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PRESENTATION

Operator

Good afternoon. At this time, I would like to welcome everyone to the fourth quarter 2008 earnings release 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. Mr. Parham, you may begin.

Ron Parham - Columbia Sportswear - Senior Director of IR & Corporate Communications

Thank you, Rachel. Good afternoon, and thanks for joining us on today’s call.

Earlier this afternoon, we issued an earnings release and financial schedules covering the results of our fourth quarter and full year 2008, and also guidance on our expectations for the first quarter of 2009. The press release and financial schedules are available on our website, the Investor Relations portion of our website at www.Columbia.com.
With me today to discuss the results and answer your questions are Columbia’s Chairman, Gert Boyle; President and CEO, Tim Boyle; Vice President of Finance and Chief Financial Officer, Tom Cusick; Executive Vice President and Chief Operating Officer, Bryan Timm; and Vice President and General Counsel, Peter Bragdon.

Before we begin, our Chairman, Gert Boyle, has an important reminder.

**Gert Boyle - Columbia Sportswear - Chairman**

Good afternoon.

I would like to remind everyone that this conference call will contain forward-looking statements regarding Columbia’s business opportunities and the 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 consequently filing with the SEC. 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 changes in our expectations.

**Ron Parham - Columbia Sportswear - Senior Director of IR & Corporate Communications**

Thank you, Gert. And Tim will take it over from here.

**Gert Boyle - Columbia Sportswear - Chairman**

Thanks, Ron. Welcome everyone, and thank you for joining us this afternoon.

We were pleased with our fourth quarter results, which came in slightly better on an operating basis than the guidance we gave back in October. The winter weather that arrived in key markets in December helped to stimulate demand for outerwear, cold weather footwear and accessories. Combined with gross margins that were better than we anticipated our operating results, excluding impairment charges, were $0.15 per share above the midpoint of our October guidance.

Before going into detail on Q4 results, I want to take a look at 2008, which was a year of investment for Columbia. We used our fortress balance sheet and strong cash flow to begin investing in several strategic growth initiatives. Virtually all of our incremental $45 million SG&A spend during 2008 was focused on the two strategies we articulated at the beginning of the year, to expand our retail operations and to increase our brand marketing and advertising. The goals of these investments tore elevate our brand, to increase consumer and retail awareness of the full depth and breadth of our offerings, and to bring stronger emotional connections with consumers over time.

We renewed our focus on technical innovation and enhanced design across all of our product categories. Our Omni-Shade, Omni-Tech and Tech Light generated strong sell-throughs for our retail partners during a year of very challenging consumer headwinds. In 2009, we will add Omni-Shield technology for advanced repellency against liquids and stains, extending our technical performance foundation for future innovations that are already under development for 2010 and beyond.

We continue to build a strong footwear team that is bringing meaningful innovation to the outdoor footwear market. Anecdotal feedback from last week’s Outdoor Retailer Show in Salt Lake City gives us increased confidence in the new course we are charting in this important category.
We developed and launched a new global branding campaign in partnership with a new advertising agency. The Pioneers of Columbia's Greater Outdoors is a global platform that speaks to the accessibility of the outdoors for everyone. While our best products are frequently used for summit assaults, we want to be the brand of choice for anyone with a passion for the outdoors. Especially during challenging economic times, the outdoors offers affordable activities for everyone of every skill level.

In November we opened four branded stores, one at the Portland International Airport, one at the Mall of America in Minneapolis, and a Columbia store with an adjacent Mountain Hardwear store in Seattle. Along with the new Portland Mountain Hardwear store that we opened in April, we met our goal of opening five branded retail stores during '08. We opened 16 new outlet stores around the world in 2008, including 15 in the US and one in the UK. This channel is becoming increasingly important to help cushion the impact of the seasonal nature of our business, and the volatile and unpredictable consumer environment that we expect to continue.

We also began developing an eCommerce platform that is scheduled to launch this summer. We are very excited about the prospect of offering consumers online access to our products, and information about how our technology has addressed their performance needs. Equally as important, we see the platform as a critical channel to enhance our wholesale business, by increasing our emotional connection with consumers, learning more about their needs and driving more innovation to meet those needs.

We improved the management of our European operation, and realigned the European product assortment, creating a platform to tell our performance innovation story and leverage our global brand positioning in those important markets. In November, we hosted a customer showcase event in Geneva, during which we previewed our Fall '09 product line, our technical innovations, and our new brand marketing strategy. In attendance were over 170 executives from a broad cross-section of European retailers, and 17 members of the press. Feedback for the event was very encouraging, and we believe this was an important step in regaining the trust and commitment of our key European retail partners, and forging new relationships with regional trade press.

Our European marketing efforts benefited in 2006 from the success of team Columbia High Road, our cycling team, which made a very successful debut at the last year's Tour de France, and finished 2008 as the number one cycling team in the world, with more stage victories than any other team. The positive exposure they generated equated to billions of consumer impressions, and elevated the Columbia brand around the world. The team began the 2009 season last week at the Australian Tour Down Under, and we are looking forward to a very -- to another very successful year as a co-sponsor.

While we were making all of those investments, we were also able to return over $100 million in cash to shareholder through a combination of share repurchases and dividends, and ended the year with cash and short-term investments totaling over $250 million, and zero debt. These accomplishments were consistent with our strategic plan, and our team performed well under stressful market conditions.

