COLUMBIA SPORTSWEAR CO
Form 10-Q
May 06, 2011

UNITED STATES

SECURITIES AND EXCHANGE COMMISSION

Washington, DC 20549

FORM 10-Q

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

For the quarterly period ended March 31, 2011

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

(503) 985-4000

(Registrant s telephone number, including area code)

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

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

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

Large accelerated filer	¨	Accelerated filer	x
Non-accelerated filer	¨ (Do not check if 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 April 22, 2011 was 33,901,642.

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COLUMBIA SPORTSWEAR COMPANY

MARCH 31, 2011

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PART I. FINANCIAL INFORMATION

Item 1 ***FINANCIAL STATEMENTS***

COLUMBIA SPORTSWEAR COMPANY

CONDENSED CONSOLIDATED BALANCE SHEETS

(In thousands)

(Unaudited)

	March 31, 2011	December 31, 2010	March 31, 2010
ASSETS			
Current Assets:			
Cash and cash equivalents	$ 234,982	$ 234,257	$ 365,948
Short-term investments	100,331	68,812	49,858
Accounts receivable, net of allowance of $6,303, $7,098 and $7,498, respectively	218,895	300,181	198,194
Inventories, net (Note 3)	303,086	314,298	222,704
Deferred income taxes	43,245	45,091	31,994
Prepaid expenses and other current assets	49,649	28,241	35,084
Total current assets	950,188	990,880	903,782
Property, plant and equipment, at cost, net of accumulated depreciation of $253,544, $250,999 and $229,244, respectively	225,210	221,813	232,248
Intangible assets, net (Note 4)	40,072	40,423	27,099
Goodwill	14,470	14,470	12,659
Other non-current assets	26,093	27,168	14,194
Total assets	$ 1,256,033	$ 1,294,754	$ 1,189,982
LIABILITIES AND SHAREHOLDERS EQUITY			
Current Liabilities:			
Accounts payable	$ 92,356	$ 130,626	$ 79,304
Accrued liabilities (Note 5)	84,389	102,810	63,424
Income taxes payable	11,303	16,037	5,452
Deferred income taxes	1,192	2,153	2,522
Total current liabilities	189,240	251,626	150,702
Income taxes payable	19,091	19,698	21,436
Other long-term liabilities	22,798	21,456	16,334
Total liabilities	231,129	292,780	188,472
Commitments and contingencies (Note 11)			
Shareholders Equity:			
Preferred stock; 10,000 shares authorized; none issued and outstanding			
Common stock (no par value); 125,000 shares authorized; 33,902, 33,683 and 33,753 issued and outstanding, respectively (Note 8)	11,565	5,052	2,404
Retained earnings	956,215	950,207	954,151
Accumulated other comprehensive income (Note 7)	57,124	46,715	44,955
Total shareholders equity	1,024,904	1,001,974	1,001,510

Total liabilities and shareholders equity	$ 1,256,033	$ 1,294,754	$ 1,189,982

See accompanying notes to condensed consolidated financial statements.

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COLUMBIA SPORTSWEAR COMPANY

CONDENSED CONSOLIDATED STATEMENTS OF OPERATIONS

(In thousands, except per share amounts)

(Unaudited)

	Three Months Ended March 31, 2011	Three Months Ended March 31, 2010
Net sales	$ 333,086	$ 300,406
Cost of sales	183,550	173,102
Gross profit	149,536	127,304
Selling, general and administrative expenses	134,147	115,539
Net licensing income	2,531	725
Income from operations	17,920	12,490
Interest income, net	323	534
Income before income tax	18,243	13,024
Income tax expense	(5,473)	(3,796)
Net income	$ 12,770	$ 9,228
Earnings per share (Note 8):		
Basic	$ 0.38	$ 0.27
Diluted	0.37	0.27
Cash dividends per share	$ 0.20	$ 0.18
Weighted average shares outstanding (Note 8):		
Basic	33,799	33,733
Diluted	34,288	33,990

See accompanying notes to condensed consolidated financial statements.

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COLUMBIA SPORTSWEAR COMPANY

CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS

(In thousands)

(Unaudited)

	Three Months Ended March 31, 2011	2010
Cash flows from operating activities:		
Net income	$ 12,770	$ 9,228
Adjustments to reconcile net income to net cash provided by operating activities:		
Depreciation and amortization	10,466	9,116
Loss on disposal or impairment of property, plant, and equipment	134	134
Deferred income taxes	3,543	590
Stock-based compensation	1,813	1,545
Excess tax benefit from employee stock plans	(1,371)	(293)
Changes in operating assets and liabilities:		
Accounts receivable	84,007	29,715
Inventories	13,704	(1,060)
Prepaid expenses and other current assets	(20,989)	(3,299)
Intangibles and other assets	(873)	(316)
Accounts payable	(40,058)	(25,548)
Accrued liabilities	(22,585)	(1,360)
Income taxes payable	(5,544)	200
Other liabilities	1,337	1,282
Net cash provided by operating activities	36,354	19,934
Cash flows from investing activities:		
Purchases of short-term investments	(37,561)	(27,161)
Sales of short-term investments	6,100	
Capital expenditures	(9,043)	(6,056)
Proceeds from sale of property, plant, and equipment	33	
Net cash used in investing activities	(40,471)	(33,217)
Cash flows from financing activities:		
Proceeds from credit facilities	5,509	3,501
Repayments on credit facilities	(5,509)	(3,501)
Proceeds from issuance of common stock under employee stock plans	5,843	1,186
Tax payments related to restricted stock unit issuances	(2,770)	(751)
Excess tax benefit from employee stock plans	1,371	293
Repurchase of common stock		(3,838)
Cash dividends paid	(6,762)	(6,065)
Net cash used in financing activities	(2,318)	(9,175)
Net effect of exchange rate changes on cash	7,160	1,742

Net increase (decrease) in cash and cash equivalents	725	(20,716)
Cash and cash equivalents, beginning of period	234,257	386,664
Cash and cash equivalents, end of period	$ 234,982	$ 365,948
Supplemental disclosures of cash flow information:		
Cash paid during the period for interest	$ 20	$ 12
Cash paid during the period for income taxes	20,038	4,863
Supplemental disclosures of non-cash investing and financing activities:		
Capital expenditures incurred but not yet paid	$ 1,445	$ 3,004
Common stock issuance for which proceeds were not yet received		1,202

See accompanying notes to condensed consolidated financial statements.

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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 (the Company) and in the opinion of management include all material adjustments, consisting only of normal recurring adjustments, necessary to present fairly the Company s financial position as of March 31, 2011 and 2010, the results of operations for the three months ended March 31, 2011 and 2010 and cash flows for the three months ended March 31, 2011 and 2010. The December 31, 2010 financial information was derived from the Company s audited financial statements included in our Annual Report on Form 10-K for the year ended December 31, 2010. A significant part of the Company s business is of a seasonal nature; therefore, results of operations for the three months ended March 31, 2011 are not necessarily indicative of results to be expected for the full year.

Certain information and footnote disclosures normally included in financial statements prepared in accordance with accounting principles generally accepted in the United States of America (generally accepted accounting principles) have been condensed or omitted pursuant to the rules and regulations of the Securities and Exchange Commission. The Company, however, believes that the disclosures contained in this report comply with the requirements of Section 13(a) of the Securities Exchange Act of 1934 for a Quarterly Report on Form 10-Q and are adequate to make the information presented not misleading. These unaudited condensed consolidated financial statements should be read in conjunction with the consolidated financial statements and notes thereto included in the Company s Annual Report on Form 10-K for the year ended December 31, 2010.

Estimates and assumptions:

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

NOTE 2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

There have been no significant changes to the Company s significant accounting policies as described in the Company s Annual Report on Form 10-K for the year ended December 31, 2010.

There have been no recent accounting pronouncements expected to have a material impact on the Company s financial condition, results of operations or cash flows.

NOTE 3 INVENTORIES, NET

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

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

	March 31, 2011	December 31, 2010	March 31, 2010
Raw materials	$ 1,321	$ 1,096	$ 1,036
Work in process	581	659	352
Finished goods	301,184	312,543	221,316

$ 303,086	$ 314,298	$ 222,704

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COLUMBIA SPORTSWEAR COMPANY

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (Continued)

(Unaudited)

NOTE 4 INTANGIBLE ASSETS, NET

Intangible assets that are determined to have finite lives include patents and purchased technology and are amortized over their estimated useful lives. Intangible assets with indefinite useful lives include trademarks and tradenames and are not amortized but are periodically evaluated for impairment.

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

	March 31, 2011	December 31, 2010	March 31, 2010
Intangible assets subject to amortization			
Gross carrying amount	$ 14,198	$ 14,198	$ 898
Accumulated amortization	(1,547)	(1,196)	(671)
Net carrying amount	12,651	13,002	227
Intangible assets not subject to amortization	27,421	27,421	26,872
Intangible assets, net	$ 40,072	$ 40,423	$ 27,099

Annual amortization expense for intangible assets subject to amortization is estimated to be $1,402,000 per year in both 2011 and 2012, and $1,330,000 in 2013 through 2015.

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 summary of accrued warranties is as follows (in thousands):

	Three Months Ended March 31,	
	2011	2010
Balance at beginning of period	$ 10,256	$ 12,112
Charged to costs and expenses	1,871	1,160
Claims settled	(2,290)	(1,169)
Other	145	(126)
Balance at end of period	$ 9,982	$ 11,977

NOTE 6 STOCK-BASED COMPENSATION

1997 Stock Incentive Plan

The Company s 1997 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 awards. The majority of all stock option and restricted stock unit grants outstanding under the 1997 Stock Incentive Plan were granted in the first quarter of each fiscal year.

The following table summarizes the Company s total stock-based compensation expense (in thousands):

	Three Months Ended March 31,	
	2011	**2010**
Stock options	$ 842	$ 793
Restricted stock units	971	752
Total	$ 1,813	$ 1,545

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COLUMBIA SPORTSWEAR COMPANY

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (Continued)

(Unaudited)

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 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 estimated annual dividend yield.

The following table shows the weighted average assumptions:

	Three Months Ended March 31,	
	2011[1]	**2010**
Expected term	4.98 years	4.37 years
Expected stock price volatility	30.87%	28.75%
Risk-free interest rate	1.82%	1.88%
Expected dividend yield	1.31%	1.66%
Weighted average grant date fair value	$ 15.89	$ 9.76

(1) For the three months ended March 31, 2011, the Company granted two stock option grants totaling 53,720 shares that vest 100% on the fifth anniversary of the grant date. Given that the Company did not have sufficient historical exercise data to provide a reasonable basis upon which to estimate the expected term for these grants, the Company utilized the simplified method in developing an estimate of the expected term of these options.

During the three months ended March 31, 2011 and 2010, the Company granted a total of 314,701 and 355,033 stock options, respectively. At March 31, 2011, unrecognized costs related to outstanding stock options totaled approximately $8,049,000, 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 March 31, 2011 are expected to be recognized over a weighted average period of 2.82 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, dividend yield and closing price of the Company s common stock on the date of grant.

