

COLUMBIA SPORTSWEAR CO
Form 10-Q
August 07, 2014

UNITED STATES
SECURITIES AND EXCHANGE COMMISSION
Washington, DC 20549

FORM 10-Q

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

For the quarterly period ended June 30, 2014

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)

14375 Northwest Science Park Drive

Portland, Oregon

(Address of principal executive offices)

(503) 985-4000

(Registrant's telephone number, including area code)

93-0498284

(IRS Employer
Identification Number)

97229

(Zip 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, 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

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

The number of shares of Common Stock outstanding on July 25, 2014 was 35,043,513.

COLUMBIA SPORTSWEAR COMPANY
JUNE 30, 2014
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PART I. FINANCIAL INFORMATION

Item 1 – FINANCIAL STATEMENTS

COLUMBIA SPORTSWEAR COMPANY

CONDENSED CONSOLIDATED BALANCE SHEETS

(In thousands)

(Unaudited)

	June 30, 2014	December 31, 2013	June 30, 2013
ASSETS			
Current Assets:			
Cash and cash equivalents	\$367,165	\$437,489	\$340,428
Short-term investments	27,238	91,755	90,181
Accounts receivable, net of allowance of \$6,977, \$8,282 and \$7,566, respectively	204,527	306,878	180,937
Inventories, net (Note 5)	456,448	329,228	423,765
Deferred income taxes	52,202	52,041	47,884
Prepaid expenses and other current assets	42,551	33,081	47,074
Total current assets	1,150,131	1,250,472	1,130,269
Property, plant and equipment, at cost, net of accumulated depreciation of \$345,153, \$326,380 and \$310,934, respectively	291,270	279,373	273,016
Intangible assets, net (Notes 3, 6)	149,221	36,288	36,952
Goodwill (Notes 3, 6)	69,257	14,438	14,438
Other non-current assets	25,412	25,017	22,359
Total assets	\$1,685,291	\$1,605,588	\$1,477,034
LIABILITIES AND EQUITY			
Current Liabilities:			
Accounts payable	\$239,906	\$173,557	\$185,984
Accrued liabilities (Note 7)	104,332	120,397	84,878
Income taxes payable	3,315	7,251	3,895
Deferred income taxes	66	49	18
Total current liabilities	347,619	301,254	274,775
Note payable to related party (Note 15)	15,734	—	—
Income taxes payable	4,373	13,984	13,205
Deferred income taxes	8,261	7,959	1,778
Other long-term liabilities	31,339	29,527	27,820
Total liabilities	407,326	352,724	317,578
Commitments and contingencies (Note 13)			
Columbia Sportswear Company Shareholders' Equity:			
Preferred stock; 10,000 shares authorized; none issued and outstanding	—	—	—
Common stock (no par value); 125,000 shares authorized; 35,040, 34,595 and 34,409 issued and outstanding, respectively (Note 10)	77,793	52,325	38,972
Retained earnings	1,154,103	1,157,733	1,082,634
Accumulated other comprehensive income (Note 9)	38,075	35,360	30,025
Total Columbia Sportswear Company shareholders' equity	1,269,971	1,245,418	1,151,631
Non-controlling interest (Note 4)	7,994	7,446	7,825
Total equity	1,277,965	1,252,864	1,159,456
Total liabilities and equity	\$1,685,291	\$1,605,588	\$1,477,034

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,	
	2014	2013	2014	2013
Net sales	\$324,246	\$280,495	\$748,330	\$628,802
Cost of sales	180,221	160,211	407,219	355,214
Gross profit	144,025	120,284	341,111	273,588
Selling, general and administrative expenses	162,196	131,935	325,555	274,838
Net licensing income	1,182	1,654	2,906	3,981
Income (loss) from operations	(16,989)	) (9,997	) 18,462	2,731
Interest income, net	384	215	623	347
Interest expense on note payable to related party	(277	) —	(487) —
Other non-operating expense	(149	) (473	) (505	) (1,103
Income (loss) before income tax	(17,031	) (10,255	) 18,093	1,975
Income tax benefit (expense)	10,293	2,925	(1,155	) 797
Net income (loss)	(6,738	) (7,330	) 16,938	2,772
Net income (loss) attributable to non-controlling interest	(409	) (253	) 1,012	(253
Net income (loss) attributable to Columbia Sportswear Company	\$(6,329	) \$(7,077	) \$15,926	\$3,025
Earnings (loss) per share attributable to Columbia Sportswear Company (Note 10):				
Basic	\$(0.18	) \$(0.21	) \$0.46	\$0.09
Diluted	(0.18	) (0.21	) 0.45	0.09
Weighted average shares outstanding (Note 10):				
Basic	34,958	34,353	34,834	34,260
Diluted	34,958	34,353	35,301	34,561

