputs used in measuring fair value as follows:

Level 1 — observable inputs such as quoted prices for identical assets or liabilities in active liquid markets;

Level 2 — inputs, other than the quoted market prices in active markets, that are observable, either directly or indirectly; or observable market prices in markets with insufficient volume or infrequent transactions; and

Level 3 — unobservable inputs for which there is little or no market data available, that require the reporting entity to develop its own assumptions.

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

Assets and liabilities measured at fair value on a recurring basis as of September 30, 2018 are as follows (in thousands):

	Level 1	Level 2	Level 3	Total
Assets:				
Cash equivalents:				
Money market funds	$70,573	$—	$ —	$70,573
Available-for-sale short-term investments [1]:				
U.S. Government treasury bills	—	267,861	—	267,861
Other short-term investments:				
Mutual fund shares	1,452	—	—	1,452
Other current assets:				
Derivative financial instruments (Note 12)	—	8,127	—	8,127
Other non-current assets:				
Derivative financial instruments (Note 12)	—	7,963	—	7,963
Mutual fund shares	9,950	—	—	9,950
Total assets measured at fair value	$81,975	$283,951	$ —	$365,926
Liabilities:				
Accrued liabilities:				
Derivative financial instruments (Note 12)	$—	$738	$ —	$738
Total liabilities measured at fair value	$—	$738	$ —	$738

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

Assets and liabilities measured at fair value on a recurring basis as of December 31, 2017 are as follows (in thousands):

	Level 1	Level 2	Level 3	Total
Assets:				
Cash equivalents:				
Money market funds	$282,860	$—	$ —	$282,860
Time deposits	52,808	—	—	52,808
U.S. Government treasury bills	—	4,995	—	4,995
U.S. Government-backed municipal bonds	—	25,338	—	25,338
Available-for-sale short-term investments [1]				
U.S. Government treasury bills	—	19,963	—	19,963
U.S. Government-backed municipal bonds	—	73,582	—	73,582
Other short-term investments:				
Mutual fund shares	1,438	—	—	1,438
Other current assets:				
Derivative financial instruments (Note 12)	—	2,331	—	2,331
Non-current assets:				
Derivative financial instruments (Note 12)	—	335	—	335
Mutual fund shares	9,319	—	—	9,319
Total assets measured at fair value	$346,425	$126,544	$ —	$472,969
Liabilities:				
Accrued liabilities:				
Derivative financial instruments (Note 12)	$—	$10,565	$ —	$10,565
Other long-term liabilities				

Derivative financial instruments (Note 12)	—	3,820	—	3,820
Total liabilities measured at fair value	$—	$14,385	$ —	$14,385

20

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

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

Assets and liabilities measured at fair value on a recurring basis as of September 30, 2017 are as follows (in thousands):

	Level 1	Level 2	Level 3	Total
Assets:				
Cash equivalents:				
Money market funds	$236,909	$—	$ —	$236,909
Time deposits	52,719	—	—	52,719
U.S. Government-backed municipal bonds	—	3,072	—	3,072
Available-for-sale short-term investments (1):				
U.S. Government-backed municipal bonds	—	16,828	—	16,828
Other short-term investments:				
Mutual funds shares	1,641	—	—	1,641
Other current assets:				
Derivative financial instruments (Note 12)	—	2,889	—	2,889
Other non-current assets:				
Derivative financial instruments (Note 12)	—	509	—	509
Mutual fund shares	8,772	—	—	8,772
Total assets measured at fair value	$300,041	$23,298	$ —	$323,339
Liabilities:				
Accrued liabilities:				
Derivative financial instruments (Note 12)	$—	$10,559	$ —	$10,559
Other long-term liabilities				
Derivative financial instruments (Note 12)	—	3,048	—	3,048
Total liabilities measured at fair value	$—	$13,607	$ —	$13,607

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, 2018, December 31, 2017 or September 30, 2017.

NOTE 15—RELATED PARTY TRANSACTIONS

The Company owns a 60% controlling interest in a joint venture formed with Swire, which is a related party. The joint venture arrangement involves Transition Services Agreements ("TSAs") with Swire, under which Swire provides administrative and information technology services to the joint venture. The Company continues to reduce its costs under the TSAs as it internalizes the back-office functions and related personnel, including the transition of the joint venture's systems to the Company's enterprise resource planning ("ERP") platform in the second quarter of 2017. The joint venture incurred service fees, valued under the TSAs at Swire's cost, of approximately $72,000 and $90,000 during the three months ended September 30, 2018 and 2017, respectively, and approximately $216,000 and $935,000 during the nine months ended September 30, 2018 and 2017, respectively. These fees are included in SG&A expenses in the Condensed Consolidated Statements of Operations.

As of September 30, 2018 and 2017, and December 31, 2017, net payables to Swire for service fees, interest expense and miscellaneous expenses totaled approximately $83,000, $87,000 and $89,000, respectively, and were included in Accounts payable in the Condensed Consolidated Balance Sheets.

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

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

The China joint venture declared a cash dividend of approximately RMB 341,347,000 (approximately US$53,330,000) in June 2018 to stockholders of record as of June 14, 2018 and paid such dividend in the third quarter of 2018. The Company's dividend share of approximately $31,998,000 was received in the third quarter and was eliminated in consolidation. In addition, in September 2018, the Company and Swire entered into an Equity Interest Transfer Agreement ("EITA"), in which the Company commits to buy out the 40% non-controlling interest in the joint venture. The buyout is subject to various terms and conditions, including regulatory approval in China and is expected to be completed in early 2019. As part of the buyout arrangement, the Company has placed approximately $13,970,000 in an escrow account as a portion of the funds needed to complete the buyout in 2019.