The following table presents the weighted average assumptions:

	Three Months Ended March 31,	
	2011	**2010**
Vesting period	4.05 years	3.86 years
Expected dividend yield	1.30%	1.59%
Estimated average grant date fair value per restricted stock unit	$ 58.39	$ 43.07

During the three months ended March 31, 2011 and 2010, the Company granted 122,235 and 104,977 restricted stock units, respectively. At March 31, 2011, unrecognized costs related to outstanding restricted stock units totaled approximately $10,521,000, 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 March 31, 2011 are expected to be recognized over a weighted average period of 2.78 years.

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COLUMBIA SPORTSWEAR COMPANY

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (Continued)

(Unaudited)

NOTE 7 COMPREHENSIVE INCOME

Accumulated other comprehensive income, 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. A summary of comprehensive income, net of related tax effects, is as follows (in thousands):

	Three Months Ended March 31,	
	2011	**2010**
Net income	$ 12,770	$ 9,228
Other comprehensive income:		
Unrealized holding gains (losses) on available-for-sale securities	58	(22)
Unrealized derivative holding gains (losses) arising during period	(2,943)	869
Reclassification to net income of previously deferred losses on derivative transactions	200	1,169
Foreign currency translation adjustments	13,094	(505)
Other comprehensive income	10,409	1,511
Comprehensive income	$ 23,179	$ 10,739

Accumulated other comprehensive income, net of related tax effects, consisted of the following (in thousands):

	March 31, 2011	December 31, 2010	March 31, 2010
Unrealized holding gains on available-for-sale securities	$ 94	$ 36	$ 42
Unrealized holding gains (losses) on derivative transactions	(4,414)	(1,671)	880
Foreign currency translation adjustments	61,444	48,350	44,033
Accumulated other comprehensive income	$ 57,124	$ 46,715	$ 44,955

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. For the calculation of diluted EPS, the basic weighted average number of shares is increased by the dilutive effect of stock options and restricted stock units determined using the treasury stock method.

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 March 31,	
	2011	2010
Weighted average shares of common stock outstanding, used in computing basic earnings per share	33,799	33,733
Effect of dilutive stock options and restricted stock units	489	257
Weighted-average shares of common stock outstanding, used in computing diluted earnings per share	34,288	33,990
Earnings per share of common stock:		
Basic	$ 0.38	$ 0.27
Diluted	0.37	0.27

Stock options and service-based restricted stock units representing 282,093 and 820,867 shares of common stock outstanding for the three months ended March 31, 2011 and 2010, respectively, were excluded in 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 24,647 and 34,864 shares for the three months ended March 31, 2011 and 2010, respectively, were excluded from the computation of diluted EPS because these shares were subject to performance conditions that had not been met.

Since the inception of the Company s stock repurchase plan in 2004 through March 31, 2011, the Company s Board of Directors has authorized the repurchase of $500,000,000 of the Company s common stock. As of March 31, 2011, the Company had repurchased 9,190,890 shares under this program at an aggregate purchase price of approximately $421,237,000. During the

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COLUMBIA SPORTSWEAR COMPANY

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (Continued)

(Unaudited)

three months ended March 31, 2011, the Company did not repurchase any shares of the Company s common stock. During the three months ended March 31, 2010, the Company repurchased an aggregate of $3,838,000 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.

NOTE 9 SEGMENT INFORMATION

The Company operates in 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 active outdoor apparel, including outerwear and sportswear, footwear and accessories and equipment.

The geographic distribution of the Company s net sales and income (loss) before income tax are summarized in the following tables (in thousands). Inter-segment net sales, which are recorded at a negotiated mark-up and eliminated in consolidation, are not material.

	Three Months Ended March 31,	
	2011	2010
Net sales to unrelated entities:		
United States	$ 192,457	$ 173,248
LAAP	67,335	56,053
EMEA	44,356	46,859
Canada	28,938	24,246
	$ 333,086	$ 300,406
Income (loss) before income tax:		
United States	$ 8,629	$ 4,827
LAAP	8,497	6,786
EMEA	(3,175)	(639)
Canada	3,969	1,516
Interest income, net	323	534
	$ 18,243	$ 13,024

NOTE 10 FINANCIAL INSTRUMENTS AND RISK MANAGEMENT

In the normal course of business, the Company s financial position and results of operations are routinely subject to a variety of risks. These risks include risks associated with global financial and capital markets, primarily 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 result in an appropriate level of protection against an adverse effect of these risks. The Company does not engage in speculative trading in any capital market.

The Company s primary exchange rate risk management objective is to mitigate the uncertainty of anticipated functional currency equivalent cash flows attributable to changes in exchange rates. The Company primarily focuses on mitigating changes in functional currency equivalent cash flows resulting from anticipated U.S. dollar denominated inventory purchases by subsidiaries that use European euros, Canadian dollars, Japanese yen or Korean won as their functional currency. The Company manages this risk primarily by using currency forward and option contracts. If the anticipated transactions are deemed probable, the resulting relationships are formally designated as cash flow hedges. The Company also uses foreign currency forward and option contracts to hedge net balance sheet exposures related primarily to intercompany loan agreements and payables.

The effective change in fair value of financial instruments formally designated in cash flow hedging relationships is initially offset to accumulated other comprehensive income and any ineffective portion is offset to current income. Amounts accumulated in other comprehensive income are subsequently reclassified to cost of sales when the underlying transaction is included in income. Hedge effectiveness is determined by evaluating the ability of a hedging instrument s cumulative change in fair value to

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COLUMBIA SPORTSWEAR COMPANY

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (Continued)

(Unaudited)

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 are excluded from the determination of hedge effectiveness and included in current cost of sales. For option contracts, the hedging relationship is assumed to have no ineffectiveness if the critical terms of the option contract match the hedged transaction s terms, the strike price, or prices, match the specified levels beyond or within that of the exposure being hedged, the option s cash flows completely offset the hedged item s cash flow at maturity and the option can only be exercised on a specified date. Hedge ineffectiveness was not material during the three months ended March 31, 2011 and 2010.

The classification in the Condensed Consolidated Statements of Operations of effective hedge results is the same as that of the underlying exposure. Results of hedges of product costs are recorded in cost of sales when the underlying hedged transaction affects income. Unrealized derivative gains and losses, which are recorded in current assets and liabilities, respectively, are non-cash items and therefore are taken into account in the preparation of the Condensed Consolidated Statements of Cash Flows based on their respective balance sheet classifications.

The Company uses derivative instruments not formally designated as hedges to manage the exchange rate risk associated with both the remeasurement of monetary assets and liabilities and anticipated transactions that do not qualify as the hedged items in cash flow hedging relationships. The change in fair value of these instruments is recognized immediately in selling, general and administrative expense (SG&A), depending on the underlying exposure.

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

	March 31, 2011	December 31, 2010	March 31, 2010
Derivative instruments designated as cash flow hedges:			
Currency forward contracts	$ 148,085	$ 86,260	$ 79,050
Currency option contracts		4,500	
Derivative instruments not designated as cash flow hedges:			
Currency forward contracts	158,797	179,382	73,574

At March 31, 2011, approximately $4,697,000 of deferred net losses on both outstanding and matured derivatives accumulated in other comprehensive income are expected to be reclassified to net income during the next twelve months as a result of underlying hedged transactions also being recorded in net income. Actual amounts ultimately reclassified to net income are dependent on U.S. dollar exchange rates in effect against the European euro, Canadian dollar, Japanese yen and Korean won when outstanding derivative contracts mature.

At March 31, 2011, the Company s derivative contracts had a remaining maturity of approximately two years or less. All the counterparties to these transactions had both long-term and short-term investment grade credit ratings. The maximum net exposure to any single counterparty, which is generally limited to the aggregate unrealized gain of all contracts with that counterparty, was less than $2,500,000 at March 31, 2011. The majority of the Company s derivative counterparties have strong credit ratings and, as a result, the Company does not require collateral to facilitate transactions. The Company does not hold derivatives featuring credit-related contingent terms, is not a party to any derivative master agreement featuring credit-related contingent terms and has not pledged assets or posted collateral as a requirement for entering into or maintaining derivative positions.

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COLUMBIA SPORTSWEAR COMPANY

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (Continued)

(Unaudited)

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

	Balance Sheet Classification	March 31, 2011	December 31, 2010	March 31, 2010
Derivative instruments designated as cash flow hedges:				
Derivative instruments in asset positions:				
Currency forward contracts	Prepaid expenses and other current assets	$ 156	$ 362	$ 2,673
Currency option contracts	Prepaid expenses and other current assets		15	
Derivative instruments in liability positions:				
Currency forward contracts	Accrued liabilities	5,321	2,732	1,396
Currency option contracts	Accrued liabilities		102	

	Balance Sheet Classification	March 31, 2011	December 31, 2010	March 31, 2010
Derivative instruments not designated as cash flow hedges:				
Derivative instruments in asset positions:				
Currency forward contracts	Prepaid expenses and other current assets	$ 4,302	$ 789	$
Derivative instruments in liability positions:				
Currency forward contracts	Accrued liabilities	2,528	4,169	625

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

	Statement Of Operations Classification	Three Months Ended March 31, 2011	2010
Currency Forward Contracts:			
Derivative instruments designated as cash flow hedges:			
Gain (Loss) recognized in other comprehensive income		$ (2,943)	$ 869
Loss reclassified from accumulated other comprehensive income to income for the effective portion	Cost of sales	(368)	(1,157)
Loss recognized in income for amount excluded from effectiveness testing and for the ineffective portion	Cost of sales	(189)	(21)
Derivative instruments not designated as cash flow hedges:			
Gain recognized in income	Cost of sales		127
Gain recognized in income	SG&A	4,662	2,557

NOTE 11 COMMITMENTS AND CONTINGENCIES

Inventory Purchase Obligations

Product purchase obligations for open production purchase orders for sourced apparel, footwear, accessories and equipment, and raw materials used to manufacture apparel were $445,813,000, at March 31, 2011.

