COLM - Q4 2007 Columbia Sportswear Earnings Conference Call

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Ron Parham - Columbia Sportswear - Director of Investor Relations

All right. Thank you, Kristen. Good afternoon and thanks for joining us today. With me here today are Columbia’s Chairman Gert Boyle, President and CEO Tim Boyle, CFO Bryan Timm, Chief Operating Officer Pat Anderson, and General Counsel Peter Bragdon. We’ll start today’s call with managers prepared marks, reviewing the results for the fourth quarter and full year 2007. And we’ll
also provide revenue and earnings guidance for the first quarter of 2008. And after that, we'll be happy to take your questions. Before we begin, Gert has an important reminder for our listeners.

**Gert Boyle - Columbia Sportswear - Chairman of the Board**

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 operations. 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 describe in Columbia's quarterly report on form 10-Q for the quarter-ending September 30, 2007. Forward-looking statements in this conference call are based on our current expectations and beliefs. And we do not undertake any duty to update any of the forward-looking statements after the date of this conference call to conform the forward-looking statements to actual results or to change in our expectations.

**Ron Parham - Columbia Sportswear - Director of Investor Relations**

Thank you Gert. Just one housekeeping item before I turn the call over to Tim. I'd like to draw everyone's attention to the new geographical net sales reporting structure that we adopted at this quarter to better reflect our international management and oversight structure. Net sales to international distributors that were previously grouped with Japan and Korea as part of other international has been regrouped into either the new Europe and Middle East Africa or EMEA region or the new Latin America Asia Pacific or LAAP region depending upon the geographic market in which each distributor operates. All of our comments today will be based on this new geographical reporting structure for your convenience. We've recast quarterly geographical net sales information for fiscal years 2007, 2006 and 2005 on a schedule accompanying today's press release. That schedule is also available on on line as part of the fourth quarter press release posted at the company's investor relations website. I'll hand the call over to Tim.

**Tim P. Boyle - Columbia Sportswear - President and CEO**

Thanks Ron. Welcome everyone and thank you for joining us this afternoon. Let's begin with a quick review of Key financial results for the fourth quarter. Overall from an operating standpoint, our fourth quarter came in largely as expected, benefited from slightly net sales and gross margins together with good expense control. Q4 2007 net sales increased 4% to a fourth quarter record of $376.7 million including changes in foreign currency exchange rate that contributed 3 percentage points of consolidated net sales growth. At retail, the quarter started slowly as unseasonably warm weather linger across many key U.S. and European markets. Late November and December, ushered a heavy snow fall across most of the key markets resulting in improved outerwear sell through. In our footwear channels where some of the retailers have been sitting on fall '06 inventories heading into the fourth quarter of '07, we received reports of much healthier inventory levels by the end of December. Looking at fourth quarter results by region, U.S. net sales decrease 1% in the quarter reflecting decline of 3% and 4% respectively in the outerwear and footwear segments, partially offset by 2% and 7% increases in sportswear and accessories and equipment respectively.

In the U.S., 3% growth by the Columbia brand and 11% growth by Mountain Hardwear were offset by 2% decline in the Sorel footwear brand of up 42% decline in the Montrail brand and an 84% decline of Pacific Trail. Canada net sales increased 10% in the quarter with Columbia and Sorel brands, each contributing about half the growth in net sales dollars. EMEA, net sales grew 2% in the fourth quarter. The sportswear category increased 19% primarily from growth in the Columbia brand, partially offset by 5% and 10% declines in footwear and accessories and equipment respectively. Overall, the Columbia and Mountain Hardwear brands, each grew low single digit, while Sorel declined 25%. Fourth quarter growth in the Columbia brand and EMEA came almost entirely from our sportswear category primarily due to the December shipments of spring '08 styles to our EMEA distributors. In our LAAP region where we had established the Columbia and Mountain Hardwear brands, net sales were up strong, double digits in both brands and in all product categories. Our Korea and Japan businesses as well as our LAAP distributors performed well across the board.
Focusing on the Columbia brand, net sales grew 6% over last year's fourth quarter with growth coming from each of our four geographic regions, particularly LAAP. Increased Columbia outerwear sales were led by Japan and Korea, partially offset by modest declines in the U.S. and Canada. Every region contributed Columbia's sportswear net sales increases in the fourth quarter. Increased Columbia footwear were driven by LAAP distributors, EMEA distributors, Japan and Canada, partially offset by small decline in the U.S. and EMEA direct. At this point, I'd like to hand the call over to Bryan Timm, our CFO, who will review fourth quarter financial results in more detail and the revise financial guidance we reported today. Bryan?

