Conference Call Transcript

COLM - Q2 2008 Columbia Sportswear Earnings Conference Call

Event Date/Time: Jul. 24, 2008 / 5:00PM ET
Good afternoon. My name is Jamaria and I will be your conference operator today. At this time, I would like to welcome everyone to the Columbia Sportswear second quarter '08 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).

Thank you. I would now like to turn the conference over to Mr. Ron Parham, Director of Investor Relations. Please go ahead, sir.

All right, thank you, Operator. Good afternoon and thanks for joining us on today's call. With me today are Columbia's Chairman, Gert Boyle; President and CEO, Tim Boyle; Chief Operating Officer and CFO, Bryan Timm; and General Counsel, Peter Bragdon.

We'll start today's call with prepared remarks, reviewing the results of the second quarter, and provide color around our full year and third quarter revenue and earnings guidance that was also included in today's earnings announcement. Then we'll open it up to your questions.

Before we begin, Gert has an important reminder.
I’d like to remind everyone that this conference call will contain forward-looking statement 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 described in Columbia's quarterly report on Form 10-K for the year ending December 31, 2007, and subsequent filing with the SEC. Forward-looking statement 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 Company - Director of IR

All right. Thanks, Gert. Tim? I’ll hand it off to you.

Tim Boyle - Columbia Sportswear Company - President, CEO and Director

Thanks, Ron. Welcome, everyone, and thank you for joining us this afternoon. By now, I’m sure you’ve had a chance to review the earnings release and financial schedules that we issued earlier this afternoon, covering the results of our second quarter and our revised guidance for the remainder of 2008. I’m going to focus most of my comments on our strategic initiatives and let Bryan review the financial highlights.

But I do want to take a moment to lay the context for our discussion.

My mother has always told me at dinner time to eat the foods on my plate that I didn't like first, so I could finish with a good taste in my mouth from the foods I did like. It was good advice, and I think it's great advice now, approaching today's conference call.

The weak US and European retail environments have been well documented, and we were clearly affected by those headwinds. Second quarter net sales declined $5.5 million or 3% compared with last year's second quarter. On a regional basis, this decline is isolated to the US, where net sales decreased $21.5 million or 18% to $95.6 million.

Looking at the top line on a global basis, by category, the decline from last year's second quarter was isolated in sportswear, which was down $8.9 million or 7%. From a brand perspective, the second quarter net sales decline can be primarily isolated to the Columbia brand, which was down $6 million or 3%. Thus, the net sales decline is almost entirely due to lower sales of Columbia brand in the US. And that decline can be attributed to the unexpectedly high volume of cancellations we received on our Spring order book during the quarter.

Nearly all of our largest retail partners reported negative sales comps through the quarter, and most of them have stated their intentions to continue managing their consolidated inventories lower over the course of 2008. To add further insult, most of the northern half of the US experienced a late arrival of Spring weather, causing an added delay in consumer purchases of shorts, T-shirts and sandals, which comprised a significant portion of our seasonal Spring assortments.

This naturally resulted in delayed sell-through at retail, and coupled with our customers' increased emphasis on reducing their inventory levels, triggered order delays, fewer fill-in orders, and more cancellations than we expected.

In our EMEA direct business, second quarter net sales declined high single digits, reflecting the economic headwinds and the product and sales challenges we’ve described in previous quarters. Our new European management team continues their hard work to re-establish healthy alignment in our EMEA direct markets, and to return that important region to sustainable growth as soon as possible. Because the second quarter is typically our lowest volume quarter, the lower-than-expected net sales meant that we were not able to fully absorb the increased investments we are choosing to make in demand creation and expansion of our retail store network.

Although we controlled our spending to be well within our plans for the quarter, the 3% decline in our top line resulted in a net loss of $1.8 million or $0.05 per share compared with net income of $10 million or $0.27 a share last year, and our previous guidance for earnings per share of approximately $0.03.

We currently have no evidence to suggest that the US or European retail or consumer environment will improve noticeably before 2009. As a consequence, we have revised our full year 2008 revenue guidance to a 3% decline from 2007, and our full year's earnings per share guidance to approximately $2.60 to $2.70 per share.
That takes care of the hard-to-swallow topics for today. Now let me turn to the portion of our results that taste better and go down a little easier.

Looking outside the US, each of our other three geographic regions reported net sales growth during the second quarter on a GAAP and on a constant dollar basis. EMEA sales increased 13%, including a 9% benefit from foreign currency exchange rate differences. Canadian sales increased 18%, including an 11% exchange rate benefit, and LAAP sales increased 20%, including a 3% exchange rate benefit.

