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PRESENTATION

Operator

My name is Joe and I will be your conference operator today. At this time I would like to welcome everyone to the Columbia Sportswear’s second quarter ’07 financial results conference call. All lines have been placed on mute to prevent any background noise. After the speakers’ remarks there will be a question and answer session. (OPERATOR INSTRUCTIONS)

It is now my pleasure to turn the conference over to Mr. David Kiser. Sir, please go ahead.

David Kiser - Columbia Sportswear - IR

Thanks, Gerald. Good afternoon and welcome to Columbia Sportswear second quarter 2007 financial results conference call. With me are Gert Boyle, Columbia’s Chairman, Tim Boyle, Columbia’s President and CEO, Bryan Timm, Columbia’s CFO, Pat Anderson, Columbia’s COO, and Peter Bragdon, Columbia’s General Counsel.

On the call today we will review the results of the second quarter and provide some guidance on future periods and field any questions you might have. You can access a copy of the earnings release on our Company web site. You should note that we
have add a new section to our press release that includes supplementary sales information by geography, category and brand. We previously provided this information on our conference call prepared remarks. We encourage you to ask as many questions during the call as you feel are necessary to understand the Company's business. As a courtesy to all participants we request that you limit your initial follow up to one or two additional questions to allow all parties the opportunity to ask questions. We invite you to reenter the queue if you have additional follow up questions.

Before we begin Gert has a comment to make.

Gert Boyle - Columbia Sportswear - Chairman

Good afternoon. I'd like to remind everyone that this conference call will contain forward-looking statements regarding Columbia's business opportunities and anticipated results of operation. Please bear in mind that forward-looking information is subject to many risks and uncertainties and actual results may differ materially from what is projected. Many of these risks and uncertainties are described in Columbia's quarterly report on Form 10(Q) for the quarter ending March 31, 2007. Forward-looking statements in this conference call are based on our current expectations and beliefs and we do not under take any duty to update any of the forward-looking statements after the date of this conference call to conform to the forward-looking statements or actual results or to change in our expectations.

David Kiser - Columbia Sportswear - IR

Thank you, Gert. At this point I will hand the call over to Tim who will provide an overview of significant developments and review of our business environment by geographical segments for the second quarter of 2007. Tim?

Gert Boyle - Columbia Sportswear - Chairman

Thanks, David. Welcome everyone and thank you for joining us this afternoon. Let's begin with a quick review of key financial results for the second quarter. We are very pleased to report that Columbia achieved record second quarter results on continued improvements in gross and operating margins. As we have discussed in the past quarters our management team is very focused on improving operating results and leveraging the significant investments we have made in our infrastructure over the past several years.

The second quarter 2007 diluted earnings per share were $0.27, a second quarter record, on 36.5 million weighted-average shares, compared to $0.13 on 37 million weighted-average shares for the second quarter of last year. Q2 2007 net sales were increased 3% to 218.6 million, also a second quarter record, driven by continued growth in the sportswear category and in major markets outside of North America. Offset by weakness in the U.S. and Canada sales and a shift in timing of international distributor shipments to the third quarter of this year. Gross margins expanded 290 basis points in the second quarter, and operating margins expanded in excess of 300 basis points, despite significant planned increases in depreciation and amortization due to installations of new distribution center projects. We are pleased with the strong operating margin leverage generated during this seasonally small revenue quarter.

Let's turn our attention to some recent updates. During the second quarter we initiated our spring 2008 product selling season. We are currently taking orders from our customers for delivery of these products in late 2007 through the middle of next year. It's still very early in the spring 2008 selling season, we currently have very limited visibility on future orders, and as is customary we will report backlog at our next quarters conference call. For spring 2008 we are introducing two important global products and marketing initiatives in apparel and footwear that reinforce the consumers emotional connect to the outdoor authenticity of the Columbia brand.
Our apparel initiative is Omni-Shade and our footwear initiative is Tech-Lite. Omni-Shade apparel products build on the Columbia core value of protecting consumers from the elements in all conditions and seasons. We have designed our trademark Omni-Shade line to provide consumers with products that protect them from the harmful effects of the sun. Omni-Shade makes protection a year-round concept for the Columbia brand. All of our Omni-Shade garments carry UPF or ultraviolet protection factor ratings. The UPF rating indicates how much ultraviolet radiation the fabric blocks. For example, a fabric with a UPF rating of 50 allows 150th of the hazardous ultraviolet radiation falling on the surface of the fabric to pass through it. Or expressed another way, the fabric blocks 98% of the sun's harmful UV rays. Over exposure to ultraviolet radiation has been linked to serious skin conditions including skin cancer.

Columbia has offered sun protection products in our line for several years and had previously introduced Omni-Shade in our performance fishing gear product line. In spring 2008 we substantially increased the number of Omni-Shade products and will offer more than 200 Omni-Shade UPF rated garments in all apparel product categories and in men's, women's and youth styles. The American Society of Testing and Measurement has independently verified that Omni-Shade apparel products provide UPF rated protection from UPF 15 to UPF 50.