Bryan Timm - Columbia Sportswear - CFO

Thanks, Tim, and good afternoon, everyone. As Tim mentioned, the fourth quarter net sales increased 4% to $376.7 million with changes in foreign currency exchange rates contributing 3 percentage points to that increase. Tim provided a breakdown of sales by region and brand, so I'll pick up where he left off and walk you down the rest of the income statement and key elements on the balance sheet. Gross margins increased 80 basis points in the fourth quarter, primarily due to favorable foreign currency exchange rates, improved gross margins from a retail stores, lower freight cost, partially offset by increase closeout sales of fall '07 products. Selling and administrative expenses increased 8% to $104 million which represented 27.6% of the fourth quarter sales compared to 26.7% in last year's fourth quarter. This increase was a result of planned increases in personnel cost and a higher depreciation expense related to the major distribution projects, partially offset by reduce selling expenses in the U.S. Operating income was up 3% to $56.8 million in the fourth quarter and resulted in operating margin of 15.1% similar to the 15.3% operating margin we reported in last year's fourth quarter. The most significant variance from our previous guidance in the fourth quarter was a lower tax rate, resulting primarily from favorable conclusion of certain European tax examinations which contributed $0.14. In the mix of international income and certain tax law changes which added $0.05 per diluted share to the fourth quarter. Net income for the fourth quarter was up 19% to $45.7 million. As a result, fourth quarter 2007 diluted earnings per share was $1.26, a fourth quarter record compared to $1.06 in Q4, 2006. For the full year 2007, net sales were a record $1.36 billion, up 5% over 2006.

From a brand perspective, the Columbia brand led the way with a 7% increase. Followed by Mountain Hardwear up 12% on a smaller base offset by an 83% decline in our Pacific Trail brand, again on a smaller base. Full year net sales increased in all product categories led by sportswear up 11%, footwear up 4%, equipment and accessories up 5% and outerwear essentially flat with 2006. Full year net sales also increased in each of our regions with the U.S. up 2%, Canada up 5%, EMEA up 5% and LAAP up 23%. We are very pleased with our operating leverage this year despite a top line growth of only 5%. 2007 operating margins expanded 70 basis points to 14.7%. This increase was primarily due to improved gross margins which benefited from modest increases and average selling prices on spring '07 products, lower freight cost, favorable hedge currency rates, partially offset by increased closeout sales. We also controlled the majority of our cost holding SG&A flat as a percentage of net sales. 2007 net income increased 17% to $144.5 million or $3.96 per diluted share.

I'll quickly touch on key items in the balance sheet comparing December 31, 2007 balances to the December 31, 2006 balances. The balance sheet remains very strong with cash and short-term investments totaling $273.5 million versus $220.1 million at the same time last year. Consolidated accounts receivable was $300.5 million compared to $285.9 million a year ago. A 5% increase which was generally consistent with the sales increase in the quarter. Consolidated inventories were $265.9 million compared to $212.3 million a year ago, a 25% increase. This increase was due to plan increases in retail inventory to support our outlet storage expansion plan, higher levels of carry over, core and replenishment inventory and early spring inventory receipt to support our product market initiatives.

Looking forward, we expect the U.S. inventories to stabilize at lower levels by mid-year. Capital expenditures were $14.2 million during the fourth quarter and just over $34 million for the full year consisting of approximately $10 million in maintenance CapEx and $24 million in CapEx for other capacity and growth initiatives. Depreciation and amortization expense for the year was $30.3 million including $8.1 million in the fourth quarter. Please recall that approximately $8 million of incremental depreciation for the year was associated with the Portland and European distribution center projects. Today, we announced that the Columbia's board of directors approve the first quarter dividend of $0.16 per share. During the fourth quarter, we
repurchased approximately $319,000 shares an aggregate price of $14.5 million. Since the beginning of the program in 2004, we repurchased the total of $6.6 million shares or $316.1 million, leaving us approximately $83.9 million under the current authorization.

Now let’s turn our attention to financial guidance. Based on our previously reported spring backlog and our initial read during January, we revising our guidance for the first quarter of 2008 originally provided on October 25th. Please keep in mind that this information is forward-looking in nature and is therefore subject to certain risks factors. We currently expect Q1 2008 consolidated net sales to decline approximately 2% compared to the first quarter of 2007, and we estimate EPS to approximate $0.51 per diluted share compared to $0.71 in last first quarter. This model anticipates approximately 400 basis points of first quarter operating margin contraction consisting of approximately 450 basis points of SG&A expansion, partially offset by approximately 50 basis points of gross margin expansion. The SG&A increases primarily from incremental marketing and advertising, the company retail expansion, and depreciation related to our Portland distribution center retrofit that came on line in April of 2007. The gross margin increase is anticipated to result from favorable hedge currency rates, regional sales mix and fewer closeout sales. We are still early in our process of taking orders for the fall 2008 season, so consistent with our prior practice, we'll wait to provide full year 2008 guidance until our first quarter conference call in April when we substantially completed our fall bookings. I will now hand the call back to Tim.