Looking at the EMEA region as a whole, strong double digit growth in net sales to our independent distributors more than offset high-single digit net sales declines in our EMEA direct markets. The increased sales to EMEA distributors reflects earlier shipments of our Fall '08 products in this year's second quarter, compared with shipments of our Fall '07 line, most of which occurred in last year's third quarter. So although we experienced Fall '08 sales to EMEA distributors to be up from last year on a full season basis, the strong double digit growth in sales to EMEA distributors we reported in the second quarter will be partially offset in the third quarter by lower shipments compared to last year's third quarter.

Men's Omni-Shade and Techlite products both performed well in the US markets that experienced warm weather through the second quarter, and they've shown increasing momentum as warmer weather has spread to other markets. In particular, our Techlite launch was highly concentrated in water sandals, which naturally rely on warm weather to drive consumer participation in water sport activities.

Our sales and demand planning groups are working together to use that knowledge to formulate more strategic delivery flows for future seasons in order to shorten the sell-through cycle, and increased turns and profitability for us and our retail partners.

The Spring '08 Omni-Shade apparel and Techlite footwear launches in the US were our first attempt at executing an integrated product launch around seasonal marketing initiatives. While we were pleased overall with our team's performance, we also identified several ways in which we believe we can improve the consistency of our execution across key markets, as we evolve our go-to-market strategy to a global scale.

We're gearing up for a similar effort in Fall '08, built around our waterproof, breathable Omni-Tech outerwear and our Winter footwear launch, featuring Techlite cushioning technology.

Our strong balance sheet improved further during the second quarter, with cash and short-term investments up $62.9 million from one year ago, to $327.4 million compared to $264.5 million. And we remain free of any long-term debt.

We delivered on our plan to reduce inventory levels on a year-over-year basis, ending the quarter at $272.9 million versus $309.7 million last year, a decrease of 12%. We continued to normalize our inventory levels, and based on our current sales expectations and our Fall 2008 purchase plans, expect our inventory levels to trend downward during the third quarter. Inventory levels at the end of 2008 compared with December 31, '07 will depend on the volume and timing of sales of Fall '08 products versus the volume and timing of receipts of Spring '09 purchases.

Our strong balance sheet gives us the confidence and flexibility to continue our investment and strategic initiatives during this economic cycle to position the Company for sustainable, profitable long-term growth.

We remain committed to investing in enhanced marketing and demand creation efforts, building an expanded retail footprint, and continuing our renewed commitment to innovation across our broad line of outdoor apparel, footwear, and accessories. We see these strategies as critical ingredients to successfully elevating and differentiating the Columbia brand in the minds of consumers around the world. We believe these investments will begin to produce an increasingly positive impact on consumer demand and sell-through, when the current macroeconomic uncertainties begin to ease.

I'll now hand off to Bryan for additional financial highlights.

Bryan Timm - Columbia Sportswear Company - COO and CFO

Thanks, Tim, and good afternoon, everyone. Tim covered the highlights on our top line and key balance sheet items, so I'll pick up on gross margins and quickly work down the rest of the income statement and cash flow.

Second quarter 2008 gross margins decreased 120 basis points, compared to last year's second quarter, to 40.2%, primarily due to increased discounts and close-out product sales and higher production costs. These unfavorable factors were partially offset by the favorable gross margin effect of our US retail expansion, some increased ASP's internationally, and improved foreign currency hedge rates.
SG&A expenses increased $12.1 million over last year's second quarter and $91.3 million or 42.8% of sales. This SG&A increase was in line with our previously communicated plans to increase our marketing investments to support our brands and to fund the start-up costs of our new retail stores. The 660 basis point increase, compared to last year's second quarter, was amplified by the top line shortfall in our smallest volume quarter.

Operating loss for the second quarter was $4.3 million versus operating income of $12.4 million in last year's second quarter. We reported a net loss of $1.8 million or $0.05 per diluted share in the second quarter of 2008, compared with net income of $10 million or $0.27 per diluted share in the second quarter of 2007.

Tim already touched on our improved cash and inventory positions. Our cash flow was also benefited from a 6% reduction in consolidated accounts receivable at June 30, to $172.6 million. Capital expenditures were $14.2 million during the second quarter of 2008, primarily reflecting our US retail expansion.