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 which prioritizes the inputs used in measuring fair value as follows:

Level 1	observable inputs such as quoted prices in active markets;
Level 2	inputs, other than the quoted market prices in active markets, which are observable, either directly or indirectly; and
Level 3	unobservable inputs for which there is little or no market data available, which 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 at March 31, 2011 are as follows (in thousands):

	Level 1	Level 2	Level 3	Total
Assets:				
Cash equivalents				
Money market funds	$ 139,925	$	$	$ 139,925
Time deposits	7,516			7,516
U.S. Government-backed municipal bonds		1,008		1,008
Available-for-sale short-term investments(1)				
Short-term municipal bond fund	25,711			25,711
U.S. Government-backed municipal bonds		74,620		74,620
Other current assets				
Derivative financial instruments (Note 10)		4,458		4,458
Non-current assets				
Mutual fund shares	2,302			2,302
Total assets measured at fair value	$ 175,454	$ 80,086	$	$ 255,540
Liabilities:				
Accrued liabilities				
Derivative financial instruments (Note 10)		7,849		7,849
Total liabilities measured at fair value	$	$ 7,849	$	$ 7,849

Assets and liabilities measured at fair value on a recurring basis at December 31, 2010 are as follows (in thousands):

	Level 1	Level 2	Level 3	Total
Assets:				
Cash equivalents				
Money market funds	$ 177,104	$	$	$ 177,104
Time deposits	7,510			7,510
U.S. Government-backed municipal bonds		5,560		5,560
Available-for-sale short-term investments (1)				
Short-term municipal bond fund	15,624			15,624
U.S. Government-backed municipal bonds		53,188		53,188
Other current assets				
Derivative financial instruments (Note 10)		1,166		1,166
Non-current assets				
Mutual fund shares	1,670			1,670
Total assets measured at fair value	$ 201,908	$ 59,914	$	$ 261,822
Liabilities:				

Accrued liabilities								
Derivative financial instruments (Note 10)	$		$	7,003	$		$	7,003
Total liabilities measured at fair value	$		$	7,003	$		$	7,003

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COLUMBIA SPORTSWEAR COMPANY

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (Continued)

(Unaudited)

Assets and liabilities measured at fair value on a recurring basis at March 31, 2010 are as follows (in thousands):

	Level 1	Level 2	Level 3	Total
Assets:				
Cash equivalents				
Money market funds	$ 296,550	$	$	$ 296,550
Time deposits	3,978			3,978
U.S. Government-backed municipal bonds		8,481		8,481
Available-for-sale short-term investments [1]				
Short-term municipal bond fund	25,331			25,331
Time deposits	2,372			2,372
U.S. Government-backed municipal bonds		22,155		22,155
Other current assets				
Derivative financial instruments (Note 10)		2,673		2,673
Non-current assets				
Mutual fund shares	1,236			1,236
Total assets measured at fair value	$ 329,467	$ 33,309	$	$ 362,776
Liabilities:				
Accrued liabilities				
Derivative financial instruments (Note 10)	$	$ 2,021	$	$ 2,021
Total liabilities measured at fair value	$	$ 2,021	$	$ 2,021

(1) Investments have remaining maturities greater than three months but less than two years and are available for use in current operations.

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, that are directly or indirectly observable in the marketplace and quoted prices in markets with limited volume or infrequent transactions.

There were no assets and liabilities measured at fair value on a nonrecurring basis as of March 31, 2011, December 31, 2010, or March 31, 2010.

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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 across markets, distribution channels and product categories, access to raw materials and factory capacity, financing and working capital requirements and resources 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 apparel and footwear companies in the world, we design, source, market and distribute active outdoor apparel, footwear, accessories and equipment under the Columbia, Mountain Hardwear, Sorel and Montrail brands. Our products are sold through a mix of wholesale distribution channels, independent distributors, our own direct-to-consumer channels and licensees.

The popularity of outdoor activities, changing design trends and consumer adoption of innovative performance technologies affect consumer desire for our products. Therefore, we seek to drive, anticipate and respond to trends and shifts in consumer preferences by adjusting the mix of available product offerings, developing new products with innovative performance features and designs, and creating persuasive and memorable marketing communications to drive consumer awareness and demand. 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 outdoor industry and is heavily dependent upon discretionary consumer spending patterns. Our products are marketed on a seasonal basis and our product mix is weighted substantially toward the fall season, resulting in sales and profits being highest in the third calendar quarter. The expansion of our own direct-to-consumer operations since 2008 has increased the proportion of sales and profits that we generate in the fourth calendar quarter. In 2010, approximately 65 percent of net sales and all of our profitability were generated in the second half of the year, reflecting our dependence upon sales results in the second half of the year, as well as the less seasonal nature of our operating costs.

Our quarterly net sales comparisons often vary significantly due to shifts in the timing of fall season shipments to international distributors that occur late in the second quarter or early in the third quarter and shifts in the timing of spring season shipments to international distributors that occur late in the fourth quarter or early in the first quarter.

Results of operations in any period should not be considered indicative of the results to be expected for any future period, particularly in light of persistent volatility in economic conditions. Sales of our products are subject to substantial cyclical fluctuation, the effects of unseasonable weather conditions, and the continued popularity of outdoor activities as part of an active lifestyle in key markets. The current economic environment in key markets, coupled with challenging capacity constraints across the independent manufacturing and transportation segments of our supply chain, has reduced the predictability of our business.

Business Outlook

The business climate continues to present us with a great deal of uncertainty, with a number of variables that we rely on for planning purposes moving in opposing directions making it more difficult to predict future results. Factors that could significantly affect our 2011 outlook include:

- Unseasonable weather conditions or other unforeseen factors affecting consumer demand and the resulting effect on order cancellations and reorders;

- Changes in mix and volume of full price sales in contrast with closeout product sales;

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- Manufacturing and/or transportation capacity constraints;
- Volatile input costs across our supply chain, including transportation costs;
- Increased fixed costs to support growth and our multi-year business process, supply chain and information technology infrastructure investments and projects;
- Costs of expedited transportation;
- Lower relative volume of department store sales in the United States;
- Disruption to the Japanese economy resulting from the impact of recent natural disasters;
- Incremental sales through our expanding direct-to-consumer operations, which are not included in backlog;
- Changes in consumer spending activity and sales fluctuations in our own retail stores; and
- Fluctuating currency exchange rates.

Like other branded consumer product companies, our business is heavily dependent upon discretionary consumer spending patterns. Continuing high levels of unemployment in our key markets continue to pose significant challenges and risks.

Over the past two years we have made significant investments in our go-to-market process to position us for growth. Among other things we have:

- Sharpened our focus on product innovation;
- Built a multi-channel direct-to-consumer platform, including expanded retail store and e-commerce operations;
- Refocused our marketing efforts behind new brand campaigns and media strategies for each of our major brands; and
- Restructured our sales organizations to build relationships with new partners and strengthen those with existing accounts.

As a result of these continuing efforts, we expect our selling, general and administrative expense (SG&A) levels to increase compared to 2010. In addition, we have begun to make improvements to our operational processes, involving significant investments in initiatives to improve our information technology infrastructure and our enterprise data and information management across our organization, which is designed to improve operational flexibility and performance across our supply chain. These investments are the foundation for a multi-year implementation of a new global enterprise resource planning, or ERP, system which began in late 2010 and will accelerate in 2011 and beyond.

As our business model and strategies have evolved, management expects certain trends to continue to impact our business and operating results, including:

- A higher amount of fixed operating expenses to support, among other things, direct-to-consumer and direct sales activities;
- A lower relative volume of department store sales;
- An increasing percentage of growth from markets outside the U.S.; and
- Increasing input cost pressure.

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.

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Wholesale Backlog

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 for each of our selling seasons. Twice each year we report our backlog of advance orders, representing the results of these seasonal order-taking processes.

We typically ship the majority of our advance fall season orders to wholesale customers and independent distributors beginning in late June and continuing through October. Similarly, the majority of our advance spring season orders ship to wholesale customers and independent distributors beginning in late December and continue through late April. Generally, orders are subject to cancellation prior to the date of shipment.

Our fall wholesale backlog at March 31, 2011 increased $135.5 million, or 19%, to $860.8 million from $725.3 million at March 31, 2010. Changes in foreign currency exchange rates compared with 2010 contributed approximately a two percentage point benefit to the fall wholesale backlog comparison. Our fall wholesale backlog reflects growth across each major brand, geographic region and product category. The increase in our fall wholesale backlog was led by the Columbia brand, followed by the Sorel brand, the Mountain Hardwear brand and the Montrail brand. By geographic region, the fall wholesale backlog increase was led by the EMEA region, followed by the United States, the LAAP region and Canada. By product category, the fall wholesale backlog increase was led by footwear, followed by outerwear, sportswear and accessories and equipment. Wholesale backlog does not include anticipated sales to consumers through our own direct-to-consumer channels. Although we cannot predict with certainty any future results, our reported fall wholesale backlog is one indicator of our anticipated net sales for the fall 2011 selling season. Many factors, however, could cause actual wholesale sales to differ materially from the reported fall wholesale backlog, including the potential cancellation of orders by customers, capacity constraints in our supply chain resulting in delivery delays, changes in foreign currency exchange rates and changes in macro-economic conditions. Moreover, our fall wholesale backlog should not be used in forecasting sales beyond the fall 2011 selling season.

Results of Operations

The following discussion of our results of operations and liquidity and capital resources should be read in conjunction with the Condensed Consolidated Financial Statements and accompanying Notes that appear elsewhere in this quarterly report. All references to quarters relate to the quarter ended March 31 of the particular year.

Highlights of the First Quarter of 2011

- Net sales for the first quarter of 2011 increased $32.7 million, or 11%, to $333.1 million from $300.4 million for the first quarter of 2010, including approximately a two percentage point benefit from changes in foreign currency exchange rates.

- Net income for the first quarter of 2011 increased 38% to $12.8 million, or $0.37 per diluted share, compared to $9.2 million, or $0.27 per diluted share, for the first quarter of 2010.

- Fall wholesale backlog at March 31, 2011 increased $135.5 million, or 19%, to $860.8 million compared to March 31, 2010, including a two percentage point benefit from changes in foreign currency exchange rates.

- We paid quarterly cash dividends of $0.20 per share, or $6.8 million, in the first quarter of 2011.

- The Board of Directors authorized an increase in the quarterly dividend of $0.02 per share, or 10%, to $0.22 per share, payable on June 2, 2011 to shareholders of record on May 19, 2011.

The following table sets forth, for the periods indicated, the percentage relationship to net sales of specified items in our condensed consolidated statements of operations:

	Three Months Ended March 31,	
	2011	2010
Net sales	100.0%	100.0%
Cost of sales	55.1	57.6
Gross profit	44.9	42.4
Selling, general and administrative expense	40.3	38.4
Net licensing income	0.8	0.2
Income from operations	5.4	4.2
Interest income, net	0.1	0.2
Income before income tax	5.5	4.4
Income tax expense	(1.7)	(1.3)
Net income	3.8%	3.1%

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Quarter Ended March 31, 2011 Compared to Quarter Ended March 31, 2010

Net Sales: Consolidated net sales increased $32.7 million, or 11%, to $333.1 million for the first quarter of 2011 from $300.4 million for the comparable period in 2010. Net sales increased across all four of our major brands, all product categories and in three of our four geographic regions. Changes in foreign currency exchange rates compared with the first quarter of 2010 contributed approximately a two percentage point benefit to the consolidated net sales comparison.

Sales by Brand

Net sales by brand are summarized in the following table:

	Three Months Ended March 31,		
	2011	**2010**	**% Change**
	(In millions, except for percentage changes)		
Columbia	$ 288.1	$ 267.7	8%
Mountain Hardwear	31.7	25.6	24%
Sorel	10.3	4.0	158%
Other	3.0	3.1	(3)%
	$ 333.1	$ 300.4	11%

The net sales increase for the first quarter of 2011 compared to the first quarter of 2010 was led by the Columbia brand followed by the Sorel brand and Mountain Hardwear brand. The Columbia brand net sales increase was led by the LAAP region, followed by the United States and Canada, partially offset by a net sales decrease in the EMEA region.

