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Conference Call Transcript

COLM - Q3 2007 Columbia Sportswear Earnings Conference Call

Event Date/Time: Oct. 25. 2007 / 2:00PM PT

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Good afternoon. At this time, I would like to welcome everyone to the Columbia Sportswear third quarter 2007 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)

Mr. Kiser, you may begin your conference.

David Kiser - Columbia Sportswear

Thank you, Janice. Good afternoon and welcome to Columbia Sportswear's third quarter 2007 financial results conference call. With me are Gert Boyle, our Chairman; Tim Boyle, Columbia's President and CEO; Bryan Timm, CFO; Pat Anderson, Columbia's COO; and Peter Bragdon, our General Counsel.

On our call today we will review the results of our third quarter, provide some guidance on future periods and fields any questions you might have. You can access a copy of the earnings release on our Company Web site.

We encourage you to ask as many questions during the call as you feel are necessary to understand the Company's business. As a courtesy to all participants we request that you limit your initial follow-up to one or two additional questions to allow all parties the opportunity to ask questions. We invite you to re-enter the queue if you have additional follow-up questions.

Before we begin, Gert has a comment to make.

Gert Boyle - Columbia Sportswear - Chairman

Good afternoon. I would like to remind everyone that this conference call will contain forward-looking statements regarding Columbia's business opportunities and anticipated results of operations. Please bear in mind that the forward-looking information is subject to many risks and uncertainties and actual results may differ materially from what is projected.

Many of these risks and uncertainties are described in Columbia's quarterly report on Form 10-Q for the quarter ending June 30, 2007. The forward-looking statements in this conference call are based on current expectations and beliefs; and we do not take 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.

David Kiser - Columbia Sportswear

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

Tim Boyle - Columbia Sportswear - President and CEO

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

Let's begin with a quick review of key financial results for the third quarter. Third quarter 2007 diluted earnings per share were \$1.72 on 36.4 million weighted average shares compared to \$1.67 on 36.1 million weighted average shares for the third quarter of last year. Q3 2007 net results, excuse me -- net sales increased 4% to \$471.1 million, driven by strong growth of Columbia brand outerwear in North America, Columbia brand sportswear in the U.S., and all major product categories in international distributor markets and offset by significant decreases in Pacific Trail outerwear sales in the U.S. and European apparel sales.

Gross margins declined 50 basis points in the third quarter, primarily due to an increased volume of spring close-out product sales and international distributor shipments, both at lower gross margins. Despite the incremental depreciation from our distribution capacity investments, we were able to control costs efficiently and operating margin contracted 40 basis points. Both gross and operating margins were stronger than forecast.

Let's turn our attention to some recent updates first focusing on our spring backlog announcement and followed by some key initiatives our management team is working on.

Backlog. Today we announced that our global spring backlog was essentially unchanged year-over-year at \$414.4 million as of September 30th, 2007. Excluding changes in currency exchange rates spring backlog decreased 3%. Consolidated backlog which includes both fall and spring global orders remained flat at \$692.7 million.

Geographically spring orders increased in our Asian direct and international distributor markets and decreased in the U.S., Canada and Europe. As reviewed by product category, global spring apparel orders were flat, spring footwear orders decreased modestly, and spring accessories and equipment increased modestly.

As commented in our last conference call, our U.S. retail customers experienced poor sell-through rates of our spring products, due primarily to wet and cool weather conditions in March and April of this year. The poor sell-through led to higher levels of U.S. order cancellations this year. Spring backlog reported a year ago increased 15% over the prior year; but it was negatively impacted by the significantly higher and normal levels of U.S. spring cancels this year. Revenue from the spring backlog reported today will be recognized when these orders are shipped, beginning late in the fourth quarter of this year and continuing through the third quarter of next year.

Product marketing and advertising initiatives. For spring 2008 we induced OMNI-SHADE and TECHLITE, two important products and marketing initiatives in apparel and footwear that reinforce the outdoor authenticity of the Columbia brand. The OMNI-SHADE and TECHLITE initiatives have worldwide importance and are major elements of our global go-to-market strategy. Our OMNI-SHADE initiative offers UPV rated sun-protective products designed to protect consumers from the harmful rays -- the harmful effects of the sun's ultraviolet rays. TECHLITE is a footwear product component and marketing initiatives featuring footwear products that integrate lightweight comfort with long-term durability.