During the second quarter, we repurchased approximately 107,000 shares at an aggregate price of $4.4 million. Through June 30, 2008, we've repurchased a total of 7.7 million shares or $360.7 million since the beginning of the program in 2004, leaving us approximately $39.3 million for future purchases under the current $400 million authorization. Also today, we announced that Columbia's Board of Directors approved a third quarter dividend of $0.16 per share.

Now turning to financial guidance. Please keep in mind that this information is forward-looking in nature and is therefore subject to certain risk factors. I should also reiterate Tim's comment that our visibility is currently hindered by the unpredictability of the US retail environment. We believe that we have appropriately factored in what we current know and what we currently sense about the market; but we've also learned much in the last 90 days how quickly things can change.

With that as a backdrop, based on Tim's earlier discussion of the headwinds we're experiencing in the US and EMEA direct markets, combined with our planned retail expansion and the estimated effect of foreign currency exchange rate differences, we now expect full year 2008 revenues to decline approximately 3% from fiscal 2007.

We now expect full year 2008 consolidated gross margins to contract approximately 50 basis points from 2007 levels. The assumptions behind this projection include an increased proportion of discounted sales and higher production costs. We expect these pressures to be partially offset by increased contribution from our retail operations, some increased ASP's internationally, and favorable foreign currency hedge rates.

As Tim noted, we remain committed to investing in incremental demand creation during 2008 in support of our brands. Together with initial investments and incremental operating costs of our new retail stores, we expect full year 2008 SG&A expenses as a percentage of consolidated net sales to increase by approximately 440 basis points compared with 2007 levels.

Based on the above projections, we expect to generate operating margins of approximately 10%, and diluted earnings per share of approximately $2.60 to $2.70 for the full year 2008. We are currently planning approximately $45 million in capital spending during 2008, with approximately $30 million of that related to our retail expansion, and $15 million related to maintenance CapEx, and to a lesser extent, distribution capacity projects.

Looking specifically at Q3, we expect net sales to decrease approximately 4%. We currently expect Q3 operating margin contraction of approximately 330 basis points, primarily due to a 310 basis point increase in SG&A expenses related to our strategic initiatives. As a result of these assumptions, we currently expect third quarter earnings per share of approximately $1.44.

I'll conclude my remarks by reintegrating the unanimous commitment of our management team to use our very strong balance sheet to invest in our brands and our operations, to create sustainable, profitable long-term growth platforms despite our lowered sales and earnings expectations for 2008. We are working diligently around the world to make these strategies successful, so that our investors can begin to see the expected benefits and our financial performance as soon as possible.

I'll now hand the call back to Tim for his closing comments.

Tim Boyle - Columbia Sportswear Company - President, CEO and Director
Thanks, Bryan. Before we turn the call over to your questions, I'd like to take a couple of minutes to emphasize the point that Bryan just finished on. The second quarter was clearly disappointing, and our view of the US market is that it is likely to remain difficult for the rest of this year, at least.

We feel confident about the investments we're making in new, long-term growth platforms, and the financial flexibility provided by our fortress balance sheet to make these investments during an otherwise difficult economic cycle.

We talk a lot about increased marketing and retail expansion as the two distinct elements of our strategy, but just focusing on these two elements oversimplifies the organizational and operational opportunities we've identified and have begun to pursue over the last 18 to 24 months. Ultimately, every element of our strategic plan is intended to elevate and differentiate Columbia's brand in the minds of consumers around the world and to re-energize demand for our brands.

In the consumer marketplace, strong brands with innovative products and emotional connections with consumers have proven to command higher price points and to attract superior retail partners. We started our transformation with a renewed emphasis on product innovation that solves real customers'/consumers' needs, and enhances their experience in the outdoors. These innovations serve as the fuel for our expanded demand creation efforts, that will seek to communicate with consumers on a more inspirational and aspirational level, in order to build stronger emotional connections.

Our first line retail stores and key markets will provide stages on which we can showcase the breadth of these innovative products, using in-store merchandising tools that convey the core brand and performance messages at the point of sale. For our retail partners, we will have more innovative products to offer and an improved seasonal flow cadence to keep our product assortments fresh at retail, and entice consumers with continual innovation and newness.

Taken together over time, we believe these strategic investments are necessary to elevate and differentiate our brands, and thereby change the composition of our business. We are already beginning to see the early indications of the potentials of these investments, and are confident they will eventually benefit our business worldwide.