We submitted our testing results to the Skin Cancer Foundation and we are the first major global apparel manufacturer to receive the Skin Cancer Foundations International Seal of Recommendation on our garments with UPF ratings over 30. In the spring 2008 we will initiate a coordinated and targeted marketing advertising and public relations campaign globally that will educate consumers about Omni-Shade and the benefits of sun protection. We will have the advantage of including the Skin Cancer Foundation's Seal of Recommendation in our marketing and promotional campaigns on a global basis. We believe this initiative will solidify our position as a leader in sun protection apparel and will emotionally connect consumers to the outdoor authenticity of the Columbia brand.

In spring 2008, we are also introducing Tech-Lite, a footwear product and marketing initiative. Our Tech-Lite footwear products integrate lightweight comfort with long-term durability. In Columbia Tech-Lite products we use injection molded EVA foot beds that are very light, soft and contoured and provide the wearer with essential support in cushion and comfort. In Tech-Lite we combine the comfort benefits of injected molded [midsole] with the non-marking Omni grip out sole that adds durability and traction. Additionally the production process of the injected molded EVA midsole is more environmentally friendly than traditional compression molded EVA midsoles, generating less waste than traditional methods.

For spring 2008 we will initially introduce Tech-Lite in water styles for men, women and youth and trail styles for men and women. We will launch a coordinated marketing campaign communications -- excuse me, campaign, communicating the benefits of our Tech-Lite products in the spring 2008. Our campaigns will highlight the lightweight performance and all day comfort that our Tech-Lite products provide. Again it's very early in the spring 2008 order taking season and we do not as yet have good visibility on future spring orders. We are encouraged by the reception to our initiatives which we believe will continue to reinforce the outdoor authenticity of the Columbia brand. However we have to be mindful that retail sell through rates have been poor in the U.S. and we've experienced higher than average levels of spring 2007 order cancellations.

Our management team is very focused in partnering with our retail customers to improve their sales, terms and margin, enhancing channel productivity remains a key initiative. Concept shops and other point of purchase fixtures enhance the appearance of our products and strengthen the awareness of our brands at retail. We have a significant commitment to our concept shop and in store retail marketing program with approximately 25% of our U.S. marketing budget allocated to support our brands at the point-of-sale.

We also enhanced channel productivity by ensuring that our retail customers remain in stock with our products. Beginning in spring 2008 we will increase the number of less seasonal year-round styles that will be on auto-replenishment. Auto-replenishment inventory improves our retail customers financial performance and solidifies Columbia year-round position on the retailers floor. Inventory in this program is ordered and filled more rapidly when consumers make purchases at a retail location. Retail improves -- retailers improve their sales and turns by having fewer out of stocks and retail margins improve as auto-replenishment inventory experiences fewer retail markdowns. We recognize that increasing inventory for auto-replenishment may have an
impact on our inventory levels, but these products have longer shelf lives than our traditional seasonal merchandise and are subject to fewer markdowns.

We believe our Omni-Shade and Tech-Lite initiatives and other initiatives which we will establish will continue to reinforce the outdoor authenticity of our brands and drive retail sell-through of our products. Our initiatives to enhance retail productivity through effective retail merchandising programs including concept shops and enhanced auto-replenishment will help drive our retail partner sales, turns and margins. And will solidify our year-round position on the retail floor.

Now I would like to review our business environment by geographical segment including commentary on second quarter sales results and retail sell-through. Let’s begin with the USA. Second quarter net sales of 117.1 million, a 2% decrease. Sales of Columbia brand sportswear increased double digits in the second quarter with solid growth in shipments of spring knit and woven tops and shorts. Columbia brands sportswear growth was offset by expected softness in Columbia footwear and to a lesser extent Columbia outerwear. The decrease in outerwear sales was due to lower close out sales of outerwear products in the second quarter when compared to last year. Sales changes for other brands in the U.S. were not significant in the quarter.

U.S. retail sell through has lagged behind prior results, primarily due to unseasonably cool and wet weather patterns during April and May and poor consumer retail traffic. Spring season sell through rates started slow due to late winter weather conditions and while sell through rates improved during the quarter, overall sell through lagged prior, behind prior year comparisons. To date we have experienced a higher level of U.S. spring order cancellations across all channels and most major regions in the U.S. primarily due to poor retail sell through. As a result we have a higher level of unplanned inventory on hand, which we now expect to liquidate during the second half of this year.

Europe. Second quarter sales of 31.6 million, an increase of 9% or 1% excluding changes in currency exchange rates. Sales of Columbia brand sportswear and footwear were the primary drivers of growth during the second quarter. Second quarter sales changes for other brands were not significant. Sell through rates of spring products in Europe have generally been encouraging. Warm weather conditions in key western European markets helped drive retail sell through of our merchandise. As discussed last quarter fall orders in Europe were very disappointing. Decreasing substantially year over year primarily due to extended periods of unseasonably warm weather conditions throughout western Europe during the fall and winter seasons. We continue to expect softness in Europe sales through the back half of this year.