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,	
	2014	2013	2014	2013
Net income (loss)	\$ (6,738	) \$ (7,330	) \$ 16,938	\$ 2,772
Other comprehensive income (loss):				
Unrealized holding gains on available-for-sale securities (net of tax benefit (expense) of \$1, (\$1), (\$1) and (\$4), respectively)	3	7	4	16
Unrealized gains (losses) on derivative transactions (net of tax benefit (expense) of \$638, (\$599), \$741, and (\$1,149), respectively)	(1,037	) 168	(809	) 1,598
Foreign currency translation adjustments (net of tax benefit (expense) of \$30, (\$137), \$23 and \$98, respectively)	8,934	(5,517	) 3,056	(18,174
Other comprehensive income (loss)	7,900	(5,342	) 2,251	(16,560
Comprehensive income (loss)	1,162	(12,672	) 19,189	(13,788
Comprehensive income (loss) attributable to non-controlling interest	(375	) (175	) 548	(175
Comprehensive income (loss) attributable to Columbia Sportswear Company	\$ 1,537	\$ (12,497	) \$ 18,641	\$ (13,613

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,	
	2014	2013
Cash flows from operating activities:		
Net income	\$ 16,938	\$ 2,772
Adjustments to reconcile net income to net cash provided by operating activities:		
Depreciation and amortization	23,234	19,891
Loss on disposal or impairment of property, plant, and equipment	229	299
Deferred income taxes	5,601	3,185
Stock-based compensation	5,208	4,282
Excess tax benefit from employee stock plans	(3,951)	(925)
Changes in operating assets and liabilities:		
Accounts receivable	112,340	153,383
Inventories	(114,716)	(60,449)
Prepaid expenses and other current assets	(7,357)	(8,446)
Other assets	297	116
Accounts payable	60,089	40,078
Accrued liabilities	(23,095)	(20,150)
Income taxes payable	(13,596)	1,017
Other liabilities	1,733	650
Net cash provided by operating activities	62,954	135,703
Cash flows from investing activities:		
Acquisition of business, net of cash acquired	(188,467)	—
Purchases of short-term investments	(21,471)	(61,286)
Sales of short-term investments	86,206	16,437
Capital expenditures	(24,964)	(31,502)
Proceeds from sale of property, plant, and equipment	16	45
Net cash used in investing activities	(148,680)	(76,306)
Cash flows from financing activities:		
Proceeds from credit facilities	1,045	4,075
Repayments on credit facilities	(1,045)	(4,231)
Proceeds from issuance of common stock under employee stock plans	19,017	11,050
Tax payments related to restricted stock unit issuances	(2,881)	(2,019)
Excess tax benefit from employee stock plans	3,951	925
Proceeds from note payable to related party	16,072	—
Capital contribution from non-controlling interest	—	8,000
Cash dividends paid	(19,556)	(15,081)
Net cash provided by financing activities	16,603	2,719
Net effect of exchange rate changes on cash	(1,201)	(12,469)
Net increase (decrease) in cash and cash equivalents	(70,324)	49,647
Cash and cash equivalents, beginning of period	437,489	290,781
Cash and cash equivalents, end of period	\$ 367,165	\$ 340,428
Supplemental disclosures of cash flow information:		
Cash paid during the period for income taxes	\$ 21,842	\$ 3,058
Supplemental disclosures of non-cash investing activities:		
Capital expenditures incurred but not yet paid	\$ 8,145	\$ 3,885
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, 2014 and 2013, the results of operations for the three and six months ended June 30, 2014 and 2013 and cash flows for the six months ended June 30, 2014 and 2013. The December 31, 2013 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, 2013. 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, 2014 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, 2013.