Tim P. Boyle - Columbia Sportswear - President and CEO

Thanks, Bryan. In closing, overall 2007 was a successful year and one that we think set us up well to face what is shaping up to be a more challenging economic environment in the U.S. and other key markets in 2008. With our strong balance sheet, we believe this environment provides opportunities for us to invest for future growth, while some competitors may be financially constrained. As we continue to sell in fall 2008 products over the next couple of months, we expect a certain amount of cautiousness among retailers as they attempt to anticipate how consumers are going to behave in the midst of recession fears. Potentially offsetting that cautiousness to some extent, we received very positive comments from retailers about the additional marketing support we plan to provide around our OMNI-SHADE and TECHLITE initiatives for spring and our Omni-Tech interchange and TECHLITE initiatives for fall to enhance the Columbia brand and to drive consumer demand. The Columbia brand remains strong particularly in the U.S., Canada and LAAP. And we are preparing to launch what we believe are powerful integrated marketing efforts designed to drive retail sale through of our spring '08 outerwear, sportswear and footwear lines as the retail season gets under way the next couple of weeks.

Admittedly, we have some work to do with our Columbia brand in Europe. The issues we face there are reflected in the 16% decline in Columbia outerwear sales that we experience in our European direct markets in 2007. While Columbia brands sportswear sales in the same market increased nearly 14%. In contrast during 2007, our EMEA distributors recorded net sales increases of 18% in outerwear and 37% in sportswear. Clearly, we need to do a better job driving demand in our Europe market by getting the right outerwear product on the shelves and re-communicating and demonstrating our performance proposition to consumers and retailers.

In addition to getting the product right in our Europe direct markets, we've also made changes in our European management team. Nick McCormick, VP of Sales, is now directly responsible for Europe as a region and is working closely with Christian Finell, our new European GM, who comes with 17 years of European management experience at Salomon. We've reestablished a strong connection between our European and U.S. product teams, so there will be far more direction and interaction in setting the line plans for those European markets. We expected to take the better part of 2008 for Christian and his team to implement the necessary changes to our product line, marketing and channel inventory management and at least until the first half of 2009 for those changes to begin to show traction. We plan to incorporate our global goal to market strategy in Europe, to leverage the strength of our OMNI-SHADE and TECHLITE initiatives for spring and Omni-Tech interchange and TECHLITE initiatives for fall and believe Europe remains a large and very important growth opportunity. We believe our Sorel footwear offerings for fall ‘08 are improved and the brand has found the heightened level of acceptance and cache among upscale retailers and
consumers, particularly in Europe and in Asia. With clean retail inventories, we believe the brand is in good position as we anticipate the sale end of the fall '08 line.

Looking ahead to spring 2008, we are poised to launch the coordinated and targeted marketing, advertising and public relations campaign globally that will educate consumers about OMNI-SHADE apparel and TECHLITE footwear. The print execution of this effort had already begun to appear on some Sunbelt markets and are expected to generate significantly greater gross impressions than any previous Columbia campaign. Each success of season's offering will be supported by an integrated marketing efforts that clearly communicate our performance proposition to retailers and consumers, create consumer demand to drive retail sell through and in turn, have the profitability of our retail partners and Columbia. Of course as we sit here today, there are certainly economic unknowns. But we are going to stay focus on the things that we can control and do the things that we believe are necessary to continue to inspire consumers, to seek out our brands for all their protective apparel and footwear needs. That is the essence of the strategic initiatives we introduced last year and that we are working to implement in 2008. We have strong brands supported by strong balance sheet and healthy customer relationships. Despite the challenging macro environment, we intend to leverage those strengths to drive consumer demand, enhance our brand equity and grow our market share. Thanks very much for listening in. We'd be happy to fill in any questions. Operator, can you help us with that?

**Questions and Answers**

**Operator**

(OPERATOR INSTRUCTIONS) And your first question is from Bob Drbul with Lehman Brothers.

**Bob Drbul - Lehman Brothers - Analyst**

Hi Tim.

**Gert Boyle - Columbia Sportswear - Chairman of the Board**

Hi Bob.

**Bob Drbul - Lehman Brothers - Analyst**

Hi guys. I guess the first question is Bryan, on the inventories can you put any numbers around the different buckets of the inventory levels?

**Bryan Timm - Columbia Sportswear - CFO**

Sure Bob. Yes. Hopefully, first and foremost, I hope the inventory -- again, we've been talking about this for the last couple of quarters in terms of a little of a build for a couple of different reasons. I guess the three primary buckets would really be as follows: Number one, we've talked about our retail expansion plan, so we do have a fair amount of inventory on the books in the house, sort to speak, readying ourselves for some of the continued expansion in our retail outlets. Second of all, we talked a little bit about our core and replenishment type inventory. I think we mentioned that we'll have a fair amount of that on the books at year end readying ourselves for spring. And then finally, just the early spring '08 receipt, again readying ourselves for kind of a hard launch with OMNI-SHADE and TECHLITE for both apparel and footwear. We readied ourselves a little ahead of the curve in terms of bringing inventory early for those product launches.
Bob Drbul - Lehman Brothers - Analyst

So I guess as the different way in terms of some numbers, when you look at, I don’t know if you consider, excess inventories or inventories that are going to be old or last years seasons or from cancellations, can you put a number on that as a percentage that we should be thinking about?