We are reorganizing our product creation process to improve the collaboration of our U.S. and European merchandising teams. U.S. merchandising managers dedicated specifically to the European markets will work closely with regionally focused European product managers. This collaborative process incorporates regional feedback from key European customers and internal sources, improving our global product lines and creating more regionally relevant products. These changes will begin with our fall 2008 product line. I continue to believe that Europe is a very important growth opportunity among the international markets. We have made very significant capital and personnel investments in Europe and are commit to do growing the market presence of our brands in the region.

In Canada, sales of 11.9 million, a decrease of 5% for the second quarter, 6% decrease excluding changes in currency exchange rates. Second quarter sales changes for other brands were not significant. Sell through rates of spring products in Canada have generally been healthy. Early spring season sell through was slow due to late winter weather but sell through generally improved in May and June as weather changed more seasonally temperate.

The spring 2008 product line is showing very well and our Omni-Shade and Tech-Lite initiatives have been well-received by our customers. For spring 2008 we have taken over distribution of Mountain Hardwear and Montrail products in Canada from the former independent distributors. Early retail feedback has been positive on the S ’08 lines. As elsewhere, it’s still very early in the order taking season in Canada. We continue to maintain strong relationships with the few retailers in the region.
Other international, which consists of the collective geographic regions of Japan and Korea where we sell direct, and other international markets worldwide where we sell through distributor relationships, reported second quarter sales of 58 million, an increase of 14%. International distributors, a component of other international, recorded sales of 35.6 million, 13% increase. The vast majority of all sales to international distributor are denominated in U.S. dollars. Second quarter sales in international distributor markets drove overall consolidated sales growth. The second quarter distributor sales were less than forecast due at a shift in timing of shipments to the third quarter of this year. All major product categories increased in distributor markets with strong growth in outerwear and footwear.

The majority of our fall factory direct international distributor shipments occurred in June and July of each year. Actual shipping dates can be difficult to forecast due to various factors including a significance of shipping volume, consolidation of cargo scheduled by third party agents, factory lead times, and shipping vessel capacity. Such timing issues in this fast growing segment can have a pronounced impact on quarterly results, particularly in our lower volume quarters. Sales growth continues to be healthy in our key Russian and Hong Kong China markets during the second quarter and in other distributor markets worldwide. We have very capable distributors who effectively manage the logistics, marketing and sales of our products in their respective regions. While international distributor sales brings lower gross margins for Columbia Sportswear the sales generated are very accretive to our earnings as we had minimal overhead association -- associated with the generation of these sales.

Japan, a component of other international reported second quarter sales of 10.4 million, an increase of 5% or approximately 10% excluding changes in currency exchange rates. All the advance sportswear and footwear shipments drove both in the market during the second quarter, sell through rates for spring merchandise improved due to seasonably tempered weather in the second quarter and a healthy retail environment. We are optimistic about the prospects for growth in Japan as the economic conditions in that market continue to improve.

At this point I'd like to hand the call over to Bryan Timm, our CFO, who will review second quarter financial results and will discuss the financial guidance we reported today. Bryan?

**Bryan Timm - Columbia Sportswear - CFO**

Thanks, Tim, and good afternoon, everyone. Let me begin with a brief review of the second quarter income statement comparing current quarter line items with prior periods to facilitate an accurate comparison. It's important to note that the second quarter is our most volatile quarter as we wind down spring shipping and start our fall businesses and changes in operating results may be amplified as it is our lowest volume quarter.

As Jim mentioned, net sales increased 3% to 218.6 million. Growth in consolidated net sales was driven by the sportswear product category and by regional growth in other international and European markets. This growth was partially offset by a decrease in sales of our outerwear product category in the U.S. due to lower closeout sales of outerwear products. Second quarter net sales were also negatively impacted by a shift in timing of some international distributor shipments to the third quarter as previously discussed. Excluding changes in currency exchange rates consolidated net sales increased 2% in the second quarter.

Our consolidated gross margin for the second quarter of 2007 expanded by 290 basis points to 41.4% compared to 38.5% for the second quarter of 2006. Gross margin increased due to a number of factors, including improvements in our sportswear margins, a higher mix of full price sales, favorable foreign currency exchange rates partially offset by a higher mix of international distributor sales which carry lower gross margins. For the second quarter the Company's SG&A expenses increased by 3% to 2.1 million in an absolute basis to 79.2 million for the second quarter of 2007, versus 77.1 million for the comparable period in 2006. As a percentage of sales, SG&A decreased to 36.2% compared to 36.4% in the prior year quarter.

Selling expenses increased in absolute dollars but decreased as a percentage of sales, with increases in promotional spending and sample costs partially offset by a decrease in sales commissions. Operating expenses also increased in absolute dollars but
decreased as a percentage of sales. The increase in operating expenses was primarily due to the additional depreciation and amortization related to the implementation of our Portland and European distribution projects offset by a decrease in personnel related costs, bad debt expenses and other cost containment reductions.

Personnel related costs decreased primarily as a result of higher one time personnel related charges incurred in the second quarter of 2006 and lower stock based compensation in the second quarter of 2007. The reduction in bad debt expenses is primarily the result of the composition of our accounts receivable and favorable write off experience.