Principles of consolidation:

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

Estimates and assumptions:

The preparation of financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the condensed consolidated financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results may differ from these estimates and assumptions. Some of these more significant estimates relate to revenue recognition, including sales returns and miscellaneous claims from customers, allowance for doubtful accounts, excess, slow-moving and closeout inventories, product warranty, long-lived and intangible assets, 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, 2013.

Recent Accounting Pronouncements:

In March 2013, the Financial Accounting Standards Board ("FASB") issued Accounting Standards Update ("ASU") No. 2013-05, Foreign Currency Matters (Topic 830): Parent's Accounting for the Cumulative Translation Adjustment upon Derecognition of Certain Subsidiaries or Groups of Assets within a Foreign Entity or of an Investment in a Foreign Entity. This ASU provides clarification regarding the release of any cumulative translation adjustment when the parent ceases to have a controlling financial interest in a business or group of assets held within a foreign entity. The amendment is effective on a prospective basis for interim and annual periods beginning after December 15, 2013. The Company adopted the new guidance as of January 1, 2014. The adoption of this standard did not have a material effect on the Company's financial position, results of operations or cash flows.

In May 2014, the FASB issued ASU No. 2014-09, Revenue from Contracts with Customers: Topic 606. This ASU outlines a single comprehensive model for entities to use in accounting for revenue arising from contracts with customers and supersedes most current revenue recognition guidance. This accounting standard is effective for annual

reporting periods beginning after December 15, 2016, including interim reporting periods within that reporting period. Early adoption is not permitted. The Company

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

is currently evaluating the impact this accounting standard will have on the Company's financial position, results of operations or cash flows.

NOTE 3—BUSINESS ACQUISITION

On May 30, 2014, the Company purchased 100% of the equity interest in prAna Living LLC (“prAna”) for \$188,467,000 net of acquired cash of \$4,946,000. PrAna is a lifestyle apparel brand sold through approximately 1,400 select specialty and online retailers across North America, as well as through five company-owned retail stores, an e-commerce site and direct-mail catalogs. The acquisition of prAna strengthens and diversifies the Company's brand portfolio and generally offsets some of the more seasonal sales effects found within existing Columbia brands. The acquisition was funded with cash on hand.

PrAna contributed net sales of \$5,547,000 and net loss, including amortization of acquired assets, of \$1,065,000 to the Company from May 31, 2014 to June 30, 2014. In addition, the Company incurred transaction costs of \$3,374,000 during the three and six months ended June 30, 2014. These acquisition and integration costs are included in Selling, general and administrative expenses in the Condensed Consolidated Statements of Operations for the three and six months ended June 30, 2014.

Purchase price allocation

Acquired assets and liabilities were recorded at estimated fair value as of the acquisition date. The excess of the purchase price over the estimated fair value of identifiable net assets resulted in the recognition of goodwill of \$54,819,000, all of which was assigned to the United States segment, and is attributable to future growth opportunities and any intangible assets that did not qualify for separate recognition. The goodwill is expected to be deductible for tax purposes.

The following table summarizes the preliminary estimated fair value of the net assets acquired and liabilities assumed as of May 30, 2014, the acquisition date (in thousands):

	May 30, 2014
Cash	\$4,946
Accounts receivable	10,021
Inventories	9,641
Other current assets	2,229
Property, plant and equipment	5,192
Acquired intangible assets	114,500
Other non-current assets	258
Total assets acquired	146,787
Accounts payable	2,803
Other current liabilities	5,390
Total liabilities assumed	8,193
Net identifiable assets acquired	138,594
Goodwill	54,819
Net assets acquired	\$193,413

The allocation of the purchase price is preliminary and is based upon valuation information available and estimates and assumptions made at June 30, 2014. The Company is still in the process of verifying data and finalizing information related to the valuation and recording of accounts receivable, inventories, property, plant and equipment, identified intangible assets, accrued liabilities and the resulting effects on the amount of recognized goodwill.