Bryan Timm - Columbia Sportswear - CFO

Well, again I know I understand what your question is with respect to how our fall inventories or any inventory that would have under risk. Again, I think some of the fall inventory as I mentioned will be destined for our own retail outlets. Again as I look at our inventory, pool at this time, again, most of the products are actually spring-related products. There is a lot of core, the replenishment and gearing up for our spring book of business. As you can tell by our Q4 activity, we did have some pretty good shipments of fall ’07 closeout activity in Q4. So I don’t want to say we are clean, but I think compared to the previous Q4, I would say we’re relatively clean on fall inventory.

Bob Drbul - Lehman Brothers - Analyst

And then, I guess the other question that I had for Tim, in terms of -- I know the book isn’t complete or the order period isn’t complete. But when you look at the order book year-over-year, sort of season to date versus where you were last year, how much of the -- can you give us any early reads on the book?

Tim P. Boyle - Columbia Sportswear - President and CEO

Well, I think in terms of the USA, I feel comfortable that in footwear, our customers are are quite clean and weather continues to help us and continue to clean that. In outerwear, I think we’re at about the same position we were last year from a standpoint on the Columbia brand and overall, I think retailers are probably a little cleaner. In Europe, the sales there has been only spotty for our brand. Although, I think overall probably the sell troughs for our retailers, they are probably in cleaner position overall than they were last year.

Bob Drbul - Lehman Brothers - Analyst

Okay. And then, I guess just a final question on the retail stores and the outlet stores. The plans in terms of the number of stores change and I guess are there any numbers in terms of the returns on the capital that you expect as you look at that business versus the current returns of the business and how you are thinking about that when you plan this out in ’08 and going forward?

Tim P. Boyle - Columbia Sportswear - President and CEO

So in terms of account that we plan for ’08, no changes there. The plan is to continue to take advantage of opportunities primarily in the outlet environment. We may even be able to accomplish opening a few model brands of our first line stores. I would say probably in the less than five category in 2008. So, I think we are on plan there. The return so far based on the financial matrix that we have established tend to encourage us that this strategy is going to be a positive one for the company. So, we are excited about the management team that we have in place on retail. We are excited about the interest from consumers. And I believe over time, this is going to be a solid positive for the company. We want investors to understand and of course, our retailers to understand that we are not changing the model of the business. This is going to be a wholesale business and will continue to grow on a wholesale basis with the addition of these retail stores to help us to manage inventories and to show consumers the full breadth of our product.
Bob Drbul - Lehman Brothers - Analyst
Okay, great. Thank you very much. Good luck.

Tim P. Boyle - Columbia Sportswear - President and CEO
Thanks, Bob.

Operator
Your next question is from Jeff Edelman with UBS.

Jeff Edelman - UBS - Analyst
Thank you. Tim, a follow-up question on the retail stores. When will these be opening?

Tim P. Boyle - Columbia Sportswear - President and CEO
Jeff, we opened several this fall and we are going to be opening on the range of probably less than 20 during 2008 with the emphasis on class A outlet malls to the extent that we'll be able to get space, favorable space with favorable rates in those locations. And then the first line stores, we are going to open in over the course of the next several years in major Metropolitan markets where we think these first line stores can be a creative to the marketing plans of the company.

Jeff Edelman - UBS - Analyst
Okay. If we look at the bill and inventory for new stores, it seems to me the inventory build is seems to be a lot further ahead than the store openings or is that a much smaller bucket?

Bryan Timm - Columbia Sportswear - CFO
Well again, Jeff, this is Bryan. I don't want to -- again, when I broke up earlier the three primary buckets for the inventory increase, I would say a third of that, a third of the overall consolidated inventory build is destined for our own retail. And again as Tim mentioned, we did open up, I think, somewhere between four, five outlets in the in around the fourth quarter of 2007. We do have plans in the first quarter, open up a couple more as well we did in the second quarter. So, some of the inventory build that we have will be will be destined for these new outlet centers. So, we feel what we have destined for retail is in appropriate shape.

Jeff Edelman - UBS - Analyst
Okay. And then secondly, could you address marketing cost for the year and you've always been pretty good at laying out your overhead in various buckets. Can you sort of now -- as we look at '08, how much of this is fix, how much will be variable and how much of a step up would there be marketing, so we can make our own sales assumption some sense of positive or negative operating leverage?
Okay, Jeff. Let me sort of take a cut at the overall plans for '08 as it's relates to marketing and in the areas that we are going to concentrate on and then I'll let Bryan put some color to the specifics. But just I want you to understand that for the whole year, obviously, our top line is not determined yet because our book is still open for fall, and as well as the marketing plans are not committed to it as yet based on the fact we don't really know what our top line is going to be next year. But overall the spend for spring '08 will be a combination of in-store presentation material to heighten the Omni-Tech and TECHLITE strategies that we've delineated this year and those so that's in-store presence including the enhancements to our already existing fixtures systems in stores today. It's going to include billboard campaigns or outdoor campaigns, TV and print media those will be the primarily vehicles for marketing for the company as well as various established PR campaign which will be less costly and those will be primarily through the first and second quarter. For the back half of the year, we intend to focus on Omni-Tech or waterproof readable proprietary product interchange and TECHLITE in winter footwear products. And we'll have the same sorts of methods to promote those three initiatives in the back half of the year and that's going to be really for all intents and purposes a North America phenomena, as well as some European spend there. In terms of the particular financial matrix, let me just turn it over to Bryan in terms of how we're going to be determining that.