Depreciation and amortization totaled 7.8 million for the second quarter of 2007, compared to 5.6 million in the same period the prior year. Net licensing income was flat at 1.1 million, and net interest income was 40% to 2.8 million. Our effective tax rate was 34% as compared to the second quarter of 2006 effective tax rate of 34.5%. We reported net income of 10 million, or $0.27 per share for the second quarter of 2007, versus net income of 4.8 million or $0.13 per share for the second quarter of 2006. Based on a diluted share count of 36.5 million from 37 million respectively.

I’ll quickly touch on key item in the balance sheet, and again I’ll be comparing June 30, 2007 balances, to June 30, 2006 balances. The balance sheet remains very strong with cash and short term investments totaling 264.5 million versus 173.8 million at the same time last year. Consolidated accounts receivable at June 30, 2007, was 184.2 million compared to 163.6 million last year, a 13% increase, which was primarily the result of a timing of cash receipts from a large international customer, later sequencing a customer shipments in the quarter and changes in foreign currency exchange rates.

Consolidated inventories were 309.7 million compared to 272.2 million a year ago, a 14% increase. As Tim noted, we are carrying a higher than planned inventory level as a result of spring order cancellations. In addition we had a higher volume of fall inventory receipts in core and replenishment products at June 30th, 2007, as compared to the prior year period. As a result we now expect a higher volume of close out sales of spring products at lower gross margins, the majority of which are planned in the third quarter. The margin effects of the liquidation of this inventory is included in our financial guidance.

Secondarily are we anticipate earlier spring, 2008, inventory receipts as we prepare for both transition product sales and ensure timely available of our global product and marketing initiatives. In addition we expect to carry a higher than optimal level of year-round core and replenishment inventory at least through the end of 2007.

Capital expenditures were 7.2 million during the second quarter, the majority of which will increase our distribution capacity. As mentioned previously the capital improvements made to our Portland distribution center came on line the beginning of the second quarter. We expect depreciation and amortization expense for the year to approximate 32 million including 8 million for the incremental depreciation associated with the Portland and European distribution center projects. We continue to anticipate approximately 35 million in total capital expenditures for 2007 during of which about 15 in maintenance CapEx and 20 million for CapEx for capacity and growth initiatives.

Today we announced that the Company’s Board of Directors has approved a dividend of $0.14 per share. During the second quarter we repurchased approximately 271,000 shares at an aggregate purchase price of 17.3 million. To date, we’ve repurchased a total of approximately 6.3 million shares at an aggregate purchase price of 301.6 million of the 400 million authorized at the inception of the program.

Now let’s turn our attention to financial guidance. Given our results and our earlier reported fall backlog we are in a position to give guidance for the third quarter and update for the full year 2007. Please keep in mind that this information is forward-looking in nature and is therefore subject to certain risk factors. Based on our current outlook we anticipate Q3 2007 consolidated revenue growth of approximately 2 to 3% when compared to the third quarter of 2006. And estimate EPS to approximate $1.58 per diluted share. This model anticipates approximately 150 basis points of operating margin contraction, consisting of approximately 70 basis points of gross margin contraction, primarily due to the higher levels of close out sales of spring products now planned, and approximately 80 basis points of SG&A expansion primarily from the depreciation of the distribution projects.
Turning our attention to full year 2007, we now expect consolidated revenue growth of approximately 5.5% for the full year 2007 when compared to 2006, and we estimate EPS to be approximately $3.69 per share. This model anticipates approximately 50 basis points of operating margin expansion consisting of approximately 80 basis points of gross margin expansion offset in part by 30 basis points of SG&A expansion.

We are very pleased with our expected ability to leverage our operating model this year, despite a disappointing fall order book, largely attributable to the unseasonably warm winter weather we experienced in 2006, and its effect on our fall business, as well as our reported increase in spring cancellations this year. Our ability to leverage is a result of a more targeted apparel line plan, modest increases in our average selling prices, favorable hedge currency rates and diligent cost management.

Again please understand that the information is forward-looking in nature and is therefore subject to the risk factors as previously mentioned. I will now hand the call back to Tim.

Gert Boyle - Columbia Sportswear - Chairman

Thanks, Bryan. While I’m personally disappointed with our projected revenue growth this year I’m pleased with our management teams ability to leverage operating margins through enhanced gross margins and diligent expense management this year. Our management team remains very focused on improving the Company’s operating margins and returns on invested capital in 2007 and beyond. We intend to do this through continuing improvements in our product design and merchandising, effective marketing efforts, including our global Omni-Shade and Tech-Lite initiatives, and by taking a more measured approach to the fix cost additions to our SG&A infrastructure.

Going forward our business strategy remains steady and we are committed to growing the business through our key growth strategies that we so frequently articulate. First, we will continue to enhance the channel productivity of our existing customers through effective operation of retail merchandising programs, including concept shops and auto-replenishment inventory systems. Second, we will continue to leverage our brands internationally. Third, we will continue to develop the sportswear and footwear merchandising categories and strengthen our core outerwear business. Fourth, we will continue to selectively add distribution as we continue to grow our department store and specialty footwear businesses. Finally, we will continue to seek out favorable licensing opportunities as we leverage the strengths of our brands.

That concludes our report. Thank you for listening. We will be happy to field any questions. Operator, can you help us?