But opening stores and running ads is the easy part. What really matters now is how quickly we are able to turn the investments into sustainable, profitable growth platforms. It should come as no surprise to hear me say that the additional marketing investments we made during the year were overshadowed by negative consumer sentiment, and have not yet generated the level of brand momentum we had hoped. Consumers in many key markets around the world are recalibrating their spending habits to reflect an economy that continues to deteriorate. Our wholesale business is facing some very serious headwinds -- excuse me, as retailers continue to shrink their inventory levels, not only in an attempt to match reduced consumer spending but also in order to generate cash in order to pay down lines of credit, or to pay off looming debt maturities.

Store counts are contracting, bankruptcy filings are a greater threat, and large retailers are relying more on their private label brands, reducing their reliance on advanced bookings from vendors in favor of at-once orders, and being more aggressive in canceling advance orders at the first sign of sluggish sell through. Similarly, our own retail stores have not performed at the level of profitability that we had planned.
The sudden deterioration in consumer activity, and in the financial health of our retail partners since the third quarter, has led us to reexamine the net sales assumptions we used in formulating our business plans for 2009. While we will not comment publicly on our full year 2009 net sales assumptions until April, when we have completed our fall ’09 bookings, we do want to share information today about a number of decisions we have made to reduce and/or postpone operating expenses. The first two areas where we have made adjustments are in the pace of our retail expansion and brand marketing. While we continue to believe that these investments are strategic imperatives in the long run, we decided to allow the markets to stabilize before moving forward as aggressively as we had originally planned.

As a result of our reduced full year 2009 sales expectations, we have tabled plans to open branded retail stores in several key metro areas in the US, and made adjustments to our 2009 marketing and advertising budgets. We are also implementing additional steps to manage personnel and other overhead expenses across the entire organization.

We plan to move forward with our previously announced plan to open a branded store on Chicago’s Michigan Avenue in late 2009, and are also maintaining our plans to open additional outlet stores, primarily in the US and in Europe, to provide a more profitable channel for inventory liquidation. We will continue to closely monitor market conditions, and make necessary adjustments as the year unfolds.

Before I turn the call over to our new CFO, Tom Cusick, to review the financial results, I want to welcome Tom, and recognize the contributions he has already been making since joining the company in 2002 as a key member of the finance team. During these challenging times, we are very fortunate to have someone of Tom’s skills and familiarity with our business able to step in and take over seamlessly, as Bryan Timm completes his transition to Chief Operating Officer.

Tom?

**Tom Cusick** - Columbia Sportswear - VP of Finance, CFO

Thank you, Tim and good afternoon, everyone.

Fourth quarter net sales decreased 6% to $354.9 million, with changes in foreign currency exchange rates contributing three percentage points of that decrease. Looking at Q4 2008 net sales on a regional basis compared with Q4 2007, US sales declined 3% to $205 million, as a low double-digit percentage decline in wholesale sales was partially offset by a significant increase in retail sales, primarily due to the opening of 15 new outlet stores during the year. As planned, we finished the year with 28 US outlet stores.

EMEA sales declined 21% to $59.9 million, including a 3% drag from foreign currency exchange rates. Net sales in our Europe direct business declined by more than one-third, reflecting the misaligned assortments and market positioning in the region that we’ve mentioned in previous calls. We expect Spring 2009 to continue to be challenging for us in that region. Our EMEA distributor business showed strong double-digit growth, consistent with advanced orders scheduled for delivery during the fourth quarter.

Net sales in Canada declined 12%, including a 14% currency headwind. Net sales in our LAAP region increased 6%. Strong double digit growth in our Japan subsidiary was aided by a mid-teens percentage benefit from currencies. Conversely, our Korean subsidiary reported a double-digit decline in net sales, due to currency headwinds in excess of 30%. On a constant dollar basis, net sales increased in both Japan and Korea. Net sales to our LAAP distributors contributed mid-teens growth.

Looking at fourth quarter net sales by product category, compared with Q4 2007, outdoor net sales declined $10.5 million or 6% in the fourth quarter, with lower Columbia and Pacific Trail brand sales partially offset by an increase in Mountain Hardwear brand sales. Sportswear net sales declined $9.4 million or 8%, due to lower Columbia and Mountain Hardwear brand sales. Footwear, and accessories and equipment were down approximately 1% and 6% respectively. From a brand perspective, the
6% decline in fourth quarter net sales can be primarily isolated to the Columbia brand, which was down $24.4 million or 7%, partially offset by a $3 million or 50% increase from Sorel, and 1% growth from Mountain Hardwear.

Gross margins decreased by 10 basis points in the fourth quarter, primarily due to geographic mix and the unfavorable effects of foreign exchange rates, partially offset by a reduced mix of close-out sales and higher proportion of our own retail sales compared with last year’s fourth quarter. SG&A expense increased 10% to $114.4 million, representing 32.2% of fourth quarter net sales compared to 27.6% in last year’s fourth quarter. This increase in SG&A was in line with our previously-communicated plans to increase our investment in marketing, and to fund our retail stores expansion plan to drive consumer demand for our brands.