Sales by Geographic Region

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

	Three Months Ended March 31,		
	2011	**2010**	**% Change**
	(In millions, except for percentage changes)		
United States	$ 192.5	$ 173.2	11%
LAAP	67.3	56.1	20%
EMEA	44.4	46.9	(5)%
Canada	28.9	24.2	19%
	$ 333.1	$ 300.4	11%

Net sales in the United States increased $19.3 million, or 11%, to $192.5 million for the first quarter of 2011 from $173.2 million for the comparable period in 2010. The increase in net sales in the United States by product category was led by footwear, followed by sportswear, outerwear and accessories and equipment. The net sales increase by channel was predominantly led by our direct-to-consumer business, followed by our wholesale business. The net sales increase in our direct-to-consumer business was led by the Columbia brand and was driven by increased sales within our retail stores, increased sales through our Columbia and Sorel brand e-commerce sites, and incremental sales from our Mountain Hardwear brand e-commerce site, which was launched in the third quarter of 2010.

Net sales in the LAAP region increased $11.2 million, or 20%, to $67.3 million for the first quarter of 2011 from $56.1 million for the comparable period in 2010. Changes in foreign currency exchange rates compared with the first quarter of 2010 contributed approximately a seven percentage point benefit to the LAAP net sales comparison. The net sales increase in the LAAP region by product category was led by outerwear, followed by footwear, sportswear and accessories and equipment. The LAAP net sales increase was primarily concentrated in the Columbia brand and was led by Korea, followed by Japan and our LAAP distributor business. The increase in Korea net sales was primarily due to increased sales from existing stores, followed by a greater number of retail stores operating at March 31, 2011 than at March 31, 2010. The increase in Japan net sales was primarily

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the result of the favorable effect of foreign currency exchange rates, partially offset by the negative impact on consumer spending from a major earthquake and tsunami that occurred in March 2011, and the related aftermath. Although we expect some continued impact on consumer spending in Japan as a result of these events, it is not expected to have a material adverse effect on our financial condition, results of operations or cash flows.

Net sales in the EMEA region decreased $2.5 million, or 5%, to $44.4 million for the first quarter of 2011 from $46.9 million for the comparable period in 2010. Changes in foreign currency exchange rates compared with the first quarter of 2010 negatively affected the EMEA net sales comparison by approximately one percentage point. The decrease in net sales in the EMEA region was primarily the result of a higher proportion of distributors spring 2011 advance orders being shipped and recognized as sales during the fourth quarter of 2010, in contrast to a higher proportion of distributors spring 2010 advance orders being shipped and recognized as sales in the first quarter of 2010. By brand, the decrease in net sales was concentrated in the Columbia and Mountain Hardwear brands, partially offset by increased sales of the Sorel brand. By product category, the decrease in net sales was led by outerwear, followed by sportswear and footwear, while net sales of accessories and equipment were essentially flat.

Net sales in Canada increased $4.7 million, or 19%, to $28.9 million for the first quarter of 2011 from $24.2 million for the comparable period in 2010. Changes in foreign currency exchange rates compared with 2010 contributed approximately an eight percentage point benefit to the Canada net sales comparison. The increase in net sales in Canada was primarily concentrated in the Columbia brand and was led by sportswear, followed by outerwear, footwear and accessories and equipment.

Sales by Product Category

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

	Three Months Ended March 31,		
	2011	2010	% Change
	(In millions, except for percentage changes)		
Outerwear	$ 98.8	$ 87.6	13%
Sportswear	154.2	146.4	5%
Footwear	54.4	46.1	18%
Accessories and Equipment	25.7	20.3	27%
	$ 333.1	$ 300.4	11%

Net sales of outerwear increased $11.2 million, or 13%, to $98.8 million for the first quarter of 2011 from $87.6 million for the comparable period in 2010. The increase in outerwear net sales was primarily concentrated in the Columbia brand and was led by the LAAP region, followed by the United States and Canada, partially offset by a net sales decrease in the EMEA region. The outerwear net sales increase in the LAAP region was led by Korea, followed by our LAAP distributor business and Japan. The net sales increase in outerwear in the United States was led by our direct-to-consumer business, partially offset by a net sales decrease in our wholesale business.

Net sales of sportswear increased $7.8 million, or 5%, to $154.2 million for the first quarter of 2011 from $146.4 million for the comparable period in 2010. The increase in sportswear net sales was primarily concentrated in the Columbia brand and was led by the United States, followed by Canada and the LAAP region, partially offset by a net sales decrease in the EMEA region. The sportswear net sales increase in the United States was led by our direct-to-consumer business, followed by our wholesale business. The sportswear net sales increase in the LAAP region was led by Korea, followed by Japan, partially offset by a net sales decrease in our LAAP distributor business.

Net sales of footwear increased $8.3 million, or 18%, to $54.4 million for the first quarter of 2011 from $46.1 million for the comparable period in 2010. The increase in footwear net sales was primarily concentrated in the Sorel brand and was led by the United States, followed by the LAAP region and Canada, partially offset by a net sales decrease in our EMEA region. The net sales increase in footwear in the United States was led by our wholesale business, followed by our direct-to-consumer business.

Net sales of accessories and equipment increased $5.4 million, or 27%, to $25.7 million for the first quarter of 2011 from $20.3 million for the comparable period in 2010. The increase in accessories and equipment net sales was primarily concentrated in the Columbia brand and was led by the United States, followed by the LAAP region and Canada, while net sales were essentially flat in the EMEA region. The increase in accessories and equipment net sales in the United States was led by our direct-to-consumer business, followed by our wholesale business.

Gross Profit: Gross profit, as a percentage of net sales, increased to 44.9% for the first quarter of 2011 from 42.4% for the comparable period in 2010. Gross profit expansion was primarily due to:

- A lower volume of close-out product sales at higher gross margins;
- Increased direct-to-consumer sales at higher gross margins, due primarily to a higher proportion of e-commerce sales and more targeted promotions within our retail stores;
- Lower airfreight costs;
- A shift in our region and channel sales mix; and
- Favorable foreign currency hedge rates.

Our gross profits may not be comparable to those of other companies in our industry because some include all of the costs related to their distribution network in cost of sales, while we, like many others, include these expenses as a component of SG&A.

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

SG&A expense increased $18.6 million, or 16%, to $134.1 million for the first quarter of 2011 from $115.5 million for the comparable period in 2010. The SG&A expense increase was primarily due to:

- Expansion of direct-to-consumer operations globally;
- Information technology initiatives, including our ERP implementation;
- Additions to staff to support business initiatives and growth; and
- The unfavorable effect of foreign currency translation.

SG&A expense increased to 40.3% of net sales for the first quarter of 2011 from 38.4% of net sales for the comparable period in 2010. Depreciation and amortization included in SG&A expense totaled $10.3 million for the first quarter of 2011, compared to $8.9 million for the same period in 2010.

Net Licensing Income: Net licensing income increased $1.8 million to $2.5 million for the first quarter of 2011 from $0.7 million for the same period in 2010, primarily due to increased apparel and footwear licensing income in the LAAP region.

Interest Income, Net: Net interest income was $0.3 million for the first quarter of 2011 compared to $0.5 million for the same period in 2010. Interest income decreased due to lower average balances compared to the same period in 2010. Interest expense was nominal for the first quarter of 2011 and for the comparable period in 2010.

Income Tax Expense: The provision for income taxes increased to $5.5 million for the first quarter of 2011 from $3.8 million for the comparable period in 2010. This increase primarily resulted from higher income before income tax expense. Our effective income tax rate was

30.0% for the first quarter of 2011 compared to 29.1% for the same period in 2010. Many factors could cause our annual effective tax rate to differ materially from our quarterly effective tax rates, including changes in the geographic mix of taxable income and discrete events in future periods.

Net Income: Net income increased $3.6 million, or 38%, to $12.8 million for the first quarter of 2011 from $9.2 million for the comparable period in 2010. Diluted earnings per share was $0.37 for the first quarter of 2011, compared to $0.27 for the first quarter of 2010.

Liquidity and Capital Resources

Our primary ongoing funding requirements are for working capital, investing activities associated with the expansion of our global operations and general corporate needs. At March 31, 2011, we had total cash and cash equivalents of $235.0 million compared to $234.3 million at December 31, 2010 and $365.9 at March 31, 2010. In addition, we had short-term investments of $100.3 million at March 31, 2011, compared to $68.8 million at December 31, 2010 and $49.9 million at March 31, 2010.

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Net cash provided by operating activities was $36.4 million for the three months ended March 31, 2011, compared to $19.9 million for the same period in 2010. The increase in cash provided by operating activities for the three months ended March 31, 2011, compared to the same period in 2010 was primarily due to a larger reduction in accounts receivable compared to the same period in 2010 and a reduction in inventory in the first quarter of 2011 compared to an increase in inventory for the first quarter of 2010, partially offset by decreases in accrued liabilities, accounts payable and income taxes payable and an increase in prepaid expenses.

Net cash used in investing activities was $40.5 million for the three months ended March 31, 2011, compared to $33.2 million for the comparable period in 2010. For the 2011 period, net cash used in investing activities primarily consisted of $31.5 million for net purchases of short-term investments and $9.0 million for capital expenditures. For the 2010 period, net cash used in investing activities primarily consisted of $27.2 million for purchases of short-term investments and $6.0 million for capital expenditures.

Net cash used in financing activities was $2.3 million for the three months ended March 31, 2011, compared to $9.2 million for the comparable period in 2010. For the 2011 period, net cash used in financing activities primarily consisted of a dividend payment of $6.8 million, partially offset by net proceeds from stock plan activity of $4.4 million. For the 2010 period, net cash used in financing activities primarily consisted of a dividend payment of $6.1 million and the repurchase of common stock at an aggregate price of $3.8 million.

To fund our domestic working capital requirements, we have an unsecured, committed $125.0 million revolving line of credit available. At March 31, 2011, no balance was outstanding under this line of credit and we were in compliance with all associated covenants. Internationally, our subsidiaries have local currency operating lines in place guaranteed by us with a combined limit of approximately $85.5 million at March 31, 2011, of which $3.5 million is designated as a European customs guarantee. At March 31, 2011, no balance was outstanding under these 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 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.

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. 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.

Off-Balance Sheet Arrangements

We have arrangements in place to facilitate the import and purchase of inventory through import letters of credit. We maintain unsecured and uncommitted import lines of credit with a combined limit of $25.0 million at March 31, 2011, available for issuing documentary letters of credit. At March 31, 2011, no balance was outstanding under these letters of credit.

Critical Accounting Policies and Estimates

Management s discussion and analysis of our financial condition and results of operations are based on our consolidated financial statements, which have been prepared in accordance with accounting principles generally accepted in the United States. The preparation of these financial statements requires us to make various estimates and judgments that affect reported amounts of assets, liabilities, sales, cost of sales and expenses and related disclosure of contingent assets and liabilities. We believe that the estimates, assumptions and judgments involved in the accounting policies referred to in our Annual Report on Form 10-K for the year ended December 31, 2010 have the greatest potential impact on our financial statements, so we consider these to be our critical accounting policies and estimates. Because of the uncertainty inherent in these matters, actual results could differ from the estimates we use in applying the critical accounting policies. We base our ongoing estimates on historical experience and other various assumptions that we believe to be reasonable under the circumstances. Many of these critical accounting policies affect working capital account balances, including the policy for revenue recognition, the allowance for doubtful accounts, the provision for potential excess, close-out and slow moving inventory, 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

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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, 2010.