QUESTIONS AND ANSWERS

Operator

Certainly, sir. (OPERATOR INSTRUCTIONS) Your first question comes from Bob Drbul with Lehman Brothers.

Bob Drbul - Lehman Brothers - Analyst

Good evening. Just a couple questions. First, on the inventory, on the cancellations, can you put some numbers around -- first of all can you talk about what channel most of the cancellations came from? And then the plans of distribution of the cancelled inventory? And I guess, can you give us any numbers around how big the inventory, the close out inventory portion is of the inventory increase that’s out there right now?
Sure. Well, the inventory cancellation, the order cancellations were higher than average but not extraordinary by any amount. So our, the liquidation of the inventory is all plan for Q3, basically sales, and is going to go into our regular channels of sales which would include mostly the off-price channel is where we liquidate the bulk of our off price merchandise in addition to our own outlet stores.

Bob Drbul - Lehman Brothers - Analyst

Any numbers?

Gert Boyle - Columbia Sportswear - Chairman

Oh, I'm sorry. Just, higher than average but really not anything extraordinary.

Bob Drbul - Lehman Brothers - Analyst

Okay. And, Tim, looking forward on the Omni-Shade initiative specifically, can you just talk about the expectations on maybe pricing, price points for that type of merchandise and how it should impact the margins in terms of the product offering?

Gert Boyle - Columbia Sportswear - Chairman

Certainly. So our pricing structure is going to be basically about the same, there might be some slight increases, but basically we are taking a position of marketing the already significant protection levels that our apparel gives a wearer today. So many of our products that we’ve been selling, at these kind of price points, have some kind sun protection built into them but we just haven’t been marketing it in a collective and focused way. Our price points, I would expect to be very close to where they are today, in fact our sales price today have very little margin -- excuse me, sales increase, sales price increase, it’s just focusing the already existing attributes of the products in a more, in a way that we believe will be, will mean more to the consumer.

Bob Drbul - Lehman Brothers - Analyst

Great. Thank you very much.

Gert Boyle - Columbia Sportswear - Chairman

Thanks, Bob.

Operator

Your next question comes from Jeff Edelman with UBS.

Jeff Edelman - UBS - Analyst

Thank you. Tim, my first question is, you talked about more automatic replenishment, that never used to be a big part of your business model in the past. Can you give us a sense, roughly, how much of that represented of your volume last year and maybe what we can look for this year or next year?
Gert Boyle - Columbia Sportswear - Chairman

Certainly. This is not a change in the Company's business model. We are requiring our customers to give us orders in advance for the merchandise regardless of whether or not it's going to be on auto-replenishment or not. The ability of auto-replenishment will allow us, instead of manually calculating inventories that have sold in the prior year period and then replenishing that through with manual efforts, we are going to automate this to enhance our customer sell through rates and more in-stocks. So we've been managing this kind of a business in a very manual way with a couple of customers on a test basis and it's been very effective. I think in the past our business may have been as much as 10% of our total business might have been auto-replenishment. And I would expect it to be slightly more than that in the future. But as the Company grows and becomes more adept at this we will add to it. But it's certainly, for the most part, not going to be a significant part of our total business.

Jeff Edelman - UBS - Analyst

Okay. And then secondly on outerwear, are you looking for higher outerwear sales in the back half of the year? And I sort of heard from some of the large retailers that you've, they seem to have been more responsive to the titanium line rather than some of the starting price point lines, are we seeing a shift in mix that are maybe helping you get some of the gains?

Gert Boyle - Columbia Sportswear - Chairman

The titanium has been growing quite rapidly and I'm just going to ask either Bryan or David to remind me about the backlog growth for outerwear from what we talked about.

Bryan Timm - Columbia Sportswear - CFO

The backlog, yes, this is Bryan, the backlog for the, if we are talking the U.S. for outerwear, I think it was up in the, I don't know, close to the double-digit range if memory serves me. I think in terms of looking out to the back half maybe a little bit of that has disappeared. I think it's probably somewhere in the single digits at this point is what we expect.

Jeff Edelman - UBS - Analyst

Okay. And then is mix contributing much of that increase?

Gert Boyle - Columbia Sportswear - Chairman

You mean mix of higher priced products?

Jeff Edelman - UBS - Analyst

Yes.

Gert Boyle - Columbia Sportswear - Chairman

I would say some. We have had very good success with the titanium line, and it was our fastest growing product line for fall.
Jeff Edelman - UBS - Analyst
Right. Okay, thank you.

Gert Boyle - Columbia Sportswear - Chairman
Thanks, Jeff.

Operator
Your next question comes from Robbie Ohmes with Banc of America Securities.

Robbie Ohmes - Banc of America Securities - Analyst
Thanks, hi, guys, two quick questions. Tim, I think you mentioned the environment in Europe holding up better than it is over here, can you just give us a little more insight, I know it’s early, but your expectation on spring backlog for Europe, I know you are not going to give us a number, but, spring backlog for Europe relative to the really disappointing fall backlog you gave us last quarter? If you can comment on that would be great. The second question is on Pac Trail, had a little more time to keep working on that, if there’s anything new or interesting going on there as we move into next year? Thanks.