Finally, today's call would not be complete without a little dessert, complements of the Tour de France and Team Columbia. Most of you know that athletic and team sponsorships have never been a significant component of our marketing strategy. The Team Columbia idea was first brought to our attention in mid-April by John Stanton, one of our Board members. After contemplating the opportunity, we decided that a connection to professional cycling had the potential to speak to a large cross-section of our consumer base, especially in Europe, where cycling enjoys a nearly fanatic following, much more than we are familiar with here in the US.

Team Columbia competes in hundreds of men's and women's races held in countries all over the world year-round. Add to that the fact that cycling enthusiasts tend to be people who also enjoy a wide variety of outdoor sports that are at the heart of Columbia's brands and Columbia's heritage, and you understand why the deal made sense to us.

When we finally agreed to terms in early June, about three weeks before the start of the tour, none of us could have imagined the overwhelming flood of positive publicity Team Columbia has generated around the world for the Columbia brand. Team Columbia has given our brand an immeasurable boost, not only in the US, but especially where we need it most right now -- in Europe.

Coincidentally, our three biggest market opportunities in Europe are France, where the Tour de France takes center stage for three weeks; the UK, homeland of 4-stage winner and Olympic Gold Medal hopeful, Mark Cavendish; and Germany, the home of today's stage winner, number 18-stage Marcus Burghardt.

Through today, Team Columbia has claimed five stage victories, the most by any team so far in this year's tour. The excitement about Team Columbia has extended well beyond Europe. By our latest count, over the last three weeks alone, over 10,000 articles in roughly 80 countries have featured the successes of Team Columbia. Not included in those numbers are the thousands of conversations in the blogisphere that we've been able to glimpse, but not to track numerically.

We've also received a huge number of calls and emails asking about the availability of Team Columbia apparel. In response to that interest, we are working to have an assortment of off-bike styles in stores, beginning in November. I'm looking forward to congratulating each of the Team Columbia riders on their personal accomplishments and thanking them for the positive impact they've brought to this year's tour.
We look forward to watching many of the individual team members compete for their country at next month's Olympic games, and to follow Team Columbia through future professional cycling seasons. It's our belief that the strategic investments we've been making, coupled with catalysts like the one provided by Team Columbia, are reenergizing our brands and will produce improved financial results in the years ahead.

Thank you very much for listening. We'd be happy to field any questions.

Operator, can you help us?

**QUESTION AND ANSWER**

**Operator**

(OPERATOR INSTRUCTIONS). Bob Drbul, Lehman Brothers.

**Bob Drbul - Lehman Brothers - Analyst**

Tim, just a couple of questions on -- the cancellations in the inventory, can you just discuss your ability to react to these cancellations? Like how much of this inventory has or will quickly be sort of re-marketed to different accounts? You know, your plans to sort of dispose of the cancellations.

And I guess the bigger question that I have is, what sort of adjustments have you made now on -- when you looked at where your backlog was at the end of March versus where you are today, how are you planning the Fall business from the cancellation risk perspective that you now really see out there?

**Tim Boyle - Columbia Sportswear Company - President, CEO and Director**

Great. On the first question, Bob, we've re-marketed virtually all the canceled merchandise from the second quarter cancellations. So, they haven't shown up in -- because we haven't shipped them yet, but they're basically, virtually, 100% sold. So the re-marketing effort was quick and efficient. That's baked into the guidance for the future.

We've also gone through an exhaustive review of our entire Fall book. And we believe that the guidance we've given today is a result of the order by order look at what our expectations are for the balance of the year.

**Bob Drbul - Lehman Brothers - Analyst**

Can you quantify a little bit in terms of the magnitude of the adjustment that you're making on -- like, for -- from an order perspective with the factories?

**Tim Boyle - Columbia Sportswear Company - President, CEO and Director**

Oh, I'm sorry. We have basically no ability to cancel any factory orders. So the guidance we've given is a function of the inventory that we own and our expectations for liquidation.

**Bob Drbul - Lehman Brothers - Analyst**

Got it. And on the cancellations, can you talk about the breadth of cancellations? Was it one retailer? Was it one channel? Was it several retailers, just how that whole thing unfolded for you?

**Tim Boyle - Columbia Sportswear Company - President, CEO and Director**
It really mirrored the Company's volume across all channels and was probably -- could arguably be centered in most of our customers that are publicly held. So that the announcements that they've been talking to their investors about in terms of managing their inventories was quite impactful to us in this quarter.

**Bob Drbul - Lehman Brothers - Analyst**

And then one final question for me is on Mervyns -- can you talk about the exposure that you guys have to Mervyns and how you're managing it?