Recent Accounting Pronouncements

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

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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, 2010.

Item 4 ***CONTROLS AND PROCEDURES***

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

There has been no change in our internal control over financial reporting that occurred during our fiscal quarter ended March 31, 2011 that has materially affected, or is reasonably likely to materially affect, our internal control over financial reporting.

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PART II. OTHER INFORMATION

Item 1. ***LEGAL PROCEEDINGS***
None.

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 any of these 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, 2010.

Our Success Depends on Our Business Strategies

Our business strategies are to achieve sustainable, profitable growth by creating innovative products, elevating consumer perception of our brands, increasing consumer and retailer awareness and demand for our products, creating compelling retail environments, and building stronger emotional brand connections with consumers over time. We intend to pursue these strategies across our portfolio of brands, product categories and geographic markets. We face many challenges in implementing our business strategies. For example, our focus on innovation depends on our ongoing ability to identify, develop or secure rights to product improvements or developments through internal research, joint developments, acquisitions or licenses. However, these innovations and developments may not be profitable or have the desired effect of increasing demand for our products. The 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 various aspects of our business, to maintain and enhance our information systems and operations to respond to increased demand and to attract, retain and manage qualified personnel. Changes in our business may place an increasing strain on management, financial, product design, marketing, distribution 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. In addition, we may need to adapt our information technology systems and business processes to integrate business acquisitions. 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 margins, or comparable reductions in other operating costs. If our sales or gross margins 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 have a material adverse effect on our financial condition, results of operations or cash flows.

We Depend on Independent Factories

Our products are produced by independent factories worldwide. We do not own or operate any production facilities. Although we enter into purchase order commitments with these independent factories each season, we generally do not maintain long-term manufacturing commitments with them. Without long-term or reserve commitments, in a capacity-constrained environment, 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. Independent factories 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 an independent 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 result in cancellation of orders, refusal to accept deliveries, a reduction in purchase prices or increased costs, any of which could have a material adverse effect on our financial condition, results of operations or cash flows.

Reliance on independent factories also creates quality control risks. In a capacity-constrained environment, we may need to use sub-contracted manufacturers to fulfill demand and these manufacturers may have less experience producing our products or lower overall capabilities, which could result in compromised quality of our products. A failure in our quality control program

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may result in diminished product quality, which in turn could result in increased order cancellations and returns, decreased consumer demand for our products, or product recalls (or other regulatory actions), any of which could 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 and other environmental, health and safety standards for the benefit of workers and for compliance with product safety and other laws on our contractors. We also require our independent factories and licensees to impose these practices, standards and laws on their contractors. However, if an independent manufacturer or licensee violates labor or other laws, or engages in practices that are not generally accepted as ethical in our key markets, we may be subject to production disruptions or significant negative publicity that could result in long-term damage to our brand images, consumer demand for our products may decrease, and in some circumstances parties may attempt to assert that we are liable for the independent manufacturer s or licensee s practices, 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 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, 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 centralized governments in the countries where our products are manufactured, particularly in China and Vietnam;
- Interest rates and currency exchange rates;
- Availability of skilled labor and production capacity at independent factories; and
- General economic conditions.

Following a long period of generally stable-to-declining input costs, the apparel and footwear industry appears to be entering what may become a prolonged period of inflationary pressure on some or all of these input costs, resulting in increased costs to produce 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 freight capacity, airfreight capacity and volatile fuel costs can result in rapidly changing transportation costs. For example, during 2010, shortages of sourcing and transportation capacity, combined with later-than-optimal production of advance orders, caused us to rely more heavily on airfreight to achieve timely delivery to our customers, resulting in significantly higher freight costs. Because we price our products in advance and the external cost changes 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.

Our Sales and Profitability May be Adversely Affected by Increased Product Costs and Reduced Selling Prices

The apparel industry is subject to significant pressures on pricing and input costs caused by many factors, including intense competition, constrained sourcing capacity and related inflationary pressures, consolidation in the retail industry, pressure from retailers to reduce the costs of products and changes in consumer demand. These factors may cause us to experience increased costs, reduce our sales prices to retailers and consumers or experience reduced sales in response to increased prices, any of which could cause our operating margin to decline if we are unable to offset these factors with reductions in operating costs and could have a material adverse effect on our financial condition, results of operations or cash flows.

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Attracting superior retail channel partners and improving the sales productivity of our customers each depend on various factors, including the strength of our brand names, our ability to design and source innovative products, competitive conditions, the availability of desirable locations and the negotiation of terms with customers. Future terms with customers may be less favorable to us than those under which we now operate. Large wholesale customers in particular increasingly seek to transfer various costs of business to their vendors, such as the cost of lost profits from promotional activity and product price markdowns, which could cause our gross margins to decline if we are unable to offset price reductions with comparable reductions in operating costs.

We May be Adversely Affected by Volatile Economic Conditions

We are a consumer products company and are highly dependent on consumer discretionary spending patterns and the purchasing patterns of our wholesale customers as they attempt to match their seasonal purchase volumes to volatile consumer demand. In addition, as we have expanded our direct-to-consumer operations, we have increased our exposure to the risks associated with volatile and unpredictable consumer discretionary spending patterns. As global economic conditions continue to be volatile or economic uncertainty remains, trends in consumer discretionary spending also remain unpredictable and subject to reductions due to credit constraints and uncertainties about the future. Consumer demand for our products may not reach our sales targets, or may decline, when there is an economic downturn or economic uncertainty in our key markets, particularly markets in North America and the EMEA region. 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 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, manage product data, develop demand and supply plans and forecast operating results. System failures, breaches of confidential information or service interruptions may occur as the result of a number of factors, including computer viruses, programming errors, hacking or other unlawful activities by third parties and disasters, or our failure to properly maintain systems redundancy or to protect, repair, maintain or upgrade our systems. 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 existing ERP system is highly customized to our business. As a result, the availability of internal and external resources with the expertise to maintain our current ERP system is limited. As we plan for future growth, our current customized ERP system may inhibit our ability to operate efficiently, which could have an adverse effect on our financial condition, results of operations or cash flows. For example, our current ERP system may not be compatible with other systems that support desired functionality for our operations.

Initiatives to Upgrade Our 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, but are not limited to, plans to improve business results through standardization of business processes and technology that support our supply chain and go-to-market strategies through implementation of an integrated ERP software solution over the next few years. We may experience difficulties when we transition to new or upgraded systems and processes, including loss of data and decreases in productivity as our personnel become familiar with new systems. In addition, transitioning to new or upgraded systems requires significant capital investments and personnel resources. Difficulties in implementing new or upgraded information systems or significant system failures could disrupt our operations and have a material adverse effect on our financial condition, results of operations or cash flows.

We expect implementation of this new information technology infrastructure to have a pervasive impact on our business processes and information systems across a significant portion of our operations, including our finance operations. As a result, we will experience significant changes in our internal controls over financial reporting as our implementation progresses. If we are unable to successfully implement this system, including harmonizing our systems, data and processes, our ability to process transactions accurately and efficiently may be affected, and any unsuccessful implementation could have a material adverse effect on our capital resources, financial condition, results of operations, or cash flows.

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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, consumer 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 independent factories prior to receiving all of our customers orders, and we maintain an inventory of various products that we anticipate will be in greater demand. In addition, customers are generally allowed to cancel orders prior to shipment with sufficient notice.

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

- An increase or decrease in consumer demand for our products or for products of our competitors;
- Our reliance, for certain demand and supply planning functions, on manual processes and judgment that are subject to human error;
- Our failure to accurately forecast customer acceptance of new products;
- New product introductions by competitors;
- Unanticipated changes in general market conditions or other factors, which may result in cancellations of 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, our production orders may not match actual demand, which could result in our inability to deliver product in a timely manner, higher transportation costs to expedite delivery and higher inventory levels. During periods of weak economic conditions 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 certain customers operations. We may not be able to sell all of the products we have ordered from independent factories 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 discount direct-to-consumer 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 independent factories 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 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 May be Adversely Affected by Weather Conditions

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 may decline in years in which weather conditions do not favor the use of these 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. Inventory accumulation by our wholesale customers resulting from unseasonable weather in one season may negatively affect orders in future seasons, which may have a material adverse effect on our financial condition, results of operations or cash flows.

Our International Operations Involve Many Risks

We are subject to the risks generally associated with doing business internationally. These risks include the effects of foreign laws and regulations, changes in consumer preferences, foreign currency fluctuations, political unrest, terrorist acts, military operations, disruptions or delays in shipments, disease outbreaks, natural disasters and changes in economic conditions in countries

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in which we manufacture or sell products. These factors, among others, may affect our ability to sell products in international markets, our ability to manufacture products or procure materials, and our cost of doing business. If any of these or other factors make the conduct of business in a particular country undesirable or impractical, our business may be materially and adversely affected. For example, there are many uncertainties relating to the Japanese economy, including elasticity of consumer demand and supply disruptions, following the impacts caused by the recent natural disasters that could impact our business. 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.

As a global company, we determine our income tax liability in various competing tax jurisdictions based on a careful 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 accrual may be insufficient to satisfy unfavorable findings, which by their nature cannot be predicted with certainty. 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 tax law or our interpretation of tax laws and the resolution of current and future tax audits could significantly affect the amounts provided for income taxes in our consolidated financial statements.

Moreover, if we encounter a significant need for liquidity domestically or at a particular location that we cannot fulfill through borrowings, equity offerings or other internal or external sources, we may experience unfavorable tax and earnings consequences as a result of cash transfers. These adverse consequences would occur, for example, if the transfer of cash into the United States is taxed and no offsetting foreign tax credit is available to offset the U.S. tax liability, resulting in lower earnings. Furthermore, we may be prohibited from transferring cash from a country such as China. Foreign exchange ceilings imposed by local governments and the sometimes lengthy approval processes that foreign governments require for international cash transfers may delay our internal cash transfers from time to time.

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 or into our other sales markets. Any country in which our products are produced or sold may eliminate, adjust or impose new import limitations, duties, tariffs, 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 Operate in Very Competitive Markets

The markets for outerwear, sportswear, 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.

Retailers who are our customers often pose our most significant competitive threat by marketing apparel, footwear and equipment under their own private labels. For example, in the United States, 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 weak economic cycles.

We also compete with other companies for the production capacity of independent factories that manufacture our products and for import capacity. Many of our competitors are significantly larger than we are, have substantially greater financial, distribution, marketing and other resources than we have, and have achieved greater brand strength than we have.

Increased competition may result in reduced access to production capacity, 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.

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We May be Adversely Affected by the Financial Health of our Customers

Sluggish economies and consumer uncertainty regarding future economic prospects in our key markets have had an adverse effect on the financial health of our customers, some of whom have 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 uncollectible 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 have liquidated or reorganized, while others have had financial difficulties in the past and have recently experienced tightened credit markets and sales declines and reduced profitability, which in turn has 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 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 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 retailer consolidations could have a material adverse effect on our financial condition, results of operations or cash flows.

