

COLUMBIA SPORTSWEAR CO
Form 10-Q
August 02, 2018

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

FORM 10-Q

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

For the quarterly period ended June 30, 2018

OR

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

For the transition period from _____ to _____

Commission file number 0-23939

COLUMBIA SPORTSWEAR COMPANY

(Exact name of registrant as specified in its charter)

Oregon 93-0498284

(State or other jurisdiction of (IRS Employer
incorporation or organization) Identification Number)

14375 Northwest Science Park Drive 97229

Portland, Oregon (Address of principal executive offices) (Zip Code)

(503) 985-4000

(Registrant's telephone number, including area code)

Indicate by check mark whether registrant (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days. Yes 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, smaller reporting company, or an emerging growth company. See the definitions of "large accelerated filer," "accelerated filer," "smaller reporting company," and "emerging growth company" in Rule 12b-2 of the Exchange Act.

Large accelerated filer Accelerated filer

Non-accelerated filer (Do not check if a smaller reporting company) Smaller reporting company

Emerging growth company

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

Indicate by check mark whether the registrant is a shell company (as defined in Rule 12b-2 of the Exchange Act).

Yes No

The number of shares of Common Stock outstanding on July 20, 2018 was 69,960,922.

COLUMBIA SPORTSWEAR COMPANY
JUNE 30, 2018
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PART I—FINANCIAL INFORMATION

Item 1. FINANCIAL STATEMENTS

COLUMBIA SPORTSWEAR COMPANY

CONDENSED CONSOLIDATED BALANCE SHEETS

(In thousands)

(Unaudited)

	June 30, 2018	December 31, 2017	June 30, 2017
ASSETS			
Current Assets:			
Cash and cash equivalents	\$510,656	\$673,166	\$620,639
Short-term investments	264,014	94,983	1,591
Accounts receivable, net of allowance of \$6,889, \$9,043, and \$8,666, respectively	238,675	364,862	181,119
Inventories	570,473	457,927	559,544
Prepaid expenses and other current assets	76,399	58,559	42,053
Total current assets	1,660,217	1,649,497	1,404,946
Property, plant and equipment, at cost, net of accumulated depreciation of \$472,447, \$455,811, and \$435,625, respectively	280,726	281,394	286,006
Intangible assets, net (Note 5)	128,065	129,555	131,045
Goodwill	68,594	68,594	68,594
Deferred income taxes	70,351	56,804	94,514
Other non-current assets	38,997	27,058	26,095
Total assets	\$2,246,950	\$2,212,902	\$2,011,200
LIABILITIES AND EQUITY			
Current Liabilities:			
Accounts payable	\$290,812	\$252,301	\$264,881
Accrued liabilities (Note 6)	191,511	182,228	114,807
Income taxes payable	4,000	19,107	3,245
Total current liabilities	486,323	453,636	382,933
Other long-term liabilities	45,412	48,735	44,809
Income taxes payable	60,827	58,104	11,102
Deferred income taxes	13	168	156
Total liabilities	592,575	560,643	439,000
Commitments and contingencies (Note 12)			
Columbia Sportswear Company Shareholders' Equity:			
Preferred stock; 10,000 shares authorized; none issued and outstanding	—	—	—
Common stock (no par value); 250,000 shares authorized; 69,988, 69,995, and 69,686, issued and outstanding, respectively (Note 9)	23,162	45,829	31,045
Retained earnings	1,623,612	1,585,009	1,529,061
Accumulated other comprehensive loss (Note 8)	(6,374)	(8,887)	(13,296)
Total Columbia Sportswear Company shareholders' equity	1,640,400	1,621,951	1,546,810
Non-controlling interest (Note 4)	13,975	30,308	25,390
Total equity	1,654,375	1,652,259	1,572,200
Total liabilities and equity	\$2,246,950	\$2,212,902	\$2,011,200
See accompanying notes to condensed consolidated financial statements.			