Spring orders of our OMNI-SHADE and TECHLITE products were significant. We are pleased with our retail customers' acceptance of these product and marketing initiatives. For spring 2008 we have initiated a coordinated and targeting marketing advertising and public relations campaign globally that will educate consumers about OMNI-SHADE and TECHLITE.

Channel productivity initiatives. Enhancing channel productivity to improve our retail customers sales, turns, and margin has been and continues to be a key growth driver for the Company. In-store marketing programs and auto replenishment are key initiatives that are designed to enhance channel productivity. We continue to invest heavily in concept shops, and point of purchase display systems that promote a consistent brand image, enhance the appearance of our products and strengthen the consumer awareness of our brands and product initiatives at retail.

As we discussed last quarter, beginning in spring 2008 we will increase the number of less seasonal year-round styles that will be on auto replenishment programs. We recognize that increasing inventory for auto replenishment may have an impact on our inventory levels but these products have longer shelf lives than our traditional seasonal merchandise and are generally subject to fewer markdowns. We believe our OMNI-SHADE and TECHLITE initiatives and others we will establish will continue to reinforce the outdoor authenticity of our brands and drive retail sell-throughs of our product.

Increasing consumer brand awareness to strengthen the Columbia brand is a high priority of our management team. Through OMNI-SHADE, TECHLITE, and other initiatives we are increasing our focus on communicating the performance of the Columbia brand directly to consumers, to drive consumer demand and retail pullthrough of our products in all distribution channels.

Beginning in 2008, we anticipate that we will increase spending on marketing and advertising to support our key product initiatives. The increased advertising and marketing will significantly increase the number of consumer impressions of the Columbia brand on a year-round basis and will stimulate consumer demand for our products.

Retail. For the past year, we have been evaluating an increased focus on direct to consumer retail distribution in the U.S. to enhance our wholesale operations. In January of 2007 we hired a retail veteran and assembled an experienced retail team to evaluate our opportunities to improve our existing U.S. retail operations and to identify additional retail business opportunities.

In the U.S. we primarily distribute our products to great retail customers who merchandise and distribute our products effectively. We also operate a small quantity of retail outlet stores located in various geographically remote U.S. locations that sell excess and distressed inventory without adversely affecting our retail customers.

Our primary focus is to remain a wholesale business and we are dedicated to serving our wholesale customers. We have identified opportunities and are currently expanding the U.S. retail presence of our products with additional retail outlet stores, primarily to give us flexibility in inventory management. Retail outlet stores reduce our exposure to excess inventory due to negative weather conditions.

In 2007 we will add five new U.S. outlet stores. We also have expanded and remodeled two existing outlets today. We are pleased with the initial results, which gives us confidence to continue our expansion plans. Our current plan is to open up to 15 outlet stores per year in the U.S. for the next few years.

In addition to outlet stores we currently operate one Columbia flagship store in the U.S. Any of you who have visited our Columbia flagship store in downtown Portland, the store creates a distinctive Columbia environment, reinforcing the active and outdoor image of the Columbia brand. First-line Columbia brand stores demonstrate the breadth of our products and the active outdoor image of the brand. First-line stores provide a comprehensive environment to communicate the complete Columbia brand story including key initiatives, breadth of assortments and expert service levels expected from demanding consumers. We anticipate opening a few Columbia brand stores in key U.S. markets over the next few years to showcase the breadth of our products as part of our increased focus on consumer demand creation.

Again, our primary focus is to remain a wholesale business and we are dedicated to serving our wholesale customers. We are approaching the U.S. retail initiative thoughtfully and pragmatically. We are pleased with the initial results which give us confidence to continue our plan. We will continue to monitor our results as we execute our U.S. retail initiative.

Geographic review. I would now like to turn our attention to our third quarter results and review our business environment by geographic segment, including commentary on third quarter sales results and retail sell-through.

Let's begin with the USA. Third quarter net sales of \$284.2 million, a 3% increase. We are very pleased to report that U.S. sales of the Columbia brand outerwear increased double digits in the third quarter, reflecting initiatives that we have taken to improve our core U.S. outerwear business.

Maintaining and growing our Columbia brand outerwear market position has been a key focus of our management team. U.S. Columbia brand sportswear sales will also -- were also healthy in the quarter. Growth in Columbia unaware and sportswear was offset by expected weakness in Pacific Trail outerwear, which decreased significantly in the quarter.