Gert Boyle - Columbia Sportswear - Chairman
Certainly. Well, as it relates to Europe, the weather condition have been quite conducive for spring, and we believe that the Omni-Shade product launch over there and Tech-Lite are both going to resonate and they both have been well-received in the initial showings. We just concluded the [preview] show and outdoor show there and the traffic was good at our booths there for all the brands. So the expectation is that we will be back in Europe in a growing position rapidly. But again it’s very early and it’s very difficulty with today’s visibility to give you any, any other than anecdotal information on Europe, but the expectations are quite high.

As it relates to Pac Trail, we just concluded pricing and design of the fall 2008 line. There’s a miniscule spring ‘08 line, which I frankly don’t even know where that’s turned out, but it’s very insignificant. But the expectation is that with the team changing in Pac Trail and with the renewed emphasis on positioning the brand, really right at the value channel that we are going to be back to a growth situation there, and certainly have some significant sales for fall 2008.

Robbie Ohmes - Banc of America Securities - Analyst
Terrific. Thanks, a lot.

Gert Boyle - Columbia Sportswear - Chairman
Thanks, Robbie.

Operator
Your next question comes from Brian McGough with Morgan Stanley.
Brian McGough - Morgan Stanley - Analyst

Thanks a lot. I guess I have a couple of questions. The first is as relates to your footwear business, and it just still seems like it's probably the biggest opportunity at your company, but for some reason it just always stands out as being an opportunity that just never really achieved. So I guess it is just speaks to either being a problem with the, I guess, the individuals you have there at the Company who are running it, or with the amount of money you are putting into that initiative. In light of all the people you brought in recently, were those a whole lot of talent, I can't imagine that's it. So, Tim, I guess, I'm just wondering how much more time you'll be comfortable, I guess, just waiting for that business to recover before you would infuse a lot more capital to it in order to grow what could be a really big opportunity for your company?

Gert Boyle - Columbia Sportswear - Chairman

Well, Brian, we agree. I've said many times that footwear is the largest opportunity for us in a product category in the Company. Our newest leader in footwear has been here 60 days, so we are going to give him a little bit longer. But the expectation is, frankly, his vision and unification of the team that he's got, which frankly, has been virtually completely changed in the last 12 months, is going to really start to develop and throw off some terrific opportunities. Really, this is the first conference call we've had where we talked about footwear initiatives, and we've been asked for years by investors the same questions you're asking us, and we've always had to step around the particular issue, and I think today is really the first time that we've been able to talk about the initiatives in footwear and how well they are being received. Again, it's early in our selling season but the expectations here are, have a very exciting discussion when we can announce backlog.

Kate McShane - Citigroup - Analyst

Thank you. Can you go through what the biggest component of your gross margin improvement was during the quarter? And if you exclude the foreign exchange contribution how much would gross margins have expanded?

Bryan Timm - Columbia Sportswear - CFO

Sure, Kate, this is Bryan. In terms of kind of walking through, from a kind of sorting, in terms of magnitude, product margins, specifically sportswear, just the raw margins, was definitely the largest element of our gross margin expansion in the quarter. Kind of secondarily, it would both be just from a foreign exchange, our hedge rates on a spring '07 versus spring '06. That, as well as the close out mix being much better in Q2 of '07 than in '06, both shared maybe 50 basis points a piece. And then of course we had some comparative issues in terms of in the prior year, we had both promotional campaigns in Europe as well as the acquisition of the Montrail brand in the market -- inventory to market, a couple of those things that hit us in the prior year, benefited us in this quarter. So that's kind of a little bit of the 290 basis point worth of expansion.

Kate McShane - Citigroup - Analyst

Thank you.

Operator

Your next question comes from Sara Hasan with McAdams Wright and Ragen.
Sara Hasan - McAdams Wright Ragen - Analyst

Hello everyone. Could you quantify the impact of the shift in the timing of the international sales for Q3?

Bryan Timm - Columbia Sportswear - CFO

Sure. I think in terms of looking at the guidance that we laid out for Q2 initially, we didn't quite get there to the tune of about 5 million, $5 million roughly. And that is pretty much solely the international distributor business that fell short. And again kind of going back to Tim comment in our prepared remarks, it really is a factor of, that these goods are at our factories, shipped into the port, loaded on cargo vessels and we are relying on third-parties in a lot of different process steps. So it is one from a standpoint of over a quarterly basis we are reliant on several factors and it can swing one way or the other. So, again, I think you can tell by our uptick and our sales guidance for the year that those products are, have already been booked and they will ship in Q3.

Sara Hasan - McAdams Wright Ragen - Analyst

Okay. And then, if the guidance for Q3 then is 2 to 3%, and that includes a little bit of benefit from those shipments and then some additional close out sales, it looks like it implies kind of an uptick in the fourth quarter in terms of sales growth, and I'm just wondering kind of what gives you the confidence that you can make that?