In the separate category for impairment of acquired intangible assets, we incurred a $24.7 million pretax charge, or approximately 46% per diluted share after tax, for the writedown of acquired intangible assets related to the Pacific Trail and Montrail brands, predominantly goodwill and trademarks. $16.1 million related to the Pacific Trail brand, and $8.6 million to the Montrail brand. These brands have not achieved our sales and profitability objectives, and the deterioration in the macroeconomic environment and the resulting impact on consumer demand have decreased the probability of realizing these objectives in the near future. Going forward, we remain committed to marketing and distributing Montrail brand footwear through the outdoor specialty, running specialty, and sporting goods channels, while the Pacific Trail brand will become a licensing model in 2009. Operating income for the fourth quarter was $12.4 million, including the $27.4 million impairment charge, 3.5% of net sales compared to 15.1% of net sales last year.

Turning to income taxes, we recorded a $5 million tax benefit in the fourth quarter, due to increased foreign tax credits and the favorable conclusion of a European tax examination, for which the combined effect contributed approximately $0.22 per diluted share to the quarter. Income tax expense for the fourth quarter of 2007 was $12.9 million, equating to a 22% tax rate, and included a $0.14 per diluted share benefit, resulting from the favorable conclusion of certain European tax examinations. Net income for the fourth quarter of 2008 was $18.6 million or $0.55 per diluted share, compared to $45.7 million or $1.26 per diluted share for the fourth quarter of 2007.

For full year 2008, our gross margins expanded by 30 basis points to 43.1%, and were up in all product categories. Gross margin expansion was the result of a lower volume of close-out product sales, some increased average selling prices, partially offset by the negative effects of geographic mix and changes in foreign currency exchange rates. SG&A expense increased 430 basis points to 32.7% of sales, as planned for 2008, primarily as a result of our direct-to-consumer retail expansion plan, and incremental marketing investments.

Operating income for full year 2008 was $118.7 million or 9% of sales, including the impairment charge, as compared to $199.1 million or 14.7% of sales in 2007. The full year 2008 effective tax rate was 24.7%, compared with 30.6% for 2007. The decrease in our tax rate resulted primarily from generating a higher proportion of our income from jurisdictions with lower overall tax rates, increased foreign tax credits, and the favorable conclusion of a European tax examination. Net income for full year 2008 was $95 million or $2.74 per diluted share, including the $0.46 per diluted share impairment charge, as compared to $144.5 million or $3.96 per diluted share of last year.

Turning to the balance sheet, in comparing December 31, 2008 balances to December 31, 2007, the balance sheet remains very strong, with cash and short-term investments totaling $253.1 million, versus $273.5 million at the same time last year. Consolidated accounts receivable was essentially flat at $299.6 million, compared to $300.5 million last year. As would be expected in this environment, our accounts receivable portfolio was slightly more aged at December 31st, 2008, as compared to the same time last year. In addition, we have increased our allowance for doubtful accounts to approximately 3% of accounts receivable. We are actively managing our credit risk, and to date we have not had any material writeoffs.

Consolidated inventories decreased 4% to $256.3 million, compared to $265.9 million last year. We expect inventory levels to decline on a comparative year-over-year basis throughout 2009. However, we are carrying excess levels of Fall 2008 inventory in the US, which will negatively impact gross margins in the first quarter of 2009. This is primarily the result of order cancellations
for Fall 2008, stemming from poor macroeconomic conditions and reduced consumer demand. Capital expenditures were $15 million for the fourth quarter and $48 million for the year, consisting of approximately $13 million in maintenance CapEx, and $35 million in CapEx related to retail expansion and other capacity initiatives. Depreciation and amortization expense for the quarter was $7.9 million, and $31.2 million for the year.

For full year 2008, we generated approximately $145 million in cash flow from operations, spent approximately $48 million in capital, paid $22 million in dividends, and repurchased approximately $84 million in Columbia stock. Since the beginning of the program in 2004, we have repurchased a total of approximately 8.7 million shares or $400 million in Columbia stock, and have $100 million available under the current authorization. Today, we announced that Columbia’s Board of Directors approved a first quarter dividend of $0.16 per share.

Now let’s turn our attention to financial guidance. Please keep in mind that this information is forward looking in nature, and is therefore subject to certain risk factors. The worldwide economic environment is creating a high degree of uncertainty around consumer demand, and other factors that affect our business, significantly limiting our visibility.

Based on our previously-recorded Spring backlog, and our current view of retail activity, we currently expect Q1 2009 consolidated net sales to decline approximately 10% to 12%, compared with the first quarter of 2008, which includes approximately 4 percentage points of negative foreign currency impact. And we estimate EPS to be in a range of $0.04 to $0.08 per diluted share, compared with $0.56 in last year’s first quarter. This model anticipates approximately 8 points of first quarter operating margin contraction, consisting of approximately 4 points of gross margin contraction and 5 points of SG&A expansion, partially offset by increased licensing income. The gross margin decline was largely the result of higher close-out sales of excess inventory at significantly lower gross margins, most of which have already been booked.

In addition, we expect continued weak consumer demand, and a more promotional retail environment, to be partially offset by favorable hedged currency rates. The SG&A increase in absolute dollars is primarily from the Company’s retail expansion investments, and consists of the incremental run rate expenses of stores opened in 2008, combined with the start-up and the pre-opening costs of new retail stores and our eCommerce operation. We are still early in our process of taking orders for the Fall 2009 season, so consistent with our prior practice, we will wait to comment on the factors that we believe will influence full year 2009 sales and profitability until our first quarter conference call in April, when we have substantially completed our Fall bookings.