All right. Jeff, on [hills] of Tim's comments, again without the fall book, it's premature to talk about advertising expense for the year and give you a little more color there, it relates to Q1. There was a hoist of factors that really went into our SG&A increase of which none of those necessarily being the majority. Those items in order of magnitude would probably be the advertising, would be a little bit larger than some of our retail expansion and some at the up front cost that we have associated with that business model, depreciation from the RiverGate facility, as well as just some of the international growth that we have. Plus, just being a little bit of an easier comp over Q1 of 2007. So again, it's not the majority of the SG&A increase, but certainly a larger part that we plan for Q1.

Just let me summarize. The goal is to have very significant increase in our gross impressions for the whole year.

Okay. Are you targeting a certain percentage of sales or has that been defined yet?

Not really, no.

Okay. Fair enough. And then the fixed component of the SG&A, how much should that go up?

I'm sorry. Can you repeat that.
Jeff Edelman - UBS - Analyst
The fixed component of SG&A or overhead, how much did that increase for the year?

Bryan Timm - Columbia Sportswear - CFO
Yes. Again, Jeff, that's a function of sales, so I'd really like to hold on --

Jeff Edelman - UBS - Analyst
No, no. Fixed.

Bryan Timm - Columbia Sportswear - CFO
No, I with you. But some of the -- again, whether you want to call it retail expansion plan, I don't really look at that necessarily. At this point, it's fixed. But again until those are sorted out, I'd like to wait until April to talk about specifics.

Jeff Edelman - UBS - Analyst
Okay. Fair enough. Thank you.

Bryan Timm - Columbia Sportswear - CFO
Thanks Jeff.

Operator
Your next question is from Virginia Genereux with Merrill Lynch.

Virginia Genereux - Merrill Lynch - Analyst
Thank you.

Tim P. Boyle - Columbia Sportswear - President and CEO
Hi Virginia.

Virginia Genereux - Merrill Lynch - Analyst
Hey, Tim. Maybe Tim and Bryan, can you tell us a little bit about what went into the -- what drove the decrease in revenue expectations for the first quarter and how doesn't that back up on you on the inventory front, Bryan? And if you guys were thinking, you'd be up 4% in March and now you are down 2%. Is some of that deferred to June and -- I would assume you've seen some cancellations for the first quarter. Can you tell us exactly what went into that?
Bryan Timm - Columbia Sportswear - CFO

Sure. Well, let me start off. First just to answer the question on cancellations, we really haven’t seen a significant spring cancellation at this point in time. It’s been very modest as we would have otherwise projected. As it relates? Yes, I would say that our sales guidance in terms of the guidance that we are giving today versus what we delivered in October were definitely different. A couple of different portions, I guess, that can at least help explain that. Number one, mark Q4 was probably somewhere close around $4 million over the guidance we were provided for Q4. Most of that came from international distributor business that I’m sure most people remembered that we have a lot of international distributors that ship both in June, as well as in December that can spill over between quarter to quarter. We are actually shipped those in Q4, so that was actually planned in Q1. There’s also some shipments as we kind of look at the order book and when customers want their orders that spilled over from Q1 to Q2. As you mentioned, obviously, we are in a phase of a little bit of a different macro environment than we were three months ago. So, I would also say that we would have expected maybe a little bit more reorder percentage over the course of the last couple of months that really haven’t come to pass. So, that’s given us a little bit of a conservative outlook as we look Q1 now versus three months ago.

Virginia Genereux - Merrill Lynch - Analyst

Okay. And Bryan to that point, you guys think you can clear kind of going from -- you've up in four or five retail stores, you [ranting] a couple -- you expect you can clear any excess inventory through those channels, it sounds like.

Bryan Timm - Columbia Sportswear - CFO

Well, that channel as well as the up price channel that where we've had to clear some stuff in the past as well. But again, most of what we are talking right now is spring. We actually had a pretty good object in our fall closeouts that we shipped in Q4 relative to how those typically ship in our business.

Virginia Genereux - Merrill Lynch - Analyst

Okay. That’s helpful. And then secondly if I may, Tim in the release you say expanded retail initiative and increases in marketing and advertising may preclude us from achieving margin leverage in ’08. That sort of sounds -- it sounds to me, I mean, I may [preclude] us from achieving leverage. It sounds like you don’t expect margins to come off materially. And if I look at the first quarter, I say, "Wow." You guys are talking about 400 bits of pressure. What gets better in the back half if I can ask and maybe, you can -- maybe, Pat, you can address sourcing cost and you typically you are growing faster in the first part of the year, what sort of gets better from a margin perspective in the back half?

