SEC Announces Settlement with Cabela’s and its CFO for Misleading Statements in Commission Filings and Earnings Releases

April 26, 2016 – The Securities and Exchange Commission today announced that outdoor recreation retailer Cabela’s Incorporated and its chief financial officer agreed to settle charges that investors were misled by a key financial metric highlighted in Cabela’s Commission filings and earnings releases to explain the company’s profitability.

Specifically, the Commission found that Cabela’s calculation of the metric it called merchandise gross margin percentage erroneously included promotional fees received each quarter from its wholly-owned bank subsidiary that issues the Cabela’s CLUB Visa Card. Generally accepted accounting principles (GAAP) requires companies to eliminate such intercompany payments in preparing their consolidated financial statements. Cabela’s failure to eliminate the promotional fees in consolidation resulted in an understatement of the company’s merchandise costs and an inflated merchandise gross margin percentage touted to investors in periodic filings and quarterly earnings releases in 2012. Cabela’s periodic filings incorrectly stated, “All intercompany accounts and transactions have been eliminated in consolidation.” Cabela’s did not disclose the material impact of the promotions fee on the metric in its description of the reasons for the year-over-year increase in merchandise gross margin percentage. Because of the error in consolidation and the lack of disclosure, investors were not aware that an intercompany payment was responsible for a material part of the improvement in the key financial metric.

Cabela’s agreed to pay a $1 million penalty. CFO Ralph W. Castner agreed to pay a $50,000 penalty to settle charges that he caused the failure to disclose the material positive impact of the intercompany payment.

According to the SEC’s order instituting a settled administrative proceeding, Cabela’s also failed to account properly for several other items as required under GAAP in its financial statements for the third quarter of 2012, increasing its quarterly net income by nearly 5 percent.

The SEC’s order finds that Cabela’s violated the reporting, books and records, and internal accounting controls provisions of the Securities Exchange Act of 1934, and Castner caused Cabela’s violations related to the intercompany payment. Cabela’s and Castner neither admit nor deny the findings.

The SEC’s investigation was conducted by Patricia E. Foley, Daniel M. Konosky, and Mary S. Brady. The case was supervised by Thomas J. Krysa and litigation assistance was provided by Gregory Kasper.

See also: SEC Order