I will hand the call back to Tim for his closing comments.

Gert Boyle - Columbia Sportswear - Chairman

Thanks, Tom. Prior to encountering these unprecedented headwinds, Columbia Sportswear has enjoyed ten years of steady growth, from $350 million in 1997 to over $1.3 billion today. Despite very real near-term economic challenges, we believe that we are just beginning to tap the potential of our brands in large categories like outdoor footwear, and in large markets like Europe and Asia. Our innovative products offer consumers superior performance at great value. We believe this positioning will help us build momentum when the economy improves.

The current economic environment has made top line visibility very limited, making it more important than ever for us to look closely and critically at all areas of our business for efficiencies. We remain committed to using our fortress balance sheet and strong cash flow to pursue the growth opportunities we have articulated, while removing and reducing operating costs wherever possible.

Thank you. Operator, could you please help us with Q&A?
QUESTIONS AND ANSWERS

Operator

Thank you. (Operator instructions). Our first question comes from the line of Bob Drbul of Barclays Capital. Your line is open, sir.

Bob Drbul - Barclays Capital - Analyst

Hi, good afternoon.

Gert Boyle - Columbia Sportswear - Chairman

Hi, Bob.

Bob Drbul - Barclays Capital - Analyst

Tom, nice job.

Tom Cusick - Columbia Sportswear - VP of Finance, CFO

Thank you.

Bob Drbul - Barclays Capital - Analyst

Nice job for your first call. Congratulations.

Tim, the question that I have for you on the -- on the outlook for 2009, you talked about, you know, making these judgments with a reduced 2009 sales outlook. Can you just -- how much of your book -- order book for the fall of 2009 is completed? Can you give us any sort of parameters about how to think about 2009 in aggregate?

Gert Boyle - Columbia Sportswear - Chairman

Well, we've -- as you know, we are really being disciplined about talking about the balance of the -- the second through fourth quarter of '09, after we have a higher degree of visibility. We do have some orders, and I would say that they are probably consistent with the -- the rate at which we received orders in the past. We don't have anything particular that we want to talk about, as it relates to that book. However, when we look at the overall consumer demand, the impact of continued layoff announcements, and just the general malaise within the economy, we feel it would be imprudent to be ebullient about 2009 from a top line basis. So we are just being very cautious, and we believe we will have a lot more to talk about at the next conference call.

Bob Drbul - Barclays Capital - Analyst

Okay. And just some questions on -- from the advertising. Can you give us the 2008 total advertising expense, in terms of the percentage of sales, and can you elaborate a little bit more on sort of how to think about that from an expense perspective on a percentage of sales or any targets or ways to think about that as we look at our 2009 estimates?
Sure. I’m going to ask Tom to give the specifics on ’08, but let me tell you about ’09. We believe that because of the nature of the competitive environment for marketing resources, advertising costs, et cetera, for ’09, just based on the economy, that with a reduced marketing budget, we will be able to nearly get the same amount of gross impressions that we had in ’08. And that’s certainly our plans, to just be much more efficient and make a smaller ad budget, give us about the same general impact. But I will ask Tom to elaborate on the ’08 number.

Tom Cusick - Columbia Sportswear - VP of Finance, CFO

Yes, Bob. Our advertising expense as a percent of sales was up a little over 120 basis points from 2007.

Bob Drbul - Barclays Capital - Analyst

Okay. Okay. Great. And then on the inventory side, you know, have you had significant cancellations, Tim, or are there -- how should we think about, you know, really what’s happening right now at retail and how it played out, you know, the last few weeks or the last few months, and where you are for inventory?

Gert Boyle - Columbia Sportswear - Chairman

Certainly. Well, we believe that the inventory levels that we’ve got for Spring are appropriate and -- although they may be -- you know, depending on what happens through the balance of this year, or the balance of this season, may be slightly elevated. But the bulk of the inventory issues we’re talking about were ’08 inventory levels for Fall. We had cancellations, which would in a normal year not be that significant, but this is a year, obviously, of unusual proportions. So we had some extra inventory. We haven’t actually shipped that merchandise, but we have a home for it, and it’s basically a combination of our own outlet stores, stores that Columbia typically sells to our regular customers, and then the value channel as well.

Bob Drbul - Barclays Capital - Analyst

Great. Thank you very much.

Gert Boyle - Columbia Sportswear - Chairman

Thanks, Bob. Operator, while we are waiting for the next question, I did want to make sure that I covered one issue that you may have seen on the other 8-K that we filed this afternoon, where we disclosed a change in control provision that our Board approved last week. Before anybody reads anything dramatic into that, I just wanted to make sure that they understood it was not done in anticipation of any transaction and, in fact, was first brought up with our Board in discussions early this year -- excuse me, early last year, in ’08.

As you know, these type of provisions are very common for public companies of our size, and we found it increasingly important to have in place as we continue to try to recruit top industry talent. I just also want to point out that Gert and I are not participants in this plan, and I hope it puts into proper perspective any questions anyone might have on that topic.