**Tim Boyle - Columbia Sportswear Company - President, CEO and Director**

It's virtually zero. So, they are a customer, but our financial exposure is virtually zero and any order business which is very, very low -- any orders which are low are already baked -- our expectations are baked in the guidance.

**Bob Drbul - Lehman Brothers - Analyst**

Okay, thank you very much. Good luck.

**Kate McShane - Citigroup - Analyst**

I think you said last quarter there would be an additional 350 basis points [you said] in SG&A this year, and this quarter you said there would be, I think, 440 basis points. So can you just walk us through what has changed with that guidance?

**Tim Boyle - Columbia Sportswear Company - President, CEO and Director**

I'll ask Bryan to answer that question.

**Bryan Timm - Columbia Sportswear Company - COO and CFO**

Sure. I know when we spoke three months ago, Kate, I mean, we talked a lot about the absolute dollars in terms of SG&A build. And I think three months ago, our expectation at that time was maybe about a $50 million in absolute dollar build of our SG&A.

Now, in our current expectation, that number has probably dropped to about $45 million. And again, most of that being the variable component, which is really a reduction in sales. So again, from a basis point perspective, again, with the lack of sales or our sales coming off our previous expectation by $68 million or so, that's obviously changed the basis points from a percentage standpoint.

**Kate McShane - Citigroup - Analyst**

Okay. So it's deleveraging and not increases, then?

**Bryan Timm - Columbia Sportswear Company - COO and CFO**

Correct.
Kate McShane - Citigroup - Analyst

Okay. And then the second question I had -- you mentioned in your prepared comments that higher production costs impacted your COGS during the quarter. Is that -- are we talking about higher sourcing costs in terms of material and labor? Or are we just talking about transportation? And if we are talking about higher sourcing costs, are you planning to increase prices to your retailer? And if you haven't, when do you plan to do so?

Bryan Timm - Columbia Sportswear Company - COO and CFO

Right. Well, with respect to higher production costs, really you could take out a couple -- in a couple different ways. Number one, yes, you're right, and raw material costs certainly increased. Obviously with the oil prices and what-not, some of our freight rates have also increased.

But really what I was trying to get at is more related to just our overall sourcing based in Asia -- pretty much a fixed cost for us. And those costs are basically spread on a unit basis over the production. And obviously, the production volumes, as certainly seen in our inventory levels from a year ago in the second quarter, have dropped significantly; and therefore, giving really a higher cost per unit in the second quarter. So, that's also what I would expect for the balance of the year.

With respect to our ability to pass those on in our prices, we've already gone to market for Fall. And we've also already gone to market for Spring '09. So we're out there right now getting pre-costs for the Fall '09 book of business, and we'll have to see what kind of increases ultimately develop there, and whether or not we have the ability and price elasticity to pass those on to our customers.

Tim Boyle - Columbia Sportswear Company - President, CEO and Director

Yes, just to follow-on, Kate. I mean, our expectation is that any price increases that we get will be passed on to our customers.

Operator

John Shanley, Susquehanna.

John Shanley - Susquehanna Financial Group - Analyst

What is the level of order backlogs for both domestic and international at the end of Q2?

Tim Boyle - Columbia Sportswear Company - President, CEO and Director

John, we announce our order backlog twice a year -- once at the end of first quarter for Fall and once at the end of third quarter for Spring. So, we haven't announced -- and we wouldn't announce until Q3 -- end of Q3.

John Shanley - Susquehanna Financial Group - Analyst

Based on the cancellations and everything else that you just outlined for us, would it be a fair assessment to anticipate that the order level would be down to some degree?

Tim Boyle - Columbia Sportswear Company - President, CEO and Director

Well, I wouldn't necessarily assume that. We've basically given guidance which contemplates our expectations for the balance of the year.

John Shanley - Susquehanna Financial Group - Analyst
Okay. All right. And based on that third quarter guidance you just gave us, Tim, it appears that the fourth quarter results will be down about 45% on an operating and profit basis. Would this cause you to rethink some of the Company's strategic initiatives that you just outlined for us, specifically the retail expansion plans?

Tim Boyle - Columbia Sportswear Company - President, CEO and Director

Absolutely not. No, we feel that the best use of the Company's balance sheet, which is quite significant, is to take advantage of the strengths that we have in times like this and to make investments where we think they're appropriate to re-energize the business. So, we're planning on continuing our investments as planned.

John Shanley - Susquehanna Financial Group - Analyst

Okay.