We Rely on Technical Innovation and Functional Design to Compete in the Market for our Products

Technical innovation and functional design of footwear, apparel, and equipment is essential to distinguish our products in the marketplace and achieve commercial success. Research and development plays a key role in technical innovation. We rely upon specialists in the fields of chemistry, biochemistry, engineering, industrial design, electronics and related fields, guided by consumer feedback, to develop and test innovative performance products. 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 technical innovations, we face a greater risk of inadvertent infringements of third party rights or compliance issues. In addition, technical innovations often involve more complex manufacturing processes. More complex manufacturing processes 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 remedy the problems. Failure to successfully bring to market technical innovations in our product lines 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 impact than in the past as we expand our offerings to include more product categories in more geographic areas. We also face risks because our business requires us and our customers to anticipate consumer preferences. Our decisions about product designs often are made far in advance of consumer acceptance.

Although we try to manage our inventory risk through early order commitments by retailers, we must generally place a significant portion of our seasonal production orders with our independent factories before we have received all of a season s orders, and orders may be cancelled by customers before shipment. If we or our customers fail to anticipate and respond to consumer preferences, we may have lower sales, excess inventories and lower profit margins, any of which 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 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. From time to time, we 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 brand image. 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 the performance characteristics and fabrications from those of our competitors. Actions or decisions in 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 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 such claims or to enforce and protect our intellectual property rights. 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. This 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 the timely performance of services by third parties, including those involved in shipping product to and from our distribution facilities. In the United States, we rely primarily on our distribution centers in Portland, Oregon and Robards, Kentucky; in Canada, we rely primarily on our distribution facilities in Strathroy, 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; and in Korea, we rely primarily on a leased distribution warehouse near Seoul, that we manage and operate.

Our distribution facilities in the United States and France, 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 new e-commerce sales 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 in the United States and France during a period of economic weakness or declining sales could result in lower operating efficiencies and financial deleverage. This fixed cost structure may make it difficult for us to maintain profitability if sales volumes decline for an extended period of time and could have a material adverse effect on our financial condition, results of operations or cash flows.

Our distribution facilities may also be interrupted by disasters, such as earthquakes (which are known to occur in the Northwestern United States and Japan), 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.

We May be Adversely Affected by Currency Exchange Rate Fluctuations

Although the majority of our product purchases are denominated in U.S. dollars, the cost of these products may be affected by the relative changes in the value of the local currency of the manufacturer. Price increases caused by currency exchange rate fluctuations may make our products less competitive or have an adverse effect on our margins. Our international revenues and expenses generally are derived from sales and operations in currencies other than the U.S. dollar. Because the functional currency of many of our subsidiaries is not the U.S. dollar, we are exposed to potentially material gains or losses from the remeasurement of U.S. dollar monetary transactions into the respective functional currencies. Currency exchange rate fluctuations may also disrupt the business of the independent factories that produce our products by making their purchases of raw materials more expensive and more difficult to finance. As a result, currency fluctuations may have a material adverse effect on our financial condition, results of operations or cash flows.

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, resulting in lower interest income, less diversification, longer investment maturities and/or higher other-than-temporary impairments.

We May be Adversely Affected by Labor Disruptions

Our business depends on our ability to source and distribute products in a timely manner. Labor disputes at independent factories 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 and importing seasons, and may have a material adverse effect on our business, potentially resulting in cancelled orders by customers, unanticipated inventory accumulation, and reduced revenues and earnings.

We Depend on 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 substantially all 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 independent factories to produce these materials as necessary, there are no guarantees that additional independent factories will be available. In addition, depending on the timing, any changes 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 people 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 apparel industry. Our products are marketed on a seasonal basis and our product mix is weighted substantially toward the fall season. Our annual net sales are weighted more heavily toward the fall/winter season, while our operating expenses are more equally distributed throughout the year. As a result, the majority of our operating profits are generated in the second half of the year. The expansion of our direct-to-consumer operations has had a modest effect on the seasonality of our business, increasing 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. 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 or mandated recall or destruction of inventory shipments during key seasons or in other financial penalties. Significant or continuing noncompliance with these standards and laws could harm our reputation and, as a result, could have a material adverse effect on our financial condition, results of operations or cash flows.

Our products are used in outdoor activities, sometimes in severe conditions. Product recalls or product liability claims in the future, resulting from the alleged failure of our products, could have a material adverse effect on our financial condition, results of operations or cash flows. Some of our products carry 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, fluctuations in financial results, variances from financial market expectations, changes in earnings estimates 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

Three related shareholders, Timothy Boyle, Gertrude Boyle and Sarah Bany, 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 three insiders 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.

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

The Board of Directors has authorized the repurchase of $500,000,000 of the Company s common stock. As of March 31, 2011, the Company had repurchased 9,190,890 shares under this program at an aggregate purchase price of approximately $421,237,000. 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.

The Company did not repurchase any equity securities during the three months ended March 31, 2011.

Item 6 ***EXHIBITS***

(a) Exhibits

3.2 2000 Restated Bylaws, as amended

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

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

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

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

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SIGNATURE

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

COLUMBIA SPORTSWEAR COMPANY

Date: May 6, 2011

/s/ THOMAS B. CUSICK
Thomas B. Cusick

	22.75		12/14/2016	
	80,000(10)		31.39	12/12/2017
	67,500(11)	22,500(11)	21.35	12/09/2018
	32,500(12)	32,500(12)	16.43	12/10/2019
	25,000(13)	75,000(13)	9.14	12/08/2020
		100,000(19)	7.10	11/30/2021
Akshay K. Vaishnaw, M.D., Ph.D.	40,625(16)		12.96	01/03/2016
	30,000(9)		22.75	12/14/2016
Senior Vice President and Chief Medical	32,750(10)		31.39	12/12/2017
	45,262(11)	15,088(11)	21.35	12/09/2018
	22,500(12)	22,500(12)	16.43	12/10/2019
Officer	7,500(13)	22,500(13)	9.14	12/08/2020
		100,000(20)	9.30	06/09/2021
		40,000(19)	7.10	11/30/2021
Laurence E. Reid, Ph.D.	65,625(17)	109,375(17)	15.99	06/11/2020
	6,898(13)	20,691(13)	9.14	12/08/2020
Senior Vice President and Chief Business				
Officer		40,000(19)	7.10	11/30/2021
Michael P. Mason	8,733(8)		13.12	12/07/2015
	15,000(9)		22.75	12/14/2016
Vice President of Finance and Treasurer	14,200(10)		31.39	12/12/2017
	9,000(11)	3,000(11)	21.35	12/09/2018
	8,000(12)	8,000(12)	16.43	12/10/2019
	4,375(13)	13,125(13)	9.14	12/08/2020
		25,000(21)	10.98	02/28/2021
		15,000(19)	7.10	11/30/2021
Patricia L. Allen(1)	33,947(18)		0.95	05/04/2014
	16,750(6)		6.78	12/07/2014
Former Vice President of Finance and				
Treasurer	32,000(8)		13.12	12/07/2015
	20,000(9)		22.75	12/14/2016
	32,625(10)		31.39	12/12/2017
	23,747(11)	7,916(11)	21.35	12/09/2018
	12,500(12)	12,500(12)	16.43	12/10/2019
	6,250(13)	18,750(13)	9.14	12/08/2020

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(1) In February 2011, Ms. Allen resigned from her position as vice president of finance and treasurer. Following her resignation, Ms. Allen continued to serve as our consultant through March 21, 2012, during which time her stock options continued to vest. Upon expiration of her consulting agreement, all unvested stock options were cancelled. Ms. Allen has three months following the termination of her consulting agreement to exercise any vested stock options, after which time all such outstanding stock options will be cancelled.

(2) These options were granted on February 26, 2003. The options vested as to 25% of the shares on December 9, 2003, and as to an additional 6.25% at the end of each successive three-month period thereafter until December 9, 2006.

(3) These options were granted on February 26, 2003 and vested as to 50% of the shares upon us entering into our first significant strategic alliance, which occurred on September 8, 2003. The remaining 50% of these shares vested in equal installments on the last day of each quarterly period thereafter over four years.

(4) These options were granted on January 6, 2004. The options vested as to 25% of the shares on the first anniversary of the grant date and as to an additional 6.25% at the end of each successive three-month period thereafter until January 6, 2008.

(5) These options were granted on January 6, 2004 and vested in full upon our initial public offering in May 2004.

(6) These options were granted on December 7, 2004. The options vested as to 25% of the shares on the first anniversary of the grant date and as to an additional 6.25% at the end of each successive three-month period thereafter until December 7, 2008.

(7) These options were granted on December 21, 2004 and, pursuant to the terms of the grant, vested in full upon the effective date of the Novartis research collaboration and license agreement, described above under Related Person Transactions Agreements with Novartis.

(8) These options were granted on December 7, 2005. The options vested as to 25% of the shares on the first anniversary of the grant date and as to an additional 6.25% at the end of each successive three-month period thereafter until December 7, 2009.

(9) These options were granted on December 14, 2006. The options vested as to 25% of the shares on the first anniversary of the grant date and as to an additional 6.25% at the end of each successive three-month period thereafter until December 14, 2010.

(10) These options were granted on December 12, 2007. The options vested as to 25% of the shares on the first anniversary of the grant date and as to an additional 6.25% at the end of each successive three-month period thereafter until December 12, 2011.

(11) These options were granted on December 9, 2008. The options vested as to 25% of the shares on the first anniversary of the grant date and vest as to an additional 6.25% at the end of each successive three-month period thereafter until the fourth anniversary.

(12) These options were granted on December 10, 2009. The options vested as to 25% of the shares on the first anniversary of the grant date and vest as to an additional 6.25% at the end of each successive three-month period thereafter until the fourth anniversary.

(13) These options were granted on December 8, 2010. The options vested as to 25% of the shares on the first anniversary of the grant date and vest as to an additional 6.25% at the end of each successive three-month period thereafter until the fourth anniversary.

(14) These options were granted on November 6, 2003. The options vested as to 25% of the shares on the first anniversary of the grant date and as to an additional 6.25% at the end of each successive three-month period thereafter until November 6, 2007.

(15) These options were granted on April 26, 2004. The options vested as to 25% of the shares on the first anniversary of the grant date and as to an additional 6.25% at the end of each successive three-month period thereafter until April 26, 2008.

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(16) These options were granted on January 3, 2006. The options vested as to 25% of the shares on the first anniversary of the grant date and as to an additional 6.25% at the end of each successive three-month period thereafter until January 3, 2010.

(17) These options were granted on June 11, 2010. The options vested as to 25% of the shares on the first anniversary of the grant date and vest as to an additional 6.25% at the end of each successive three-month period thereafter until the fourth anniversary.

(18) These options were granted on May 4, 2004. The options vested as to 25% of the shares on the first anniversary of the grant date and as to an additional 6.25% at the end of each successive three-month period thereafter until May 4, 2008.