Third quarter sales of Sorel and Columbia cold weather footwear also decreased. All preseason orders for these products were soft. We continue to believe that Pacific Trail is a valuable asset and we will continue to evaluate alternatives to successfully improve the Pacific Trail brand that we acquired from bankruptcy last year.

Early U.S. retail sell-through of fall season products has generally lagged behind prior year results primarily due to the comparatively warm weather patterns early this fall. However sell-through of fleece and sweaters, which are important transition season products, have tracked in line or better than the strong prior year comparisons. It's important to remember that retail sell-through started strong last year due to early cold weather but slowed in the fourth quarter, due to unseasonably warm weather in many parts of the U.S. in November and December.

Turning our attention to spring bookings, overall U.S. spring orders were down at September 30. Sell-through rates of spring products this year was poor, due to the cold and wet weather conditions in March and April leading to significant spring 2007 order cancels in the second quarter and reducing demand for spring '08 product. Spring orders at Columbia brand sportswear were particularly soft in the U.S.

Europe. Third quarter sales of \$55.3 million, a decrease of 17% or 22% excluding changes in currency exchange rates. Third quarter outerwear sales decreased significantly, driving overall weakness in Europe. Sportswear and accessory sales also decreased but footwear increased modestly excluding changes in currency exchange rates. As previously discussed preseason fall orders in Europe were very disappointing, each (inaudible) creasing substantially year over year.

Spring orders at September 30 were also weak in Europe, decreasing across all major product categories.

During the third quarter, we announced that our European general manager [Paul Gills] has left the Company for personal reasons. Vic [McCormick], VP Sales, leads an interim management team that includes executives in international sales and operations, marketing and product management. Changes are underway in our European operations. Our plans include efforts to drive topline growth through improved product design, more focused marketing and operating expense reductions to realign our cost structure.

As discussed previously, our product creation process has been refined to improve the collaboration of our U.S. and European merchandising teams. This process incorporates regional feedback from key European customers and internal sources.

We will incorporate our global go-to-market strategy in Europe that leverages the strength of our OMNI-SHADE, TECHLITE and other marketing initiatives. Our European initiatives will require disciplined efforts over an extended period to affect change in the European market. Although we are disappointed with the results of our European business, I continue to believe that Europe is a very important growth opportunity among international markets. And we are committed to growing the market presence of our brands in the region.

Canada. Sales up \$57.8 million, an increase of 8% for the third quarter and a 2% increase excluding changes in currency exchange rates. Columbia brand outerwear shipments drove third quarter sales growth in Canada. Sportswear (technical difficulty) also increased but growth in these categories was offset by softness in cold weather footwear shipments.

Early fall sell-through at retail has generally lagged prior years due to the comparatively warm weather conditions. There have been pockets of strength, however, particularly in men's sportswear, fleece and soft shells.

Spring 2008 backlog decreased in Canada excluding changes in currency exchange rates with particular weakness in footwear, primarily due to poor sell-through of spring (technical difficulty) footwear products and strong competition. OMNI-SHADE products and programs were well-received in Canada. We continue to maintain strong relationships with key retailers in the region.

Other international, which consists of the collective geographic regions of Japan and Korea where we sell direct and other international markets worldwide where we sell through distributor relationships, recorded third quarter sales of \$73.8 million, an increase of 28%. International distributors -- a component of other international -- recorded sales of \$50 million, a 39% increase. The vast majority of all sales to international distributors are denominated in U.S. dollars.

Third quarter sales in international distributor markets were strong, and benefited by a shift in timing of shipments from the second quarter to the third quarter of this year as discussed in last quarter's conference call. All major product categories increased in distributor markets with very strong growth in sportswear and footwear.

Sales growth continued to be healthy in our key Russia and Hong Kong China markets during the third quarter and in other distributor markets worldwide.

Spring 2008 orders were also very strong particularly in sportswear, footwear and Southern Hemisphere outerwear. We have very capable distributors who effectively manage the logistics, marketing, and sales of our products in their respective regions. We have 29 international distributors that sell our products in 73 countries worldwide. While distributor sales produce lower gross margins for Columbia, the sales generated are very accretive to our earnings as we have minimal overhead associated with the generation of these sales.

Japan, a component of other international, recorded third quarter sales of \$14.1 million, an increase of 9% or approximately 11% excluding changes in currency exchange rates. Columbia brand footwear shipments were very strong and drove growth in Japan during our third quarter. Lifestyle footwear sales were strong and our consumer brand awareness of our footwear products continues to increase.