Bryan Timm - Columbia Sportswear Company - COO and CFO

John, if I could interject too, as it relates to just other -- you know, I mean, Tim is talking about more of the strategic investments that we're making, which again, center around our retail expansion and really the additional marketing spend that we have this year for demand creation.

But again, as we look down the rest of the Company's operating cost structure, we're certainly looking for those levers that we can pull to pull back as we see the shortfall in the top line. So, we've done that to a small extent in the second quarter; some personnel cost reductions and what-not. And we'll continue to assess that as we go through the balance of the year, and obviously, when we see our first snapshot of what we believe our Spring '09 book of business is going to be.

John Shanley - Susquehanna Financial Group - Analyst

When would you get that, Bryan? Would that be before or after magic?

Bryan Timm - Columbia Sportswear Company - COO and CFO

We wouldn't have the bulk of the Spring orders in until the end of September.

John Shanley - Susquehanna Financial Group - Analyst

[December], okay. Turning to the regional source for a second, what's the level of productivity that you need to justify the rents that I'm sure you're going to be paying in, like the North Michigan store that was just announced, as well as the Mall of America and that big unit that was just announced? Can you give us an idea of what your productivity would be in order to meet the pro forma that you have laid out, in terms of those stores' contribution to the Company's bottom-line results?

Tim Boyle - Columbia Sportswear Company - President, CEO and Director

Yes, John, this is Tim. We baked those -- the results into the guidance that we've given you in a lump sum form. We're not sure exactly when those things are going to come online, so we've baked in our best estimates. And we would expect that over time, those stores would be highly productive. But we don't intend to release financial metrics on those things -- on the stores, because the expectation is they, even though they'll be important for brand building and they'll be a contributor to the business, we don't expect that they're going to be a high percentage of the revenues.

John Shanley - Susquehanna Financial Group - Analyst

Okay. Are you still planning for 15 outlet stores and 5 first-line and three Mountain Hardware stores for this year, Tim? Is that the game plan?
Tim Boyle - Columbia Sportswear Company - President, CEO and Director

Yes, I think those numbers are roughly correct -- the 15 being outlet stores and five Columbia's and three Mountain Hardware's. It may be that they move up or down one or two, depending on our ability to complete construction and inventory -- excuse me, and availability of real estate, et cetera. But those are roughly correct.

John Shanley - Susquehanna Financial Group - Analyst

Okay. Good enough. Thanks a lot. Appreciate it.

Operator

(OPERATOR INSTRUCTIONS). Sam Poser, Sterne, Agee.

Sam Poser - Sterne, Agee & Leach, Inc. - Analyst

I have a quick question on the SG&A. How does that break down (technical difficulty) how do you see it breaking out --?

Tim Boyle - Columbia Sportswear Company - President, CEO and Director

Sam, your phone cut out there, so we couldn't hear your full question.

Sam Poser - Sterne, Agee & Leach, Inc. - Analyst

Oh, I'm sorry. The SG&A increase, how (technical difficulty) I guess the [$45 million] -- how does that break (technical difficulty) --?

Bryan Timm - Columbia Sportswear Company - COO and CFO

This is Bryan, Sam. I apologize, but for whatever reason, I'm not picking up your question whatsoever. But I'm going to try to interpret what I believe I heard the question to be.

Sam Poser - Sterne, Agee & Leach, Inc. - Analyst

Can you hear me?

Bryan Timm - Columbia Sportswear Company - COO and CFO

The incremental SG&A spend for 2008, that roughly is split between advertising being one major component, the other major component being really the ramp up costs with our retail expansion.

Sam Poser - Sterne, Agee & Leach, Inc. - Analyst

And so that's -- can you hear me?

Bryan Timm - Columbia Sportswear Company - COO and CFO

It's really rough.
Sam Poser - Sterne, Agee & Leach, Inc. - Analyst

I'll dial back in and try to ask -- get back on.

Bryan Timm - Columbia Sportswear Company - COO and CFO

Okay.

Sam Poser - Sterne, Agee & Leach, Inc. - Analyst

Thank you.

Operator

Sara Hasan, McAdams Wright Ragen.

Sara Hasan - McAdams Wright Ragen - Analyst

Could you talk a little bit about your balance sheet? And particularly, the cash balance that continues to grow? It just looks a little like you're almost hoarding it, and I'm just wondering why.

Tim Boyle - Columbia Sportswear Company - President, CEO and Director

Well, I know Bryan has some comments he wants to make, but I can tell you, in periods of economic uncertainty such as we're certainly going through today, a very strong, even fortress balance sheet is a real comfort, frankly -- number one.