(19) These options were granted on November 30, 2011. The options vest as to 25% of the shares on the first anniversary of the grant date and as to an additional 6.25% at the end of each successive three-month period thereafter until the fourth anniversary.

(20) These options were granted on June 9, 2011. The options vest as to 25% of the shares on the first anniversary of the grant date and as to an additional 6.25% at the end of each successive three-month period thereafter until the fourth anniversary.

(21) These options were granted on February 28, 2011. The options vested as to 25% of the shares on the first anniversary of the grant date and vest as to an additional 6.25% at the end of each successive three-month period thereafter until the fourth anniversary.

The following table sets forth information concerning the exercise of stock options during 2010 for each of our named executive officers.

2011 Option Exercises and Stock Vested

	Option Awards	
Name	**Number of Shares Acquired on Exercise**	**Value Realized on Exercise(1) ($)**
John M. Maraganore, Ph.D. *Chief Executive Officer*		
Barry E. Greene *President and Chief Operating Officer*		
Akshay K. Vaishnaw, M.D., Ph.D. *Senior Vice President and Chief Medical Officer*		
Laurence E. Reid, Ph.D. *Senior Vice President and Chief Business Officer*		
Michael P. Mason *Vice President of Finance and Treasurer*		
Patricia L. Allen *Former Vice President of Finance and Treasurer*		

(1) The value realized on exercise is based on the sales price of the shares less the applicable option exercise price.

Potential Payments Upon Termination or Change-in-Control

We do not have agreements with any of our executive officers pursuant to which they are eligible for potential payments upon termination or change in control of Alnylam.

As described above in Related Person Transactions, in connection with Ms. Allen s resignation, we agreed to provide Ms. Allen with the following severance pay and benefits: (i) severance in the gross amount of $250,397 (an amount equal to 12 months of Ms. Allen s gross base salary); (ii) the full cost of any COBRA

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premiums until the earlier of March 21, 2012 and the date Ms. Allen became eligible for coverage under the group health plan of another employer; and (iii) a consulting agreement for a period of up to 12 months following her separation date under which she performed certain services at our request, the terms of which are described below. As contemplated by the separation agreement, we and Ms. Allen also entered into a consulting agreement. Under the consulting agreement, Ms. Allen provided consulting services to us through March 2012 with respect to general accounting, operating budget, public company financial reporting and treasury-related activities.

Employment Arrangements

Each executive officer has signed a nondisclosure, invention and non-competition agreement providing for the protection of our confidential information and ownership of intellectual property developed by such executive officer and a covenant not to compete with us for a period of eighteen months after termination of employment.

Pursuant to the terms of his letter of employment, we paid Dr. Reid a signing bonus of $50,000 in July 2010. In the event that Dr. Reid either voluntarily terminates his employment with us, other than for good reason, or is terminated by us for cause, within the first 24 months of his employment with us, he will be required to repay the full amount of this signing bonus. Under his letter of employment, Dr. Reid is also entitled to a supplemental signing bonus of $25,000 on each of the first, second, third and fourth anniversaries of his date of hire, provided he continues to be our employee on each such anniversary date.

Securities Authorized for Issuance Under Equity Compensation Plans

The following table provides information as of December 31, 2011 about the securities authorized for issuance under our equity compensation plans, consisting of our 2002 Employee, Director and Consultant Stock Option Plan (the 2002 Plan), our 2003 Employee, Director and Consultant Stock Option Plan (the 2003 Plan), our Amended and Restated 2004 Stock Incentive Plan, our 2009 Stock Incentive Plan and our 2004 Employee Stock Purchase Plan, as amended. All of our equity compensation plans were adopted with the approval of our stockholders.

Equity Compensation Plan Information

	Number of Securities to Be Issued Upon Exercise of Outstanding Options, Warrants and Rights	Weighted-Average Exercise Price of Outstanding Options, Warrants and Rights ($)	Number of Securities Remaining Available for Future Issuance Under Equity Compensation Plans(1)
Equity compensation plans approved by stockholders	9,778,539	$ 15.53	1,354,011
Equity compensation plans not approved by stockholders			
Total	9,778,539	$ 15.53	1,354,011

(1) Consists of 87,272 shares of our common stock available for future issuance under our Amended and Restated 2004 Stock Incentive Plan, 919,039 shares of our common stock available for future issuance under our 2009 Stock Incentive Plan and 347,700 shares of our common stock available for future issuance under our 2004 Employee Stock Purchase Plan, as amended. No shares of our common stock were available for issuance under our 2002 Plan or our 2003 Plan as of December 31, 2011.

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Compensation of Directors

We compensate our non-employee directors for their service as directors. We do not pay directors who are also our employees any additional compensation for their service as a director. Accordingly, Dr. Maraganore does not receive any additional compensation for his service as a director.

Our compensation committee periodically reviews the compensation we pay our non-employee directors. Our compensation committee compares our board compensation to compensation paid to non-employee directors of similarly sized public companies at a similar stage of development in the biotechnology industry. Our compensation committee also considers the responsibilities we ask of our board members along with the amount of time required to perform those responsibilities.

Each non-employee director is entitled to receive a cash fee of $50,000 per year. In the event any non-employee director is not eligible to accept equity compensation due to the policies of his or her employment, he or she is entitled to receive a cash fee of $75,000 per year. The chairs of our board and our nominating and corporate governance committee are each entitled to receive an additional $5,000 per year, the chair of our compensation committee is entitled to receive an additional $10,000 per year, and the chairs of our audit committee and our science and technology committee are each entitled to receive an additional $15,000 per year.

Each non-employee director is also entitled to receive upon his or her initial election to our board a stock option award for 30,000 shares of common stock, vesting annually over three years, and an additional stock option award to purchase 15,000 shares of common stock at each year s annual meeting at which he or she served as a director, vesting in full on the first anniversary of the date of grant. In addition, the chair of our audit committee is entitled to an additional stock option award to purchase 10,000 shares of common stock per year and the chair of our science and technology committee is entitled to an additional stock option award to purchase 15,000 shares of common stock per year. Our board may, in its discretion, increase or decrease the size of the award made to a director upon election or in connection with the annual stock option award or make other option awards to our directors. The exercise price of these stock options is the fair market value of our common stock on the date of grant. We also reimburse our directors for reasonable travel and other related expenses incurred in connection with their service on our board.

The following table sets forth information concerning the compensation of our current and former non-employee directors in 2011.

Director Compensation

Name	Fees Earned or Paid in Cash ($)	Option Awards ($)(3)(4)(5)	All Other Compensation ($)	Total ($)
Dennis A. Ausiello, M.D.(1)				
John K. Clarke	60,000	73,221		133,221
Victor J. Dzau, M.D.	50,000	73,221		123,221
Marsha H. Fanucci	50,000	73,221		123,221
Steven M. Paul, M.D.	57,500	73,221		130,721
Vicki L. Sato, Ph.D.(2)	20,000			20,000
Paul R. Schimmel, Ph.D.	50,000	73,221		123,221
Phillip A. Sharp, Ph.D.	58,407	146,442	29,583(6)	234,432
Kevin P. Starr	65,000	122,035		187,035

(1) Dr. Ausiello was elected to our board of directors in April 2012. Dr. Ausiello filled a vacancy created in 2011 upon the retirement of one of our directors. Under his employer s policy, Dr. Ausiello is currently subject to limitations on the amount of compensation he can receive from us and is not permitted to receive any equity compensation for serving as a director. In the event Dr. Ausiello becomes eligible to receive equity compensation in the future, his compensation will be adjusted to be consistent with the non-employee

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director compensation described above. Dr. Ausiello will also serve as a member of our scientific advisory board. He will not receive any additional compensation for such service, but will be reimbursed for reasonable travel and other related expenses incurred in connection with his attendance at scientific advisory board meetings.

(2) Dr. Sato retired from our board of directors in April 2011.

(3) The amounts in this column reflect the aggregate grant date fair value for the fiscal year ended December 31, 2011, in accordance with FASB ASC Topic 718, of stock options granted under our equity plans for service on our board and treated for accounting purposes as employee awards. There can be no assurance that these amounts will ever be realized. The assumptions we used to calculate these amounts are included in Note 9 to our audited consolidated financial statements for the fiscal year ended December 31, 2011 included in our Annual Report on Form 10-K, filed with the SEC on February 13, 2012. See footnote 5 below for the compensation expense of stock options granted under our equity plans to a director for non-board services and treated for accounting purposes as non-employee awards.

(4) As of December 31, 2011, our non-employee directors held the following aggregate number of shares under outstanding stock options (representing unexercised option awards both exercisable and unexercisable):

Name	Number of Shares Underlying Outstanding Stock Options for Board Service	Number of Shares Underlying Outstanding Stock Options for Non-Board Service
Dennis A. Ausiello, M.D.	(a)	
John K. Clarke	95,000	
Victor J. Dzau, M.D.	90,000	
Marsha H. Fanucci	45,000	
Steven M. Paul, M.D.	45,000	
Vicki L. Sato, Ph.D.	(b)	
Paul R. Schimmel, Ph.D.	75,000	
Phillip A. Sharp, Ph.D.	110,000	205,000(c)
Kevin P. Starr	217,631	

(a) Dr. Ausiello was elected to our board of directors in April 2012. Under his employer s policy, Dr. Ausiello is currently not permitted to receive any equity compensation for serving as a director.

(b) Upon Dr. Sato s retirement in April 2011, all unvested stock options were cancelled. Dr. Sato had three months following her retirement date to exercise any vested stock options, after which time all such outstanding stock options were cancelled.

(c) Dr. Sharp received these stock options between 2005 and 2010 in connection with his service on our scientific advisory board.

(5) The number of shares underlying stock options granted to our non-employee directors for their service on our board during 2011 and the grant date fair value of such stock options are as follows:

Name	Date of Grant	Number of Shares Underlying Stock Option Grants in 2011	Grant Date Fair Value of Stock Option Grants in 2011(c) $
Dennis A. Ausiello, M.D.(a)			
John K. Clarke	06/09/2011	15,000	73,221
Victor J. Dzau, M.D.	06/09/2011	15,000	73,221
Marsha H. Fanucci	06/09/2011	15,000	73,221
Steven M. Paul, M.D.	06/09/2011	15,000	73,221

Vicki L. Sato, Ph.D.(b)			
Paul R. Schimmel, Ph.D.	06/09/2011	15,000	73,221
Phillip A. Sharp, Ph.D.	06/09/2011	30,000	146,442
Kevin P. Starr	06/09/2011	25,000	122,035

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(a) Dr. Ausiello was elected to our board of directors in April 2012. Under his employer s policy, Dr. Ausiello is currently not permitted to receive any equity compensation for serving as a director.
(b) Dr. Sato retired from our board of directors in April 2011.
(c) The Grant Date Fair Value computed in accordance with FASB ASC Topic 718 represents the value of stock options granted during 2011. The weighted-average grant date fair value per option was $4.88. There can be no assurance that the Grant Date Fair Value computed in accordance with FASB ASC Topic 718 will ever be realized.

(6) This amount reflects compensation paid to Dr. Sharp for service on our scientific advisory board during 2011.