Operator

Thank you. Our next question come from Reed Anderson of DA Davidson. Your line is open.
Reed Anderson - DA Davidson - Analyst

I guess first question on gross margins. I mean, obviously for the first quarter you take a big hit because, you know, to clear the inventory, but reasonable to assume we should see a snap back in Q2? I know you don't want to give guidance or an expectation. But I mean, is that a reasonable assumption, that we should get back to something more normalized as we move outside of Q1?

Gert Boyle - Columbia Sportswear - Chairman

Yes, Reed, we are going to try and be real disciplined about our future guidance. These times are quite difficult and we -- we are better approaching it as really just talking about Q1. I hope you understand.

Reed Anderson - DA Davidson - Analyst

I understand. That's fine. Tim, thinking about -- thinking about just sales and trends and that sort of thing, I'm just curious, if you look at your kind of core channels of distribution, whether it be department stores or sporting good stores or whatever, any meaningful differentiation there in terms of whether it's cancels or sell-through? Anything that's notable by channel for you guys?

Gert Boyle - Columbia Sportswear - Chairman

No, it's not really. We have seen variable reports, some with exceptional sell-throughs and some with less so. But it's not isolated to any particular channel. In fact, even geographies are a little bit more difficult to analyze. So it's a time when we have, you know, just a significant amount of variability in the business.

Reed Anderson - DA Davidson - Analyst

Okay, and then just a couple more. On Sorel, was that -- you know, the performance there, fairly decent. Was that largely -- would you attribute that to weather, or is there other stuff going on there that would have contributed to that?

Gert Boyle - Columbia Sportswear - Chairman

I think certainly the weather was helpful, not only for Sorel but also the Columbia cold-weather footwear business that we have. But we see a significant level of interest in Sorel with the new positioning that we have put in place, where we have a higher emphasis on women's footwear than we have had in the past. And I think if we could look to anything, in terms of the historical impact of Sorel, it's been the solid performance of the classic styles, the Caribou, et cetera, but then the additional boost on the women's footwear that Sorel has been producing for 2008 and into the future.

Reed Anderson - DA Davidson - Analyst

Okay. That's helpful. And then the last one, I'm just curious, the move -- taking Pacific Trail to basically a licensed model. Is the cost save there from not having to have the infrastructure, is it meaningful or is it just nominal?
Gert Boyle - Columbia Sportswear - Chairman

I would say it's nominal. You know, that's been a channel that's -- we had hoped to learn quickly and be a significant player in, but it's taken us quite a long time to get that. We feel that's the appropriate approach on Pacific Trail.

Reed Anderson - DA Davidson - Analyst

That's it for me. Thanks. Good luck.

Operator

Thank you. Our next question comes from Mitch Kummetz of Robert Baird. Your line is open.

Mitch Kummetz - Robert W. Baird - Analyst

Yes, thanks. I have a number of questions. First of all, just in terms of the fourth quarter that you reported, a little messy in terms of the impairment charge and some tax items, but Tim I think you said early in your prepared remarks you came in $0.15 above the midpoint of your guidance. I'm assuming that's a pro forma number that, if I do the math correctly, gets me to around $0.80. Is that the pro forma number that you guys are reporting here?

Tom Cusick - Columbia Sportswear - VP of Finance, CFO

Mitch, that's a combination of both the sales and the expanded gross margin relative to the -- to the midpoint guidance.

Mitch Kummetz - Robert W. Baird - Analyst

Okay. And then on the inventory, how much of the total is excess? Do you expect to flush all of that excess over the course of the first quarter? And what is your inventory target for the end of Q1? How much do you expect it to be down on a percentage basis from last year Q1?

Gert Boyle - Columbia Sportswear - Chairman

I'm not sure that we've calculated that with any specificity. Not because of the revenue number that we expect, but more when we take possession on -- the shipment side of inventory.

Mitch Kummetz - Robert W. Baird - Analyst

Okay.

Gert Boyle - Columbia Sportswear - Chairman

So we have seen, obviously, as factories have less to do over there, we have more timely shipments. Even some advanced shipments from time to time. So we don't really know with specificity what our receipts are going to be.
Okay. But could you say how much was excess at the end of Q4, and whether or not you expect to flush the majority, if not all of that, over the course of the first quarter?

I think our expectation is that this -- a significant amount of inventory is going to be shipped in Q1 at lower margins, as we said, and thus the economic impact on the earnings that we have planned for Q1. Our goal, as we said, is to make sure that we are going to reduce our inventory levels every quarter for '09.

Okay, and then a quick question on the advertising. I think in response to Bob's question earlier, Tom, you had said SG&A -- or excuse me, advertising expenses was up around 120 basis points from last year. Could you provide a little context to that? I mean, what was the percentage for the year, or maybe last year, so we can kind of calculate that?

We -- we have historically not gotten into that level of granularity, so I would prefer not to.

Okay. Can you maybe answer it this way. Your SG&A, I think, was up around $45 million in absolute dollars from '07 to '08. How much of that increase was advertising?

Roughly a third.

Okay. All right. That's helpful. And then just quickly on the -- on the -- looking at the margins, starting with the first quarter here that you guys are providing some guidance for, FX impact there? I mean, FX has been good to you guys, based on your hedging. I assume at some point that's likely to turn, as some of the hedge rates I would imagine would be at less favorable rates going over the course of '09. Do you still expect, you know, FX to have a positive impact on gross margin in the first quarter? And when might that turn negative, if you expect it to turn negative?