The following table sets forth the components of identifiable intangible assets and their estimated useful lives as of May 30, 2014, the acquisition date (in thousands, except for estimated useful lives, in years):

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

	Estimated fair value	Estimated useful life, in years
Trade name	\$88,000	Indefinite
Customer relationships	23,000	3-10 years
Order backlog	3,500	Less than 1 year
Total	\$114,500	

Summary of Unaudited Pro forma Information

The following table reflects the unaudited pro forma consolidated results of operations for the periods presented, as though the acquisition of prAna had occurred on January 1, 2013 (in thousands):

	(Unaudited)			
	Three months ended June 30, 2014	2013	Six months ended June 30, 2014	2013
Net sales	\$337,328	\$296,518	\$791,763	\$671,424
Net income (loss) attributable to Columbia Sportswear Company	(3,675)	(8,405)	21,691	2,590
Earnings (loss) per share attributable to Columbia Sportswear Company:				
Basic	\$(0.11)	\$(0.24)	\$0.62	\$0.08
Diluted	(0.11)	(0.24)	0.61	0.07

The unaudited pro forma financial information is presented for illustrative purposes only and is not indicative of the results of operations that would have been realized if the acquisition had been completed on the date indicated, nor is it indicative of future operating results. The unaudited pro forma consolidated net income (loss) includes differences in the amount and timing of amortization of acquired intangible assets and the fair value adjustment for acquired inventory. As a result, under the assumed pro forma acquisition date of January 1, 2013, net income for the six months ended June 30, 2014 and 2013 includes pre-tax purchase accounting amortization of \$1,908,000 and \$7,008,000, respectively. The pro forma net income (loss) attributable to the Company excludes nonrecurring transaction costs of \$3,374,000. The pro forma results also do not include, among other items, the effects of anticipated synergies from combining the two companies or differences in the combined Company's operating cost structure.

NOTE 4—NON-CONTROLLING INTEREST

The Company owns a 60% controlling interest in a joint venture formed with Swire Resources, Limited ("Swire") to support the development and operation of the Company's business in China. The joint venture was in a formation and start-up phase during 2013 and began operations on January 1, 2014. The accounts of the joint venture are included in the Condensed Consolidated Balance Sheets as of June 30, 2014 and 2013, and December 31, 2013. Swire's share of net income (loss) from the joint venture is included in Net income (loss) attributable to non-controlling interest in the Condensed Consolidated Statements of Operations for the three and six months ended June 30, 2014 and 2013. The non-controlling equity interest in this entity is included in total equity as Non-controlling interest on the Condensed Consolidated Balance Sheets as of June 30, 2014 and 2013, and December 31, 2013.

The following table presents the changes in Columbia Sportswear Company shareholders' equity and non-controlling interest for the six months ended June 30, 2014 (in thousands):

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

	Columbia Sportswear Company	Non-Controlling Interest	Total
Balance at December 31, 2013	\$ 1,245,418	\$ 7,446	\$ 1,252,864
Net income	15,926	1,012	16,938
Other comprehensive income (loss), net of tax:			
Unrealized holding gains on available-for-sale securities	4	—	4
Derivative holding losses	(809	) —	(809
Foreign currency translation adjustments	3,520	(464	) 3,056
Cash dividends (\$0.56 per share)	(19,556	) —	(19,556
Issuance of common stock under employee stock plans, net	16,136	—	16,136
Tax adjustment from stock plans	4,124	—	4,124
Stock-based compensation expense	5,208	—	5,208
Balance at June 30, 2014	\$ 1,269,971	\$ 7,994	\$ 1,277,965

The following table presents the changes in Columbia Sportswear Company shareholders' equity and non-controlling interest for the six months ended June 30, 2013 (in thousands):

	Columbia Sportswear Company	Non-Controlling Interest	Total
Balance at December 31, 2012	\$ 1,166,167	\$ —	\$ 1,166,167
Net income (loss)	3,025	(253	) 2,772
Other comprehensive income (loss), net of tax:			
Unrealized holding gains on available-for-sale securities			