Compensation Committee Interlocks and Insider Participation

During 2011, the members of our compensation committee were Drs. Paul and Schimmel and Mr. Starr, none of whom was a current or former officer or employee of Alnylam and none of whom had any related person transaction involving Alnylam.

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PROPOSAL 2 ADVISORY VOTE ON EXECUTIVE COMPENSATION

We are providing our stockholders the opportunity to vote to approve, on an advisory, non-binding basis, the compensation of our named executive officers as disclosed in this proxy statement in accordance with the SEC s rules. This proposal, which is commonly referred to as say-on-pay, is required by the Dodd-Frank Wall Street Reform and Consumer Protection Act of 2010, which added Section 14A to the Exchange Act.

We encourage stockholders to read closely the Executive Compensation section of this proxy statement beginning with the Compensation Discussion and Analysis on page 26, which describes in detail our executive compensation programs and the decisions made by our compensation committee and our board with respect to the fiscal year ended December 31, 2011.

As we describe in the Compensation Discussion and Analysis, we maintain simple executive compensation programs that consist almost entirely of base salary, an annual cash incentive bonus and annual equity awards. These elements of compensation have been selected by our compensation committee because the committee believes that they effectively achieve the fundamental goals of our compensation program, which are to attract, motivate and retain qualified and talented executives, who are critical to our success, motivating them to achieve our business goals and rewarding them for superior short- and long-term performance. The goal of our compensation committee is to ensure that our compensation programs are aligned with the interests of our stockholders and our business goals in order to attain our ultimate objective of increasing stockholder value. We believe that, consistent with these goals, the total compensation paid to each of our named executive officers is fair, reasonable and competitive. Further, we believe our programs do not encourage excessive risk-taking by management.

With very limited exceptions, we do not provide any compensation or benefit plans to executive officers that are not also available to other employees. We differentiate among executive officers primarily based on size of annual cash incentive awards and annual equity awards and, to a lesser extent, base salary. Annual compensation decisions for executive officers are made by our compensation committee based on the achievement of specified corporate performance goals as described under Compensation Discussion and Analysis.

Our board of directors is asking stockholders to approve, on a non-binding advisory basis, the following resolution:

RESOLVED, that the compensation paid to the named executive officers of Alnylam Pharmaceuticals, Inc., as disclosed pursuant to the compensation disclosure rules of the SEC, including the compensation discussion and analysis, the compensation tables and any related material disclosed in the proxy statement of Alnylam Pharmaceuticals, Inc., is hereby approved.

As an advisory vote, this proposal is not binding. The outcome of this advisory vote will not overrule any decision by us or our board of directors (or any committee thereof). However, our compensation committee and board of directors value the opinions expressed by our stockholders in their vote on this proposal and will consider the outcome of the vote when making future compensation decisions for named executive officers.

Board Recommendation

Our board of directors recommends that you vote to approve the compensation of our named executive officers by voting FOR Proposal 2.

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PROPOSAL 3 RATIFICATION OF APPOINTMENT OF INDEPENDENT AUDITORS

Our board has appointed the firm of PricewaterhouseCoopers LLP, an independent registered public accounting firm, as independent auditors for the fiscal year ending December 31, 2012. Although stockholder approval of our board s appointment of PricewaterhouseCoopers LLP is not required by law, our board believes that it is advisable to give stockholders an opportunity to ratify this appointment. If this proposal is not approved at the annual meeting, our board will reconsider its appointment of PricewaterhouseCoopers LLP. Representatives of PricewaterhouseCoopers LLP are expected to be present at the annual meeting and will have the opportunity to make a statement, if they desire to do so, and will be available to respond to appropriate questions from our stockholders.

Board Recommendation

Our board of directors recommends a vote FOR the ratification of the appointment of PricewaterhouseCoopers LLP as our independent auditors for the fiscal year ending December 31, 2012.

OTHER MATTERS

Our board of directors does not know of any other matters which may come before the meeting. However, if any other matters are properly presented to the meeting, it is the intention of the persons named in the accompanying proxy card to vote, or otherwise act, in accordance with their judgment on those matters.

STOCKHOLDER PROPOSALS

In order to be included in proxy material for the 2013 annual meeting of stockholders, stockholders proposals must be received by us at our principal executive offices, 300 Third Street, Cambridge, Massachusetts 02142 no later than December 28, 2012. We suggest that proponents submit their proposals by certified mail, return receipt requested, addressed to our Corporate Secretary.

In addition, our bylaws require that we be given advance notice of stockholder nominations for election to our board of directors and of other matters which stockholders wish to present for action at an annual meeting of stockholders, other than matters included in our proxy statement. The required notice must be in writing and received by our corporate secretary at our principal offices not later than March 23, 2013 (90 days prior to the first anniversary of our 2012 annual meeting of stockholders) and not before February 21, 2013 (120 days prior to the first anniversary of our 2012 annual meeting of stockholders). However, if the 2012 annual meeting of stockholders is advanced by more than 20 days, or delayed by more than 60 days, from the first anniversary of the 2012 annual meeting of stockholders, notice must be received not earlier than the 120th day prior to such annual meeting and not later than the close of business on the later of (1) the 90th day prior to such annual meeting and (2) the 10th day following the date on which notice of the date of such annual meeting was mailed or public disclosure of the date of such annual meeting was made, whichever occurs first. Our bylaws also specify requirements relating to the content of the notice which stockholders must provide, including a stockholder nomination for election to our board of directors, to be properly presented at the 2012 annual meeting of stockholders.

OUR BOARD OF DIRECTORS ENCOURAGES STOCKHOLDERS TO ATTEND THE ANNUAL MEETING. WHETHER OR NOT YOU PLAN TO ATTEND IN PERSON, YOU ARE URGED TO VOTE BY PROXY OVER THE INTERNET, BY TELEPHONE OR BY MAIL AS DESCRIBED IN THE ENCLOSED PROXY CARD. A PROMPT RESPONSE WILL GREATLY FACILITATE ARRANGEMENTS FOR THE ANNUAL MEETING AND YOUR COOPERATION WILL BE APPRECIATED. STOCKHOLDERS WHO ATTEND THE ANNUAL MEETING MAY VOTE THEIR STOCK PERSONALLY EVEN THOUGH THEY HAVE SUBMITTED A PROXY PREVIOUSLY.

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Electronic Voting Instructions

Available 24 hours a day, 7 days a week!

Instead of mailing your proxy, you may choose one of the voting methods outlined below to vote your proxy.

VALIDATION DETAILS ARE LOCATED BELOW IN THE TITLE BAR.

Proxies submitted by the Internet or telephone must be received by 11:59 p.m., Eastern Time, on June 20, 2012.

Vote by Internet

Go to **www.investorvote.com/ALNY**

Or scan the QR code with your smartphone

Follow the steps outlined on the secure website

Using a **black ink** pen, mark your votes with an **X** as shown in this example. Please do not write outside the designated areas. X

Vote by telephone

Call toll free 1-800-652-VOTE (8683) within the USA, US territories & Canada on a touch tone telephone

Follow the instructions provided by the recorded message q **IF YOU HAVE NOT VOTED VIA THE INTERNET OR TELEPHONE, FOLD ALONG THE PERFORATION, DETACH AND RETURN THE BOTTOM PORTION IN THE ENCLOSED ENVELOPE.** q

A Proposals The Board of Directors recommends you vote FOR each of the listed director nominees to serve for a term ending in 2015 and FOR Proposals 2 and 3.

1. To elect the following nominees as Class II directors of Alnylam:

+

	For	Withhold		For	Withhold		For	Withhold
01 - John K. Clarke	..	..	02 - Marsha H. Fanucci	..	..	03 - Dennis A. Ausiello, M.D.	..	..

	For	Against	Abstain		For	Against	Abstain
2. To approve, in a non-binding advisory vote, the compensation of Alnylam s named executive officers.	..	..	..	3. To ratify the appointment of PricewaterhouseCoopers LLP, an independent registered public accounting firm, as Alnylam s independent auditors for the fiscal year ending December 31, 2012.	..	..	..

In their discretion, the Proxies are authorized to vote upon any other business that may properly come before the annual meeting or at any adjournment(s) thereof.

B **Non-Voting Items**

Change of Address Please print new address below.

Comments Please print your comments below.

C **Authorized Signatures** **This section must be completed for your vote to be counted.** **Date and Sign Below**

Please sign exactly as your name(s) appear(s) hereon. All holders must sign. When signing as attorney, executor, administrator or other fiduciary, please give your full title as such. Joint owners should each sign personally. If a corporation, please sign in full corporate name, by authorized officer. If a partnership, please sign in partnership name by authorized person.

Date (mm/dd/yyyy) Please print date below.	Signature 1 Please keep signature within the box.	Signature 2 Please keep signature within the box.
/ /		

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q **IF YOU HAVE NOT VOTED VIA THE INTERNET OR TELEPHONE, FOLD ALONG THE PERFORATION, DETACH AND RETURN THE BOTTOM PORTION IN THE ENCLOSED ENVELOPE.** q

Proxy ALNYLAM PHARMACEUTICALS, INC.

ANNUAL MEETING OF STOCKHOLDERS

To be held on June 21, 2012 at 9:00 a.m., Eastern Time

This Proxy is solicited on behalf of the Board of Directors of Alnylam Pharmaceuticals, Inc. (Alnylam).

The undersigned, having received notice of the annual meeting of stockholders and the proxy statement therefor and revoking all prior proxies, hereby appoints each of John M. Maraganore, Ph.D., Barry E. Greene and Michael P. Mason (each with full power of substitution), as Proxies of the undersigned, to attend the annual meeting of stockholders of Alnylam to be held at 9:00 a.m., Eastern Time, on Thursday, June 21, 2012, at the offices of Alnylam, 300 Third Street, Cambridge, Massachusetts 02142, and any adjourned or postponed session thereof, and there to vote and act as indicated upon the matters on the reverse side in respect of all shares of common stock which the undersigned would be entitled to vote or act upon, with all powers the undersigned would possess if personally present.

You can revoke your proxy at any time before it is voted at the annual meeting by (i) submitting another properly completed proxy bearing a later date; (ii) giving written notice of revocation to the Secretary of Alnylam; (iii) if you submitted a proxy through the Internet or by telephone, by submitting a proxy again through the Internet or by telephone prior to the close of the Internet voting facility or the telephone voting facility; or (iv) voting in person at the annual meeting. If you hold any of the shares of common stock in a fiduciary, custodial or joint capacity or capacities, this proxy is signed by you in every such capacity as well as individually.

The shares of common stock of Alnylam represented by this proxy will be voted as directed by you for the proposals herein proposed by Alnylam. If no direction is given with respect to any proposal specified herein, this proxy will be voted FOR the proposal. In their discretion, the Proxies are authorized to vote upon any other business that may properly come before the annual meeting or any adjournment(s) thereof.

Please vote, date and sign on reverse side and return promptly in the enclosed pre-paid envelope.

Your vote is important. Please vote immediately.

CONTINUED AND TO BE SIGNED ON REVERSE SIDE

SEE REVERSE SIDE