Early sell-through rates for fall merchandise, particularly Lifestyle Footwear, has generally been healthy. We are optimistic about the prospects for growth in Japan as economic conditions in that market continue to improve.

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

Bryan Timm - Columbia Sportswear - CFO

Thank you, Tim, and good afternoon, everyone.

I will begin with a brief review of the third quarter income statement comparing current quarter and line items with higher periods to facilitate an accurate comparison. As Tim mentioned net sales increased 4% to \$471.1 million. Growth in consolidated net sales was driven by the Columbia brand outerwear in North America, Columbia brand sportswear in the U.S. and all major product categories in international distributor markets.

This growth was offset by a significant decrease in Pacific Trail outerwear sales in the U.S. and a substantial decrease in European apparel sales. (technical difficulty) changes and currency exchange rates consolidated net sales increased 2% in the third quarter. Our consolidated gross margin for the third quarter of 2007 contracted by 50 basis points to 43.2%, compared to 43.7% for the third quarter of 2006. Gross margin decreased due primarily to increased volume of spring closeout product sales and higher international distributor shipments, both at lower relative gross margins, partially offset by favorable foreign currency exchange rates as well as lower freight costs.

The Company's SG&A expenses increased by 4% or \$3.9 million on an absolute basis to \$112.2 million for the third quarter of 2007 versus \$108.3 million for the comparable period in 2006. As a percentage of sales, SG&A was flat at 23.8%. Selling expenses decreased due primarily to

the decreases in sales commissions and advertising. Operating expenses increased, due primarily to an increase in personnel costs, additional depreciation related to our Portland and European distribution projects, and -- to a lesser extent -- bad debt expense.

The increase in bad debt expense is primarily the result of the credit risk contained in the composition of our accounts receivable portfolio. Depreciation and amortization totaled \$7.5 million for the third quarter of 2007 compared to \$5.6 million in the same period of the prior year. Net licensing income was flat at \$1.3 million and net interest income increased to \$2.1 million. Our effective tax rate was 33.9% compared to 34.5% in the third quarter of 2006.

We reported net income of \$62.6 million or \$1.72 per share for the third quarter of 2007 versus net income of \$60.3 million or \$1.67 per share for the third quarter of 2006, based on a diluted share account of \$36.4 million and \$36.1 million respectively.

I will quickly touch on key items in the balance sheet and, again, I will be comparing September 30th, 2007 balances to September 30th, 2006.

The balance sheet remains very strong with cash and short-term investments totaling \$115.8 million versus \$70.6 million at the same time last year. Consolidated accounts receivable were \$393.6 million compared to \$374.5 million last year, a 5% increase which was generally consistent with a sales increase in the quarter. Consolidated inventories were \$320.6 million compared to \$272.1 million a year ago, an 18% increase. This comparative increase was due to higher levels of carryover, core and replenishment inventory. We are also carrying increased levels of retail inventory to support our outlet stores expansion plan.

In addition, as discussed last quarter we had just baked earlier spring 2008 inventory receipts as we prepared for both seasonal transition product and the timely availability for our global spring product and marketing initiatives. We continue to expect to carry a higher than optimal level of year-round core and replenishment inventory, at least through the end of 2007.

Capital expenditures were \$6.9 million during the third quarter. We expect depreciation amortization expense per year to approximate \$30 million including approximately \$8 million of incremental depreciation associated with the Portland and European distribution center projects. We continue to anticipate approximately \$35 million in total capital expenditures during 2007, consisting of approximately \$15 million in maintenance CapEx and \$20 million in CapEx for other capacity and growth initiatives.

Today, we announced the Columbia's Board of Directors has approved an increased dividend of \$0.16 per share. During the third quarter we did not repurchase any shares.

Now let's turn our attention to financial guidance. Given the results we reported today, we are in a position to update everyone on our guidance for the balance of 2007 and to give guidance for the first quarter of 2008. Please keep in mind that this information is forward-looking in nature and is therefore subject to certain risk factors.

Based on our current outlook, we anticipate Q4 2007 consolidated revenue growth of approximately 3% when compared to the fourth quarter of 2006 and estimate EPS to approximate \$1 per diluted share. This model anticipates approximately 90 basis points of operating margin contraction, consisting of approximately 50 basis points of gross margin expansion and approximately 140 basis points of SG&A expansion primarily from the depreciation of the distribution projects.