Tim P. Boyle - Columbia Sportswear - President and CEO

Let me give you an overall view of how we look at the business and then maybe Bryan and Pat can throw some color on those specific questions that you had. But in general, we believe that we'll be able, over the long term, to grow the business. And frankly, we had an enormous emphasis in 2007 on operating leverage. And it was clear that we obtained those goals, but we believe now that the best course for the business is to make some investments outside our traditional investment area which frankly has been in distribution facilities and in facilities to provide room for us to grow now to start investing in ways for the brand to expand either by visibility to consumers in outlet or first line stores or marketing efforts to expose the brand more broadly to consumers. So, we don't know exactly based on the strength of the book for fall, what percent those initiatives are going to have as a percent of SG&A or percent of the total revenues for the company. But those are the areas that the company is going to concentrate on. I believe our footwear business, even though it's not growing as rapidly as I personally feel the opportunity is, I believe we've done a lot of clean up in terms of making that business better and more profitable. And I would expect that over time that key product categories of footwear and key geographies of Europe were going to be leading
us as we get to be stronger and better. But as it relates to the back half of the year, maybe I'll let Bryan talk a bit about the specifics there to the extent we are talking about.

**Bryan Timm - Columbia Sportswear - CFO**

Well, again just a couple of quick comment. It maybe it's more back to Jeff Edelman's question earlier. But again, a couple of different things that we mentioned last time that really led us around the comment in terms of may [preclude] us from operating in leverage next year. One, not knowing our top line of the business. Two, knowing that, as Tim mentioned, we want to add significantly more impression and eyeballs to our brand. Part of that is going to be by increasing our advertising expense in 2008. The total magnitude of what that is going to be, again, we'll get more specific with folks in April. But at this point in time, I think it's a little early to say exactly what that number is going to be because I think we still have some flexibility there. The retail part of the expansion plan, again, it's moving around on us a little bit at this point in time and it is going to be a little bit of a drag on the overall operating margin of the company. As those businesses build up and we have up front costs associated with some of those store openings, the traditional fix cost-base, like depreciation and major capital expenditures, we don't have a lot of those for 2008 at this point. So a lot of what we experienced in 2007 in terms of the additional depreciation from both projects, we really only have one quarter of depreciation from the RiverGate retrofit. I think that from a an overall standpoint, the guidance that we are giving in Q1, the back half of the year may be a little bit different because, again, the seasonality of the business and the fact that the volume of the business are [disgraced] at Q1 as well. I don't know if that helps with a little bit of color going back to Jeff's comment as well.

**Virginia Genereux - Merrill Lynch - Analyst**

Yes, Bryan. I mean it does. I guess my take from what you are saying is that you don't really know yet. But that you aren't thinking that -- you aren't speaking that margins are going to be down 400 basis points. You aren't thinking the first quarter is indicative of the year, right?

**Bryan Timm - Columbia Sportswear - CFO**

That's correct, Virginia. I would not say that our business is linear and you should expect that the 450 basis points of SG&A expansion that we are mentioning today is something that should be expected for Qs 2 through 4, no.

**Virginia Genereux - Merrill Lynch - Analyst**

Okay. And then [I just go] if I may, Bryan. The tax rate, can you tell us what to think about there going forward and what the potential down side to that is? And then, Pat, maybe if you can address sourcing? Sorry to go on, but I think that's a very hot topic and you guys have been so good at it. What you are seeing for sort of spring and fall?

**Bryan Timm - Columbia Sportswear - CFO**

Sure. First on the tax front, again just to reiterate a little bit, we did have a discreet event in Q4 that really was a settlement of some European tax examinations that were under way. Upon that settlement, we incurred close to about $0.14 with a favorable benefit. Another piece of that that we pointed out was $0.05 and this was really just a mix of international income, as well as tax law changes. I would expect that some of that structurely will help us lightly for 2008. And at least as it relates to Q1 and the assumptions we've made for the affected tax rate, we've assume that to be 33% for '08.
From the sourcing side, obviously, we are you know, seeing pressures on cost from labor and currency exchange and global energy prices really through most of the regions. But we are fully costed for spring and fall ’08 and I think that is reflected on the guidance. And we continue to have a strong network of offices throughout Asia that let us take advantage of lower cost regions and help to manage the effects of rising prices as prices grow generally throughout the globe. So, we think we are doing a good job of it and we are definitely feeling it, but I think we are managing it pretty well.

Virginia Genereux - Merrill Lynch - Analyst

Okay. So Pat, you’re on, I’m sorry, an inflex point. I mean there’s talk of things going from low single digit increases. I think you historically said 5 to 10 to 15. I mean, are you seeing like a 5% to 10% list in your FOB cost?

Pat Anderson - Columbia Sportswear - COO

We are not seeing them that high at this point. Though, we haven’t been back out for spring to finalize costing for spring ’09 at this point. But that -- in some regions, there is talk of increases like that, but we've been able to minimize those.

Virginia Genereux - Merrill Lynch - Analyst

Thank you.