Yes, it could potentially -- it depends which region you are talking about. Given the swift change if the Canadian dollar dating back to the month of September, you know, there's certainly some pressure there for the year. But as it relates to Europe and Japan, yes, there may be some pressure in the back half.
Okay. All right. And then you mentioned in the press release, in your comments, that you made adjustments to your marketing and advertising budget for '09, is that already effective in Q1, or is there some lag there just based on, you know, having already planned things, you know in advance?

Gert Boyle - Columbia Sportswear - Chairman

Yes, Mitch, our Q1 spend is pretty much booked and baked. So the impact will be, you know, primarily in the back half of the year, or the latter three quarters.

Mitch Kummetz - Robert W. Baird - Analyst

Okay. All right. And a couple last items. Tim, when you think about, you know, your performance over the course of the fourth quarter, particularly on the outerwear business, how judge that relative to the environment? I mean, do you feel like you outperformed the competition? Did you pick up market share? How do you kind of gauge that?

Gert Boyle - Columbia Sportswear - Chairman

I think when we look at our retailers' sell-through, we have much more visibility today than we have ever had, we're kind of proud of the way we performed and, in fact, we could even be complimented. But, frankly, there was a combination of just significant uncertainty among our customers in terms of their own health and plans, as well as our concerns about, you know, customers that we want to be on the right focus, as it relates to extending credit to those folks. So -- when we look at the sell-through information that we have, we are actually quite pleased with our performance. So the fourth quarter was -- you know, a very unusual period, and one that I hope we don't have to go through for quite some time.

Mitch Kummetz - Robert W. Baird - Analyst

All right. Well, the relative outperformance is good to hear. And then last question, you guys mentioned that on the Spring backlog there's been some order cancellation. Are you also seeing that retailers are asking to have delivery dates pushed out to where, you know, maybe there's some -- some shipments moving from the first quarter potentially into the second quarter?

Gert Boyle - Columbia Sportswear - Chairman

Actually, Mitch, when we talk about order cancellations, they were primarily fourth quarter merchandise -- you know, Fall merchandise canceled in the fourth quarter. It wasn't Spring.

Mitch Kummetz - Robert W. Baird - Analyst

Oh, okay.

Gert Boyle - Columbia Sportswear - Chairman

Actually, to date, our experience on cancellations is quite benign.
Okay. That's also good to hear. Okay, that's all I had, thanks.

Operator

Thank you. (Operator instructions). Our next question comes from the line of Jim Duffy of Thomas Weisel. Your line is open.

Jim Duffy - Thomas Weisel Partners - Analyst

Hi, thanks.

Gert Boyle - Columbia Sportswear - Chairman

Hey, Jim.

Jim Duffy - Thomas Weisel Partners - Analyst

How is everyone? I've got some questions for you guys. So in the fourth quarter, the weather was favorable but the Holiday shopping was very back-end weighted. At what point during the quarter did you start seeing the cancellations? Was it really in December, or did they start to come even earlier than that?

Gert Boyle - Columbia Sportswear - Chairman

I don't have the data in front of me, but I'm guessing that we had cancellations all through the quarter, and -- yes, I think probably more heavily weighted in the late November, early December timeframe but, frankly, those cancels would have been more benign, just based inventory [they've] already been shipped. So I would say it's [ratably] probably over the quarter, but I don't have that information right at my fingertips.

Jim Duffy - Thomas Weisel Partners - Analyst

Okay. Thanks, Tim. And I'm hung up with one thing. Looking at reported revenue levels, which came in kind of ahead where you guided to, and then inventory levels, where there's some excess, what's the dynamic with the product flow that kind of explains how sales came in better but you had a lot of excess inventory?

Gert Boyle - Columbia Sportswear - Chairman

Well, we had merchandise that we were shipping directly from factories to customers around the world that are distributors that -- that occurred in Q4, as it typically does. And, frankly, we just had more cancellations than we expected in Q4. That's the result of resulting excess inventory, but we have been, as we discussed -- we've talked a lot about our focus on reducing inventory levels, and actually had hoped to have a smaller inventory level at the end of Q4 than we actually ended up with.

Jim Duffy - Thomas Weisel Partners - Analyst

Okay. And then you mentioned, with regards to the Spring orders, cancellations have been relatively benign. But is it too early in the season to really know what the impact there on canceled orders might be?
Jim Duffy - Thomas Weisel Partners - Analyst
To -- help us understand that, like at what point can a retailer cancel an order and not field some sort of penalty from that?

Gert Boyle - Columbia Sportswear - Chairman
Well, you have to look at it in a couple of ways, Jim. One might be a retailer canceling an order because he doesn't want the merchandise. The other may be, you know, deteriorating economic conditions which may preclude us from shipping an order. So there's a few different things there. Our typical policy is to -- is to require retailers to give us 45 days advanced cancel, but in this period, frankly, we've -- we've seen cancels inside that.

Jim Duffy - Thomas Weisel Partners - Analyst
Okay. And then I'm kind of looking Fall sell-through at retail. On a relative basis, as you look out to Fall '09 orders, would you expect to see more strength in the outerwear or the sportswear, just based on the performance at retail?

Gert Boyle - Columbia Sportswear - Chairman
Excuse me. Frankly, I would see our biggest strength in our accessory and winter boot product category. And as well as outerwear, but again we want to be real cautious not to not talk about the future without a significant degree of visibility.