Turning our attention to full year 2007, we now expect consolidated revenue growth of approximately 5% for the full year 2007 when compared to 2006. And we estimate EPS to be approximately \$3.70 per diluted share. This model continues to anticipate approximately 50 basis points of operating margin expansion, consisting of approximately 60 basis points of gross margin expansion, offset in part by approximately 10 basis points of SG&A expansion.

We are very pleased with our expected ability to leverage our operating model this year despite a disappointing fall 2007 order book, increased spring order cancellations and our cautious outlook for the remainder of this year. Our expected ability to leverage is the result of a more targeted apparel line plan, modest increases in average selling prices, favorable hedge currency rates and diligent cost management.

Turning our attention to first quarter 2008, based in part of spring backlog, we currently anticipate Q1 2008 consolidated revenue growth of approximately 4% when compared to the first quarter of 2007 and EPS of approximately \$0.60 per diluted share. This model anticipates operating margin contraction of approximately 220 basis points consisting of approximately 50 basis points of gross margin expansion and 270 basis points of SG&A expansion.

The SG&A increase is related to incremental marketing and advertising spend previously discussed. Depreciation and operational costs of our Portland distribution center retrofit, as well as the higher cost associated with our retail expansion. Again please understand that the information is forward-looking in nature and is therefore subject to the risk factors as previously mentioned.

I will now hand the call back to Tim.

Tim Boyle - Columbia Sportswear - President and CEO

Thanks. I am pleased with our expectations to leverage operating margins this year through enhanced gross margins and diligent expense management particularly in light of the challenges we have on topline growth. Our management team remains very focused on strengthening our portfolio of brands and improving the Company's long-term financial performance.

We intend to do this through at continuing increments in product design and merchandising, and by increasing our marketing and advertising to enhance consumer demand creation. We believe our enhanced U.S. retail outlet initiative will strengthen our wholesale business to increased inventory flexibility, enabling us to reduce our exposure to excessive inventory due to negative weather patterns.

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

That concludes our report. Thank you for listing. We'd be happy to field any questions. Operator, will you please help us?

QUESTION AND ANSWER

Operator

(OPERATOR INSTRUCTIONS). Bob Drbul.

Bob Drbul - Lehman Brothers - Analyst

Good afternoon, Tim. Couple of questions for you. The first one is when you look at what is happening in Europe, can you maybe just elaborate a little bit more in terms of the top two or three things that you expect will be critical to a turnaround there? Second question I have is on the advertising side. What level do you expect to invest up to in terms of the percentage as you increase the spend? And then the third is just can you put some numbers around the cost of the retail buildout, and how much money you are willing to commit to that and how to think about the (technical difficulty) of each store both full price and the outlet?

Tim Boyle - Columbia Sportswear - President and CEO

Absolutely. So regarding Europe, I think our first order of business is to get the expense level rightsized to the current size of the business. So we have been diligently working for the last 60 to 90 days to put our expense levels in Europe to the same -- to match up with the revenue. That is going to be critical for us going forward.

Next order of business which is well in hand is the coordination and collaboration of our merchandising teams. We let Europe become a little too autonomous in its merchandising programs; and so we undertook a corrective action several months ago to put the European merchants under the purview of our successful U.S. merchants.

So the first lines where we have some impact will be in fall '08. It's -- so that's already well started.

The last thing is just to make sure that we are using the successful voice, marketing voice that the Company has and really enhancing our marketing efforts in Europe, especially in the key markets of Germany and the UK as well as France. So continued focus on those specific markets as it relates to Europe so those are our top three things in terms of how we're doing that.

Regarding advertising, we don't really have a specific dollar amount or percentage of sales. Our goal is to have significant multiple on gross impressions from what we've had this year. I want to say the Company in the U.S. has been on the billion gross impressions rate, somewhere in that area. We want to have several times larger. There will be various ways to do that including PR promotions, paid advertising and other methods. So the goal is to significantly increase that the share of buying and the gross impressions rate on the Company's brands and the knowledge of consumers of the Company's brands.

As it relates to retail costing, I'm going to let Bryan answer that one but I just want to make sure that our investors understand that we are going to take a very methodical approach to this expansion of this strategy. We added a team in January of '07 to begin looking at our existing business and how we could improve the results from our existing outlet stores. And we opened a few stores this year to help us understand from an experimental basis what we might be able to expect in terms of return from those investments.