John Shanley - Susquehanna Financial - Analyst

Bryan, I wonder if you could give us your long term prognosis on the Montrail and Pacific Trail business areas. Sales were down pretty dramatically. Is this a business that you think has a future within the Columbia organization or is it something that could be shut in fiscal ’08?
Bryan Timm - Columbia Sportswear - CFO

No, no. We think both of those brands are quite strong and have significant opportunity over time to contribute. I would say that in the case of Montrail, it’s a very small business. We acquired and we’ve been right sizing that business over the last year that we’ve owned it and the opportunities we think there are quite strong. We have a new team in place managing that business and the initial reads on the product that they are developing and selling today has been quite good. As it relates to Pacific Trail, we’ve talked a lot about the fact that that channel for the company is one that requires some education and learning and the sales volume drop was a function really of the purchase the inventory book that we purchased and then liquid and then made and sold last year which was Pacific Trail companies merchandise. We didn’t design it. We just manufactured it. We are still learning the product category. We’ve talked about the fact that it’s been more challenging for us to learn that channel of distribution than we had thought. But we consider all the brands that we acquired during that acquisition to be strong and the Montrail has significant opportunities for the company.

John Shanley - Susquehanna Financial - Analyst

Okay. Fair enough. Also Tim, can you give us an insight in terms of whether the upcoming magic show is still important in terms of getting a gauge on your fall business or are you now doing more of your order booking in the prelines and you may have done in the past?

Tim P. Boyle - Columbia Sportswear - President and CEO

Well, John, we have basically decided to exit most of the large trade shows and this is something we undertook over the last really 12 months. We really focused our time and effort on our product show cases where we bring in our customers and show them products and marketing strategies in a closed environment where we can have their complete attention. Typically, our order books are well full with our major customers at the times of magic and outdoor show and footwear show. And so, we took the moneys that we were spending at those expensive trade shows and really put it to focusing on share of our customers time and attention when we can get them more focused on us as opposed to other brands.

John Shanley - Susquehanna Financial - Analyst

The show cases would be similar to what we experienced when we were at your shop and sort of the sky is going through your product line, is that what you are talking about?

Tim P. Boyle - Columbia Sportswear - President and CEO

Exactly. We’ve got others planned and hopefully -- we don’t intend to do them annually, maybe every 18 months or something like that. We will get our customers together and show them what we are doing.

John Shanley - Susquehanna Financial - Analyst

Okay. So, you must have a pretty good idea then if you’ve done enough of these show cases or preline events that you have or at least a pretty general idea of how fall is lining up. Is there any way you can share some of that with us?

Tim P. Boyle - Columbia Sportswear - President and CEO

Well as the business has gotten bigger geographically and more diverse from a product standpoint, we end up really needing more time to be able to clearly articulate our backlog positions to investors since they are really critical in how the business
gets valued. So, we want to make sure that we don’t [whip saw] people and give guidance that is not accurate. So, we want to make sure that we have a focus on highly accurate guidance and we really can’t do that at this time.

John Shanley - Susquehanna Financial - Analyst

Okay. Bryan, I have a quick question for you. The expected decline of 2% in sales for the first quarter, can you help us focus in on a little bit better where that decline is coming from? Is it geographic, is it brand specific or maybe a little bit more color? I understand the -- in terms of the operating profit contribution, in terms of new stores and marketing expenditures and so on, but sales is what I am really interested. Why is sales decline in the first quarter?

Bryan Timm - Columbia Sportswear - CFO

Right. Well, specific to region, it’s really in the U.S. And from a brand perspective, it’s predominantly the Columbia brand. So again, I think going back to the previous guidance that we gave in October, I think we’re projecting a modest low single digit kind of up taking in our top line. And again with a different environment in front of us now, with a little bit of extra shipping in Q4 at the expense of Q1 and some of the retail, at least at this point in time, I would say that it’s U.S. phenomenon and definitely in the Columbia brand.

John Shanley - Susquehanna Financial - Analyst

Okay. And 33% tax rate you give us in fiscal ’08, can you give us the tax rate for first quarter as well?

Bryan Timm - Columbia Sportswear - CFO

I’m sorry. The first our projection right now for our effective tax rate that we included in our guidance in Q1 is 33%.

John Shanley - Susquehanna Financial - Analyst

So, it’s 33% for the quarter and for the full fiscal year?

Bryan Timm - Columbia Sportswear - CFO

Well again we look at our tax rate, we try to take a full year look at it to get the effective tax rate and we use that for a quarterly basis. So at this point, it would be 33%, yes, for the quarter and that would be our best guess for the year at this point.

John Shanley - Susquehanna Financial - Analyst

Right. Fair enough. Thanks a lot. I appreciate it.

Operator

Again if you would like to ask a question (OPERATOR INSTRUCTIONS) And your next question is from Sam Poser with Sterne Agee.
Good afternoon.

Hi, Sam.

Quick question on some of the pricing to follow-up. the footwear space as we’ve been hearing lots of price increases since the footwear business is your developing business, as flexible there as you are in the other in your apparel businesses?

Yes. For footwear, we are pretty well costed for fall ’08 and it will be a bit in the development process of spring ’09 at this point. But we do have China and Vietnam and I see most -- much of the pressure we are hearing more out of the China. So we do have some flexibility to go back and fourth between. But yes, we are hearing the same things that you are hearing on over pricing.