Jim Duffy - Thomas Weisel Partners - Analyst
I can appreciate that. Thank you so much, and good luck.

Operator
Thank you. Our next question comes from the line of Howard Tubin of RBC Capital Markets.

Howard Tubin - RBC Capital Markets - Analyst
Just looking at the moderate-priced department store channel, and the real extreme weakness we are seeing there. Would you consider selling Columbia into some new channels where you haven't distributed historically?

Gert Boyle - Columbia Sportswear - Chairman
Such as?
Howard Tubin - RBC Capital Markets - Analyst

Such as maybe -- maybe the warehouse clubs, something like that?

Gert Boyle - Columbia Sportswear - Chairman

No, you know, the -- the margin models in those clubs make it very difficult for the rest of our distribution to be -- to be excited about competing at those levels. So we have not thought about that.

Howard Tubin - RBC Capital Markets - Analyst

Okay. Thanks.

Operator

Thank you. Our next question comes from the line of Chris Svezia with Susquehanna Financial. Your line is open.

Chris Svezia - Susquehanna Financial - Analyst

Good afternoon, everyone. I have a couple of questions here. I guess first, Tim, just for clarification here, not to beat a dead horse on the inventory, but just when you look at the composition of the inventory, any color you can add between when you look at outerwear and sportswear and footwear, is it across-the-board, or is it more heavily weighted on the outerwear and on the sportswear piece of the business? Any color around that, where that inventory is from a product perspective?

Gert Boyle - Columbia Sportswear - Chairman

Sure. We are talking about the Fall '08 inventory excess that we're liquidating in Q1 and that, I would say, is primarily sportswear, although there's a little bit of outerwear.

Chris Svezia - Susquehanna Financial - Analyst

Okay. All right. That's helpful. And then just switching gears, on the SG&A, and given, obviously the growth initiatives that you've had in 2008, and as you look to 2009 and you kind of obviously looking to make some consolidation here, obviously looking at the marketing spend, and I know you recently had an announcement in terms of cutting some overhead. But are there any other areas where you see some opportunities? If you could maybe just talk to them, and how you are going to kind of balance between continuing to make brand-developed investments, while trying to offset that with obviously a reduction in incremental overhead? How are you balancing that in this environment?

Gert Boyle - Columbia Sportswear - Chairman

Well, as we said, virtually everything is on the table in terms of a review for -- for its viability to -- for growth for the business. So we're looking at every single line item. As it relates specifically to the marketing category, we are seeing significant softness in the pricing models of the typical vehicles that we would use to market our products, i.e. television, magazines, et cetera. And those -- those markets are allowing us to have a reduced marketing budget, and still end up with about the same gross impressions. So we are basically looking at every line item on the statement, and we are pushing on our vendors as well to make sure that we have the appropriate pricing from a cost of goods sold basis. But there are some opportunities for us to -- to maintain our position on our brand strength for less investment.
Okay. All right. But it seems like the incremental pressure might be there, as you at least go through the first half of ’09, as you obviously anniversary store through and some of the initiatives that you had put in place, and obviously abated somewhat -- at this point, as you go through the second half of ’09? Is that a fair generalization?

I want to make sure I answer the question accurately, so could you repeat it? I’m sorry.

Sure. I guess what I’m saying is, as we look at 2009 and we look at sort of the first half, is it -- is it fair to just to assume that the -- sort of SG&A pressure is incrementally more apparent there? Just anniversarying the store growth and the unit growth from a year ago, relative to the second half?

Well, again, just -- I want to make sure that we really talk with some significant specificity about Q1. But I can tell that you we had many store openings last year in the latter part of the year, so -- I don’t have the store opening schedule in front of me but, again, we want to just try and avoid talking about anything other than the first quarter.

Okay. That’s fair enough, Tim. And while we are on the subject, here, just on the stores for 2009, I know you are cutting back here on the concept stores. But any color on the outlets, in terms of how many you expect to open again?

We have that -- I think -- I believe Tom has got that information.

Yes, we expect to open up to 15 outlets in the US during 2009.

Okay. And that’s on a base of 28, correct?

Correct.
Chris Svezia - Susquehanna Financial - Analyst

Okay, and then the last thing here, just on the -- in Europe, I guess you obviously saw the cancellations in the US piece of the business. Any color on Europe, whether or not you saw cancellations during the fourth quarter, and a general update there? Obviously, you showed some key product here in November, it seems like. Any thoughts about potentially starting to see some incremental turn, or is it going to kind of follow along the lines, the same way in terms of how the US business is unfolding?

Gert Boyle - Columbia Sportswear - Chairman

Again, we want to be -- as it relates to cancels, we did receive some cancels in Europe as well for fall '08. But again, we want to be real careful to talk with more specificity about Q1. The expectation has been for a long period of time that Europe will be a very significant part of our business in the future, and the investments that we're making, there both in personnel and in marketing are much more significant than -- than the pace of volume growth. So we're -- we have significant expectations for Europe, and we're hoping -- in April, we can talk a lot about the growth there, but right now we just want to avoid that.

Chris Svezia - Susquehanna Financial - Analyst

Okay. All right. Thanks. And Tom, just lastly, the tax rate for 2009, is that 24 -- how should we look at the tax rate there?