COLUMBIA SPORTSWEAR COMPANY
CONDENSED CONSOLIDATED STATEMENTS OF OPERATIONS

(In thousands, except per share amounts)
(Unaudited)

	Three Months Ended June 30,		Six Months Ended June 30,	
	2018	2017	2018	2017
Net sales	\$481,619	\$398,904	\$1,088,927	\$942,697
Cost of sales	252,998	218,042	560,868	503,368
Gross profit	228,621	180,862	528,059	439,329
Selling, general and administrative expenses	222,192	200,598	465,560	413,413
Net licensing income	3,320	2,451	6,571	4,804
Income (loss) from operations	9,749	(17,285)	69,070	30,720
Interest income, net	2,928	1,250	5,224	2,205
Interest expense on note payable to related party (Note 14)	—	(180)	—	(429)
Other non-operating (expense) income, net	(96)	360	(364)	307
Income (loss) before income tax	12,581	(15,855)	73,930	32,803
Income tax (expense) benefit	(2,086)	4,539	(14,706)	(5,234)
Net income (loss)	10,495	(11,316)	59,224	27,569
Net income attributable to non-controlling interest	758	219	4,380	3,098
Net income (loss) attributable to Columbia Sportswear Company	\$9,737	\$(11,535)	\$54,844	\$24,471
Earnings (loss) per share attributable to Columbia Sportswear Company (Note 9):				
Basic	\$0.14	\$(0.17)	\$0.78	\$0.35
Diluted	\$0.14	\$(0.17)	\$0.77	\$0.35
Cash dividends per share	\$0.22	\$0.18	\$0.44	\$0.36
Weighted average shares outstanding (Note 9):				
Basic	70,021	69,672	70,050	69,639
Diluted	70,748	69,672	70,824	70,367

See accompanying notes to condensed consolidated financial statements.

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

(In thousands)

(Unaudited)

	Three Months Ended June 30,		Six Months Ended June 30,	
	2018	2017	2018	2017
Net income (loss)	10,495	\$(11,316)	59,224	27,569
Other comprehensive income:				
Unrealized holding gains (losses) on available-for-sale securities (net of tax effects of \$0, \$0, \$0 and \$0, respectively)	—	(4) 4	—
Unrealized gains (losses) on derivative transactions (net of tax effects of (\$6,540), \$3,361, (\$4,974), and \$4,241, respectively)	20,553	(6,157) 15,646	(7,762)
Foreign currency translation adjustments (net of tax effects of \$275, (\$93), \$1,819, and (\$2), respectively)	(18,262)	7,182	(12,003)	18,684
Other comprehensive income	2,291	1,021	3,647	10,922
Comprehensive income (loss)	12,786	(10,295)	62,871	38,491
Comprehensive income attributable to non-controlling interest	474	1,644	4,999	4,699
Comprehensive income (loss) attributable to Columbia Sportswear Company	\$12,312	\$(11,939)	\$57,872	\$33,792

See accompanying notes to condensed consolidated financial statements.

COLUMBIA SPORTSWEAR COMPANY
CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS

(In thousands)

(Unaudited)

	Six Months Ended June 30,	
	2018	2017
Cash flows from operating activities:		
Net income	\$59,224	\$27,569
Adjustments to reconcile net income to net cash provided by operating activities:		
Depreciation and amortization	29,067	29,932
Loss on disposal and impairment of property, plant, and equipment	578	441
Deferred income taxes	2,041	3,378
Stock-based compensation	6,599	5,719
Changes in operating assets and liabilities:		
Accounts receivable	188,897	156,755
Inventories	(140,897)	(61,809)
Prepaid expenses and other current assets	(6,411)	(3,073)
Other assets	(11,867)	2,037
Accounts payable	37,968	39,773
Accrued liabilities	(49,781)	(41,523)
Income taxes payable	(12,835)	(4,133)
Other liabilities	(3,258)	1,981
Net cash provided by operating activities	99,325	157,047
Cash flows from investing activities:		
Purchases of short-term investments	(257,979)	(33,813)
Sales of short-term investments	88,794	32,878
Capital expenditures	(29,618)	(24,323)
Proceeds from sale of property, plant, and equipment	19	202
Net cash used in investing activities	(198,784)	(25,056)
Cash flows from financing activities:		
Proceeds from credit facilities	—	2,774
Repayments on credit facilities	—	(2,774)
Proceeds from issuance of common stock under employee stock plans	14,971	10,606
Tax payments related to restricted stock unit issuances	(4,131)	(3,539)
Repurchase of common stock	(40,106)	(35,542)
Cash dividends paid	(30,856)	(25,046)
Payment of related party note payable	—	(14,236)
Net cash used in financing activities	(60,122)	(67,757)
Net effect of exchange rate changes on cash	(2,929)	5,016
Net increase (decrease) in cash and cash equivalents	(162,510)	69,250
Cash and cash equivalents, beginning of period	673,166	551,389
Cash and cash equivalents, end of period	\$510,656	\$620,639
Supplemental disclosures of cash flow information:		
Cash paid during the period for income taxes	\$31,346	\$18,133
Cash paid during the period for interest on note payable to related party	—	501
Supplemental disclosures of non-cash investing and financing activities:		
Capital expenditures incurred but not yet paid	\$4,009	\$9,191
Dividend to non-controlling interest declared but not yet paid (Note 14)	\$21,332	\$—
See accompanying notes to condensed consolidated financial statements.		