Number two, it allows us to make decisions, even though they may in the short-term be somewhat painful, but it allows us to make decisions and strategic initiatives -- invest in strategic initiatives, which for the long-term, are going to be good for the business. So, I'm comfortable with the balance sheet composition as it is.

We're mindful that it's the responsibility of management to have returns on all parts of the assets of the Company. And we believe that today, we're using them correctly. But Bryan may have some additional comments.

Bryan Timm - Columbia Sportswear Company - COO and CFO

Well, the only other comments I'd like to make are just really around -- you know, at the end of Q2, our balance sheet position. Again, I think we commented 90 days ago that we expected our inventory levels to trend down, certainly in Q2, which happened. But again, please note that we did end up coming short on our expectations for the top line of about $18 million this quarter.

So again, I think from a working capital perspective, we're encouraged from what happened at the end of Q2. But again, I think as we look out for the balance of the year, yes, we would continue to believe inventories to trend down, but I'm not sure that at the end of the year, if there's necessarily a big build of cash over that it was December 31, 2007.

Sara Hasan - McAdams Wright Ragen - Analyst

Are you looking at acquisition opportunities in difficult times like this? Or do you feel like you kind of have your hands full?

Tim Boyle - Columbia Sportswear Company - President, CEO and Director
Well, I think, frankly, the best use of the Company's assets and its most important asset at that time of its managers is to really be focused on the business today. That will frankly be the highest return for the Company. But there are -- in times like this, a strong balance sheet attracts opportunities, and we would certainly look at those and measure them as to how well they would fit with our current operating model. But I can tell you that the Company is very focused on fixing those issues that we see right now in the business.

Sara Hasan - McAdams Wright Ragen - Analyst

Okay. And then just may I ask -- how is morale within the Company?

Tim Boyle - Columbia Sportswear Company - President, CEO and Director

Well, you know, things -- times like this are difficult. It requires management to be strong and to have a solid plan. And I think when you walk around the buildings here today, and we're a global company, we have significant -- I wouldn't say ebullience, but people understand what the plan is and where we're going. And so they take a great amount of pride and a great amount of solace in the fact that the Company has got a plan for fixing the business. That's number one.

Number two, we always talk about the balance sheet and the fact that it allows the Company to be doing things that don't require desperation. And the Team Columbia thing doesn't hurt either. That's been a significant morale improver.

Sara Hasan - McAdams Wright Ragen - Analyst

Good. Thank you.

Howard Tubin, RBC Capital Markets.

Howard Tubin - RBC Capital Markets - Analyst

Can you give us any more specifics or any more details surrounding your marketing plans for the Fall season?

Tim Boyle - Columbia Sportswear Company - President, CEO and Director

Yes, Howard. As you know, we announced that we've added -- we've changed the advertising agency that the firm has been using, and we put together a new -- an agreement with a new advertising agency based in the Bay area.

So the plan is to increase the amount of spend on direct marketing to consumers and to re-energize the brand through basically a slight adjustment in our messaging to consumers. Still going to include a healthy component of Gert, but it's also going to include basically the concept of fighting to take back the outdoors for everyone. And that's going to be the overriding theme of the new campaign.

It launches here in probably another two, three weeks. And I think it will show consumers how the brand really is, in addition to being a broadly popular brand, it's also -- as a number of athletes who might be considered regular people. So that's the primary focus of the ad campaign. But additionally, as you know, the Team Columbia initiative here has just been spectacular in terms of brand awareness with a very passionate group of outdoor enthusiasts. So, I would say the -- in concert, the expectation is that the brand awareness and the thoughts about the brand are going to be considerably higher in the second half.

Howard Tubin - RBC Capital Markets - Analyst

Got it. Great. Thanks. And then just one follow-up on the balance sheet question. Any thoughts to maybe buy stock back more aggressively over the next couple of quarters?
Tim Boyle  -  Columbia Sportswear Company - President, CEO and Director

Well, we, as a habit, don't comment on our future plans as it relates to share buyback. But I think you can see that the Company's got obviously a number of areas to utilize cash appropriately, and that's one of them.

Howard Tubin  -  RBC Capital Markets - Analyst

Okay, thanks.

Operator

Sam Poser, Sterne, Agee.

Sam Poser  -  Sterne, Agee & Leach, Inc. - Analyst

Hi, can you hear me better now?

Tim Boyle  -  Columbia Sportswear Company - President, CEO and Director

That's better, Sam.