Tom Cusick - Columbia Sportswear - VP of Finance, CFO

So the year is a bit early to call, just given we don't know where that income is going to be located geographically, but for internal planning purposes, we are currently planning 32%.

Chris Svezia - Susquehanna Financial - Analyst

Okay. Thank you very much, gentlemen. I appreciate it.

Operator

Thank you. Our next question comes from the line of Sam Poser from Sterne Agee. Your line is open.

Sam Poser - Sterne Agee & Leach - Analyst

Good afternoon. Just a quick question. In -- what does your Russian business look like these days? You use a distributor there, and I heard there might be some issues with that distributor?

Gert Boyle - Columbia Sportswear - Chairman

Well, we do use a distributor there. He's had a very successful business. He's got a market share of some significance there, and a great brand awareness there, even rivailing some of the best names in sporting goods. Our Russian customer is strong financially. They had a structured bond deal which had a call provision early in the fourth quarter, I believe, which they were able to pay the bondholders in full, and -- as I understand it, and so we've got a -- what we consider to be the strongest distributor in Russia handling our products, and we're -- we're happy with the performance to date. We're close to the customer, and we expect that they are going to be solid for quite sometime.
Sam Poser - Sterne Agee & Leach - Analyst

Even considering the economic woes there?

Gert Boyle - Columbia Sportswear - Chairman

Well, again, it will be relative to others. And, again, with (inaudible) information, Sam, we really don't want to talk about anything past the first quarter. But yes, we don't expect that Russia is going to be immune from the issues around the world.

Sam Poser - Sterne Agee & Leach - Analyst

Okay. Thank you. And then have you changed the way you work with your retail partners? In the past you have pretty much set the price and then let them buy what they want, but left them to make their decisions. Are you working with them in any different manner these days?

Gert Boyle - Columbia Sportswear - Chairman

I want to make sure I answer the question appropriately. So we had a slightly increased amount of auto replenishment business with some of our larger customers, but other than that, I mean, we are still an advanced ordering system, future system with them.

Sam Poser - Sterne Agee & Leach - Analyst

How about like markdown support, that kind of thing? I mean, have you -- have you had -- do you have any margin agreements in place now? Because in the past you really haven't done that.

Gert Boyle - Columbia Sportswear - Chairman

No, we do not have any.

Sam Poser - Sterne Agee & Leach - Analyst

Okay. Thank you very much.

Gert Boyle - Columbia Sportswear - Chairman

Thanks, Sam.

Operator

Thank you. (Operator Instructions). Our next question comes from the line of Rick [Ludwick] of Levin Capital Strategies. Your line is open.
Rick Ludwick - Levin Capital Strategies - Analyst

Hi, thank you. Just some specifics on some numbers here. I think you mentioned in your commentary that of the 400 basis point decline in gross margin expected in Q1, a bulk of that was associated with the excess inventory overhang, which is about $0.20 a share. So if I'm trying to look at really excluding the -- you know, the excess inventory, once you get through that, the real earnings would have been something like instead of $0.04 to $0.08, let's call it $0.25 to $0.30 or something like that. Does that sound right?

Gert Boyle - Columbia Sportswear - Chairman

I don't think that's unreasonable.

Rick Ludwick - Levin Capital Strategies - Analyst

And so if I looked at sort of the year-over-year earnings, it is down roughly by half. And so is there any reason to believe that the earnings for the full year won't be down by about half as well, or is it the fact that you did some excess spending in the back half of last year that should enable you to do a little bit better than that in the back half of the year, just to try to frame the full year?

Gert Boyle - Columbia Sportswear - Chairman

Yes, given the limited visibility we are dealing with right now, it's too early to predict.

Rick Ludwick - Levin Capital Strategies - Analyst

I mean, I guess I'm trying to get a sense, if present conditions persist on a going forward basis, assume something changes for the next four quarters, is there anything in the back half of the year that will enable you to actually not show earnings down 30 or 40 or 50%? I mean, are there stuff that we can -- assuming nothing else changes, are there things that we can identify that are going to create less of an earnings decline in the back half of the year, and how much -- can you sort of frame how big that might be?

Gert Boyle - Columbia Sportswear - Chairman

Well, again, wanting to make -- this is Tim. We are wanting to make sure that we talk really about those areas where we have some specific visibility --

Rick Ludwick - Levin Capital Strategies - Analyst

Yes.

Gert Boyle - Columbia Sportswear - Chairman

We want to narrow the conversation. But if you wanted to broaden that to talk about, you know, potential competitors going out of business, and creating a little bit of buy, there could be a whole host of things that could impact business.
Rick Ludwick - Levin Capital Strategies - Analyst
Yes.

Gert Boyle - Columbia Sportswear - Chairman
In many ways.

Rick Ludwick - Levin Capital Strategies - Analyst
Okay. I understand. I know you have been asked that question a bunch of times. So I appreciate the attempt to answer it. Okay. Thank you.

Gert Boyle - Columbia Sportswear - Chairman
All right.

Operator
Thank you very much. There are no further questions at this time.

Gert Boyle - Columbia Sportswear - Chairman
Thank you all for listening in. We’ll talk to you with greater specificity about the balance of the year in April. Thank you.

Operator
This concludes today’s conference call. You may now disconnect.