Bryan Timm - Columbia Sportswear - CFO

Well, again, I think if I go back to a comparative issue, I think in terms of where the expectations have been in Q3, Q4 split, I think there's been a little bit too much waiting toward the Q3. If you'll recall, last year was a year where I know we commented that we had, definitely from a mix perspective, in terms of close outs versus full price, we had great, we had great reaction to our fall '06, and was able to really boody our sales in Q3, and was definitely probably a little bit more volume in Q3 versus Q4, whereas this year there's definitely more of an appetite for those goods closer to demand. Just the way it's going to shake out it's going to be more weighted towards Q4.

Sara Hasan - McAdams Wright Ragen - Analyst

Thank you so much.

Bryan Timm - Columbia Sportswear - CFO

Sure.

Operator

Your next question comes from John Shanley with Susquehanna.

John Shanley - Susquehanna - Analyst

Thank you. Good evening, folks. Tim or Bryan, can you give us an idea which merchandise sectors really contributed to the bulk of those order cancellations you received in the second quarter? And can you give us an idea also, whether or not it was heavily
weighted to a certain retail channels of distributions, were the sporting good -- big box supporting you guys, or the general merchandise guys or department store guys more guilty of order cancellations in the quarter?

Gert Boyle - Columbia Sportswear - Chairman

No, it was really, John, the sportswear category and it was across the entire channel, we had some from everybody.

John Shanley - Susquehanna - Analyst

Is this something, Tim, that you’re likely to encounter going forward? Is this becoming a part of doing business now with some of the retailers you’re selling sportswear product into?

Gert Boyle - Columbia Sportswear - Chairman

No, I think, I actually just think it was a little bit of exuberance on the part of retailers. And then frankly the weather just didn’t cooperate enough through the entire season to get us a high enough liquidation rate through their stores. So, yes, I’m not expecting this kind of activity in the future. But we are prepared, based on the way that we really have a reduced speculative inventory position for spring merchandise, that it’s very manageable for us.

John Shanley - Susquehanna - Analyst

That’s good to hear. Can you give us a comparison between the operating margins of sportswear now and outerwear? I know you’ve been saying you’re closing the gap. How close now are you now to a comparison between the two?

Gert Boyle - Columbia Sportswear - Chairman

Again, John, I don’t think there’s been a noticeable change necessarily for this year. I know last year we picked up a little bit of -- but there’s still a spread between sportswear and outerwear, but again that spread, that spread is definitely, is narrowing. I would say, what used to be, I know we commented several years ago that there was probably close to around a 5% spread, it’s definitely less than half of that at this point. So again, our business has really been, what’s been driving our business is the sportswear product category, and, again, remembering there that we include our fleece products and those fleece products carry very good margins.

John Shanley - Susquehanna - Analyst

Last question I have is, on the inventory overhang that you indicated you are going to be closing out in the third quarter, will we be able to get rid of the bulk of or the most of that inventory? It looks like you’re giving us a guidance of full year as being up a little bit and for the third quarter being down, that indicates your fourth quarter should be fairly robust and, will the inventory issue play a role in fourth quarter at all?

Bryan Timm - Columbia Sportswear - CFO

Yes, I know, good question. John, really I guess I’d like to break it into two different parts. First looking at the balance sheet at June 30th, there is really two major things going on, again, what we just talked about and the spring order cancellation, that’s probably the least significant of the two, the most significant force driving our Q3 -- or Q2 inventory position is really a time in a fall ‘07 receipts over fall ‘06 receipts. So without a doubt that was our largest contributor to the inventory build at the current state. As we look forward, though, we know that we have these major initiatives that Tim elaborated on in terms of the Omni-Shade
and Tech-Lite and we need to make sure that we get products in a little bit earlier to ensure that we can deliver on those initiatives. So that's one element that's going to drive for a little bit earlier spring '08 receipts than typical.

The other comment we made was really around the auto-replenishment, some of the core type of items that we have, and I would say at this point we are carrying a little bit, maybe over what we otherwise would have liked to at this particular time, and that's real in light of the demand and partly to do with the spring cancellations. So again, I think there's probably a little bit of an inventory build as we go through Q3, we will see about Q4, but I would expect inventories to continue to increase as we get ready for some of these initiatives.

Gert Boyle - Columbia Sportswear - Chairman

And by the way, John, just to clarify, the bulk of the spring cancels have already been sold and they will be the actual liquidation sales of those products will take place primarily in Q3.

John Shanley - Susquehanna - Analyst

That's great to hear. Thank you very much. That's very helpful.

Operator

(OPERAOR INSTRUCTIONS) Your next question comes from Virginia Genereux with Merrill Lynch.

Rick Paton - Merrill Lynch - Analyst

This is Rick [Paton] calling in for Virginia, thanks for taking my question. I was hoping to get some more color on Europe. You mentioned in your last quarterly call that you had some senior U.S. folks going over there to help influence some of the marketing of the spring and fall 2008 lines. Can you just give us an update on some of those initiatives and perhaps some of the changes that are being implemented there?

Gert Boyle - Columbia Sportswear - Chairman

Certainly. Well, as we said in the remarks, the primary involvement is going to be on the product development side. We have a very established team of people over there that, with solid sales experience, and we think we can help that business grow faster by making more regionally relevant products. So the focus will be on a highly collaborative product development method, which will include very heavy involvement of the USA senior merchants, including Mark Sanquist and Mark Nino on footwear and others. Basically just going to get much closer to the market, and use the collaborative means and really the global reach of the brand to improve our product offerings over there. So it's a significant improvement, I think, in our product development systems and one that should bear good fruit, quite rapidly.