Can you do some kind of break down of sourcing out of China versus other markets in footwear and apparel?

In apparel we are maybe in the 20% range and evenly split at this point between China and Vietnam.

The 20% of your --

On the footwear side.

About 20% of your footwear is made in China right now?

No, I'm sorry. We're about 50/50 on footwear, but we have flexibility with our factory groups between the two countries of origin and apparel we are in the low 20% on apparel for global production.
Sam Poser - Sterne Agee - Analyst
Okay. Thanks. All my other questions have been answered. Thank you.

Bryan Timm - Columbia Sportswear - CFO
Thank you, Sam.

Operator
Your next question is from Howard Tubin with RBC Capital Markets.

Howard Tubin - RBC Capital Markets - Analyst
Hey guys, just give me kind of the slowdown we are seeing in the overall retail environment. Have you thought about maybe not going full board with more advertising and marketing and at least the first half of 2008 and postponing until the environment is a little bit better and the customers are a little bit more willing to spend money? Have you thought about that at all?

Bryan Timm - Columbia Sportswear - CFO
Well, we've looked at our spend ratably across the various quarters. And we believe that in order to support the initiatives that we have in place for spring of OMNI-SHADE and TECHLITE, we really need to hit those things hard and we believe that we can be in tactful in terms of traffic and demand at our customers and our wholesale customers locations.

Howard Tubin - RBC Capital Markets - Analyst
Okay. Thanks a lot.

Bryan Timm - Columbia Sportswear - CFO
Thanks.

Operator
Your next question is from Sara Hasan with McAdams Wright Ragen.

Sara Hasan - McAdams Wright Ragen - Analyst
Hi, everyone.

Bryan Timm - Columbia Sportswear - CFO
Hi, Sara.
Sara Hasan - McAdams Wright Ragen - Analyst

In October, you had mentioned that the OMNI-SHADE and TECHLITE were going to soft launch in Florida and Texas in January and I was just wondering some on the early read on how it's going, is it being well received? I think the weather there might also be a factor this year.

Bryan Timm - Columbia Sportswear - CFO

I know specifically in footwear in Florida, we've had some very encouraging results, but it's quite small by comparison of the total shipment. So we are reluctant to pop the champagne cork here this early. But it certainly being among the best sales troughs that we've had in a weekly basis for sometime and certainly in spring products. OMNI-SHADE, we are getting our first read from some of our catalog customers. I just spoke today to one of our sales team and it looks like, I guess, we should say we are very encourage by the results so far. But they are small samplings and, but they are encouraging.

Sara Hasan - McAdams Wright Ragen - Analyst

Great. Thanks.

Bryan Timm - Columbia Sportswear - CFO

Thanks.

Operator

Your next question is from Brad Kragan with Goldman Sachs.

Brad Kragan - Goldman Sachs - Analyst

Yes. Hello. Can you provide a little bit more detail around some of the actions you are taking in Europe and with [McNeill] over there, how is your view of that market changed and can you just provide an update on the progress you are making there?

Bryan Timm - Columbia Sportswear - CFO

Certainly. Well, I guess I would say that I'm even more convinced of the size and scope of the opportunity for the company in the market, in the direct market of the EU that we currently serve. I would say the primary changes are really under the category of marketing and product. So again as it relates to product, we've become much more integrated with our global team headed by the folks here in Portland to confirm that the products that we are choosing for European line are in sync with what we know to be true about consumers demands in the outdoor space here in the U.S. and the rest of the globe. And that's an area where we just frankly didn't perform very well in terms of linking the company's strengths and product offerings well enough. Secondarily, I would say in marketing, our European team had focused its marketing dollars on areas that just didn't have a high return. We had a lot of athlete endorsement in Europe that just didn't have the kind of resonance to our customers that direct appeals via either magazine ads, internet, or billboards have to a consumer. So, we know so well here in the U.S. Even we want to increase our marketing spend in Europe for '08 over '07, we think we are going to have a much more focused and much more responsive activities. So, I would say those are the two primary categories where change has occurred. We also have a significant manager in Christian Finell whose got a lot of experience in handling European management and we think that plus the addition of David Kiser, who most have you know from our [IR director] here at Columbia, are really going to be important for the company to have stability and connection to the U.S. So we are encouraged.
Brad Kragan - Goldman Sachs - Analyst
And when will that re-align the product to be sold, is that for spring '09?

Bryan Timm - Columbia Sportswear - CFO
I think we started with spring '08 and there's been additional adoption for fall '08 and really the complete integration, I would say, would be spring '09.

Brad Kragan - Goldman Sachs - Analyst
Okay. Thank you.

Bryan Timm - Columbia Sportswear - CFO
Thanks.

Operator
(OPERATOR INSTRUCTIONS) And there are no further questions at this time. Mr. Parham, you may proceed with any closing comments.

Ron Parham - Columbia Sportswear - Director of Investor Relations
All right. I would like to thank everyone for joining us today and we look forward to continuing the conversation in the months ahead. Have a good evening.

Operator
This concludes today's conference. You may now disconnect.