Sam Poser  -  Sterne, Agee & Leach, Inc. - Analyst

All right, thank you. What was the cost of the Team Columbia deal?

Tim Boyle  -  Columbia Sportswear Company - President, CEO and Director

I'm sorry? What was the cause?

Sam Poser  -  Sterne, Agee & Leach, Inc. - Analyst

The cost, the cost.

Tim Boyle  -  Columbia Sportswear Company - President, CEO and Director

Oh, I'm sorry. Well, we have an agreement with the owner of the team which stipulates that we have -- it's completely confidential in terms of the cost. But I can tell you it's been the -- it's the most expensive deal the Company has ever done, but it's been highly rewarding.

Sam Poser  -  Sterne, Agee & Leach, Inc. - Analyst

Okay. And then I just need -- I just want to verify one thing and then I have one other question. With the -- you had mentioned in another -- somebody else's question -- that you really can't cancel your factory orders. So, your guidance -- I just want to clarify that your guidance is based, then, on the potential discounts that you're going to have -- that you will be giving to your retail accounts with the excess inventory due to the cancellations?

Tim Boyle  -  Columbia Sportswear Company - President, CEO and Director
So, yes, the guidance includes our planned liquidation of Spring '08 product that was canceled in the second quarter. And that's already been sold, so, that's a known number. And then it's our expectation of the sum of our sales at full price, our reorder sales and canceled sales, which will have to be liquidated.

**Sam Poser - Sterne, Agee & Leach, Inc. - Analyst**

Okay. And did you take into account in any of that guidance -- in that thought process, sort of the fast-changing atmosphere in the United States, as you had mentioned is going on. And as three months ago, you wouldn't have expected what happened today, have you taken into -- have you been very conservative in that thought process, saying, this could still get worse, kind of idea, or are you seeing what you're seeing and taking that as today? If that makes any sense.

**Tim Boyle - Columbia Sportswear Company - President, CEO and Director**

It makes perfect sense. We've spent a lot of time on it. We've basically analyzed our order book exactly as you've described.

**Sam Poser - Sterne, Agee & Leach, Inc. - Analyst**

Okay. And then just one last thing, on the marketing. You had mentioned on the last call that you -- and it's in your heritage -- that you think you are an authentic outdoor brand. And you really don't like the word fashion. But I mean, people are going to buy those -- the jerseys for the cycling as a fashion piece.

I mean, if it's authentic and there's fashion attached to it, or style, I mean, how -- are you working closer to sort of -- to get the two closer together without --? You know. Do you understand what I'm saying? You know, making it more stylish fashion -- you don't like the word fashion, but --

**Tim Boyle - Columbia Sportswear Company - President, CEO and Director**

No, we consider that our products have to be appropriate for the time and they have to be colored right and have to be desirable. So those are all parts and parcels of what we put into our product mix.

The cycling jerseys themselves are not made by us nor are they sold by us. They're sold by a firm that has licensing rights and does that -- that's their only business, is cycling jerseys. So, those will be bought by enthusiasts. We hope lots of people will buy them and wear them around, but they aren't going to be impactful on our revenues at all.

We are going to offer what we call off-bike apparel, which would be fan apparel or training apparel. So, a biking enthusiasts could wear some of our terrific outdoor products while he's training. And some of them will be colored and embellished close to the uniform. But they're not going to be the cycling jersey.

**Sam Poser - Sterne, Agee & Leach, Inc. - Analyst**

And then, I'm sorry, one last thing -- with the new outlet stores, I mean, is there a chance that you may increase the opening of those outlet stores, because it would clearly be a more profitable way of liquidating of some of these excess -- of this excess inventory or the potential excess inventory?

**Tim Boyle - Columbia Sportswear Company - President, CEO and Director**

Well, we think we have an opening schedule which is appropriate for our investment and talent here and for the size of the market. And so we're going to be sticking right to the plans as announced.

**Sam Poser - Sterne, Agee & Leach, Inc. - Analyst**

Okay, thank you very much.
Tim Boyle - Columbia Sportswear Company - President, CEO and Director

Thanks, Sam.

Operator

(OPERATOR INSTRUCTIONS).

Tim Boyle - Columbia Sportswear Company - President, CEO and Director

All right. Well, thank you very much for listening to us and we look forward to joining you in October for our third quarter conference call.

Operator

Ladies and gentlemen, thank you for participating in today's Columbia Sportswear second quarter '08 financial results conference call. You may now disconnect.