COLUMBIA SPORTSWEAR COMPANY

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

(Unaudited)

NOTE 1—BASIS OF PRESENTATION AND ORGANIZATION

The accompanying unaudited condensed consolidated financial statements have been prepared by the management of Columbia Sportswear Company (together with its wholly owned subsidiaries and entities in which it maintains a controlling financial interest, the "Company") and in the opinion of management include all normal recurring material adjustments necessary to present fairly the Company's financial position as of June 30, 2018 and 2017, the results of operations for the three and six months ended June 30, 2018 and 2017, and cash flows for the six months ended June 30, 2018 and 2017. The December 31, 2017 financial information was derived from the Company's audited financial statements included in the Company's Annual Report on Form 10-K for the year ended December 31, 2017. A significant part of the Company's business is of a seasonal nature; therefore, results of operations for the three and six months ended June 30, 2018 are not necessarily indicative of results to be expected for other quarterly periods or for the full year.

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

Principles of Consolidation

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

Estimates and Assumptions

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

NOTE 2—SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Except as disclosed below and in Note 3, pertaining to our adoption of new accounting pronouncements, there have been no significant changes to the Company's significant accounting policies as described in the Company's Annual Report on Form 10-K for the year ended December 31, 2017.

Recently Adopted Accounting Pronouncements:

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

prior period information has not been restated and continues to be reported under the accounting standards in effect for those periods.

In addition, the adoption of ASC 606 had the following effects: (1) fees paid to or retained by third parties in conjunction with certain concession-based retail arrangements in our Latin America and Asia Pacific ("LAAP") region, historically comprising approximately 2% of net sales, are now recognized as a component of selling, general and administrative ("SG&A") expenses; (2) wholesale sales returns reserves, estimated chargebacks and markdowns, and other provisions for customer refunds are now presented as accrued liabilities rather than netted within accounts receivable; and (3) the estimated cost of inventory associated with sales returns reserves are now presented within other current assets rather than inventories. The Company expects the timing of revenue recognition for its significant revenue streams to remain substantially unchanged, with no material effect on net sales. See the table below for the effect of the adoption of the standard on our Condensed Consolidated Balance Sheets as of January 1, 2018.

COLUMBIA SPORTSWEAR COMPANY

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS—(Continued)

(Unaudited)

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

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

On January 1, 2018, the Company adopted ASU No. 2016-01, Financial Instruments - Overall (Subtopic 825-10): Recognition and Measurement of Financial Assets and Financial Liabilities, which requires equity investments that are not accounted for under the equity method of accounting to be measured at fair value with changes recognized in net income and also updates certain presentation and disclosure requirements. The adoption of this standard did not have a material effect on the Company's financial position, results of operations or cash flows.

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

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

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

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

June 30, 2018

	As Reported	Effect of Standard	Balances Without Adoption of ASC 606			
			As Reported	Effect of Standard	Balances Without Adoption of ASC 606	
Accounts receivable, net	\$238,675	\$37,466	\$201,209			
Inventories	570,473	(11,068)	581,541			
Prepaid expenses and other current assets	76,399	11,068	65,331			
Total current assets	1,660,217	37,466	1,622,751			
Total assets	2,246,950	37,466	2,209,484			
Accrued liabilities	191,511	37,466	154,045			
Total current liabilities	486,323	37,466	448,857			
Total liabilities	592,575	37,466	555,109			
Total liabilities and equity	\$2,246,950	\$37,466	\$2,209,484			
	Three Months Ended June 30, 2018		Six Months Ended June 30, 2018			
	As Reported	Effect of Standard	Balances Without Adoption of ASC 606			
			As Reported	Effect of Standard	Balances Without Adoption of ASC 606	
Net sales	\$481,619	\$ 7,487	\$474,132	\$1,088,927	\$ 15,744	\$1,073,183
Gross profit	228,621	7,487	221,134	528,059	15,744	512,315
Selling, general and administrative expenses	\$222,192	\$ 7,487	\$214,705	\$465,560	\$ 15,744	\$449,816

Recent Accounting Pronouncements Not Yet Adopted

In February 2016, the FASB issued ASU No. 2016-02, Leases (Topic 842), to increase transparency and comparability among organizations by recognizing lease assets and lease liabilities on the balance sheet for most leases