Rick Paton - Merrill Lynch - Analyst

Okay. Great. As far as the order cancellations go, how do we think about just having the right type of seasonal merchandise, seasonal merchandise on the shelves at the right time as opposed to the weakness at the actual retailer level?
Gert Boyle - Columbia Sportswear - Chairman

Well, I think we can help with our auto-replenishment initiatives over time to provide solid delivery of merchandise and avoid out of stocks, missing sales essentially, when we have a successful product. But I think over time it's just going to mean getting better at this merchandising. And frankly, we've done a good job, it continues to improve some of product lines. But the logistics, providing the Company's products to a retailer on time, getting them on the floor requires real collaborative efforts between the retailers and ourselves and lots of people in line. So, we spent a lot of time over the last several months improving our positioning with both our retailers and ourselves to get the right merchandise there at the right time.

Rick Paton - Merrill Lynch - Analyst

Great. Thank you very much.

Gert Boyle - Columbia Sportswear - Chairman

Thank you.

Operator

Your next question is a follow up from Brian McGough with Morgan Stanley.

Brian McGough - Morgan Stanley - Analyst

Thanks a lot. I don't know how I was dropped off after I asked my last question, so I'll just read your response in the transcript. I did have a couple others, though. One is, if I look in the sporting goods channel, you are starting to see a lot of the major brands get aggressive with things like slotting fees and fixturing in order to gain space, and we all know your policy of not paying any mark down money and you're very firm there. I'm just wondering if you are starting to feel the need to, in any way, react there, especially in light of new apparel brands that are starting to enter your space?

Gert Boyle - Columbia Sportswear - Chairman

No, we have a very significant investment in shop in shops and in merchandisers, approximating 100 people between our full time and part-time people here in the U.S., who are basically maintaining our inventory at retail. So, I think in some industries they call that a slotting fee, but basically for us it's all about making sure that our merchandise looks great by installing fixtures that we pay for, and then paying for field merchandising people who keep the merchandise up on the floor. So, we are right at the forefront of that, and I think we probably have one of the largest installation, certainly in sporting goods, of any brand,. Yes, the retail floor space is becoming, is finite, to a certain extent, and there is lots of jockeying going on between brands, but we think we are in a great position to maintain our slots and do well. And, again, with our initiatives for our replenishment, we think that the floor space that we do have will become much more productive when we make sure that we avoid these out of stocks.

Brian McGough - Morgan Stanley - Analyst

Okay. Great. Then I guess lastly, a question for Bryan. Just, on the cash cycle, it was up year over year by about 30 days, which as far as I could go back on a quarterly basis, is as high as its ever been, and that's mostly due to inventories, and, I know you hit a little bit on this earlier, but, I was hoping you can just elaborate on where is the inventory now? How old is it? And where do you think it will be sold ultimately? And do you think that the overall gross margin guidance that you throughout to the back half of the year is conservative enough to account for all that excess inventory?
Bryan Timm - Columbia Sportswear - CFO

Sure, Brian. Well, in terms of -- let me kind of go back to the beginning in terms of taking it by season. So our inventory position at June 30th, 2007, very small amount, and I mean very, very small amount of fall '06 inventory. So in terms of dating kind of where we are at. Spring, '07, again, some of the spring '07 does exist on the balance sheet at June 30th. Those are many of which are from the cancellations that I think we talked about. In terms of the inventory build at June 30th, though, that is the smaller piece of really what's driving the inventory balance this quarter. The real driver of the balance is really the timing of the fall, 2007, receipts, in relationship to the fall, '06, receipts. We just have, in terms of most of our inventory comes in in June and July, and this particular year we have a lot more inventory coming in into June, and or on the water, in which we need to accrue those inventory receipts in, onto our balance sheet.

So, again, yes, from a working capital standpoint, you've got both inventories a little bit [bulged]. Again, from the spring cancellations, and then also because of timing, and then of course the accounts receivable also effecting our cash cycle, we do have a little bit of build there. And again, that's really more of a timing issue with, again, a very large customer that, customer receipt that just kind of came over the quarter end period. So, again, yes, I am going to say that the guidance I give is reasonable, and it's worth the information I have at this time, and so, yes, I do believe that it's prudent guidance at this time.

Brian McGough - Morgan Stanley - Analyst

Great. Thanks, Bryan. And also just a quick note, David, thank you very much for the added disclosure in the press release. Every last bit helps.

David Kiser - Columbia Sportswear - IR

Thanks.

Operator

Mr. Kiser, there are no further questions. Do you have any closing remarks, sir?

David Kiser - Columbia Sportswear - IR

No, I want to thank you very much for allowing to us chat with you today, and we look forward to talking to you at our next conference call we will a large spring backlog to report.

Operator

Ladies and gentlemen, this concludes the Columbia Sportswear Second Quarter '07 Financial Results conference call. You may all now disconnect.