What we've seen so far has been quite gratifying and has helped us to move forward in plans to increase the number of those. But we are going to continue to monitor the performance and make sure that we have got solid performance from the expanded and increased doors.

But I will let Bryan maybe speak to how we plan to keep our investors informed of that strategy.

Bryan Timm - Columbia Sportswear - CFO

Sure. Bob, I mean just first and foremost I just want to be clear that we continue to be a wholesale business. So I think as we look out into the future I think the outlets that we've implemented so far this year has been relatively small. Obviously not driving significant amounts of revenue to the Company.

As I look out into next year, specifically in Q1, the cost of the outlets or the retail expansion is certainly a piece of it. However not necessarily the largest. Q1 SGA expense I believe as we mentioned is increasing close to 270 basis points. The largest impact there is really coming from advertising. The retail initiative is certainly a piece of that as is the depreciation from our distribution projects here in Portland that didn't start until April 1 of this year.

So again I don't have -- I really want to get into specifics about the total cost of retail just because, again, as Tim mentioned, we are going to analyze this as we go forward and certainly review it on a periodic basis and really look at how fast we want to continue to expand.

Operator

Robby Ohmes.

Robby Ohmes - Banc of America Securities - Analyst

Couple of questions. Can you -- ? I'm hoping you will do this. Can you extend the guidance you gave on the first quarter of '08 into how we should be thinking about the full year? Is this an investment year where you are going to plan expenses up due to advertising and store rollout, etcetera, to the point that we really should expect '08 to be a down earnings year versus '07?

The other question I had is the gross margin guidance, I think you said up 50 basis points 4Q; up 50 basis points for 1Q. I'm looking at the inventory levels and thinking how are they doing that? If you could walk me through how the gross margin's going up when you have excess inventory that would be great. Thanks.

Tim Boyle - Columbia Sportswear - President and CEO

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Yes. I want to make sure that -- we're not prepared to do anything in terms of guiding beyond Q1. This (inaudible) product will be sold in Q2 and we are not anywhere near close to even taking our first order on winter for fall 2008. But I want to make sure we get you clear on the inventory issue. And I'm going to ask Bryan to speak to that.

Bryan Timm - Columbia Sportswear - CFO

Sure. Robby, as it relates to Q4 in our gross margin guidance, again, I think most of the fluctuation that is really impacting at the gross margin level in Q4 is really two major items. One is the regional mix, in terms of -- as evidenced in our fall 2007 backlog. I think we announced that our European business was certainly one [we're] experienced some decline and that's obviously something that is impacting us at the gross margin level.

As it relates to the FX, we definitely have better hedge rates in -- for our fall 2007 period. And that's also given as a little bit of rise for gross margins.

The gross margin that we experienced in Q3 was certainly a factor of the spring closeouts that moved from Q2 into Q3 and also the international distributor business -- which I'm sure everybody is aware -- carries lower gross margins than those of our direct business. So that's really what's happened at the gross margin line for Q3, Q4. As it relates to Q1 of 2008 gross margin really is a repeat of Q4 which is, again, the euro Canadian dollar staying as strong as they have. We've taken out some hedges and so we expect the hedge rate to give us a bit of a bump in terms of basis points in the Q1 as well as the regional mix.

So those two are really the leaders of that 50 basis points that we expect in Q1.

Operator

Virginia Genereux.

Virginia Genereux - Merrill Lynch - Analyst

Thank you. Can I ask about the inventories again, Bryan and Tim? You said up 18% due to higher carryover core and replenishment. So are you seeing cancellation mass or are you seeing --?

Tim Boyle - Columbia Sportswear - President and CEO

No I think we -- hopefully we were clear. And if not we apologize, that we are carrying higher than optimal levels of inventory now, but they're all -- primarily in areas of solid Columbia historical performance products. That being our rock pant, our fishing shirts in areas that are solid performers for the Company, have been for many, many years.

We have got higher levels than we would prefer, but the inventory is not seasonal in nature. It's not at risk and that is why we are comfortable with being able to guide with an increase of gross margin, based on what we see of our existing inventory. So we just got slightly ahead of ourselves in terms of our ordering patterns and we have slightly more than we want. But certainly it's manageable and it's controllable inventory.

Virginia Genereux - Merrill Lynch - Analyst

And Tim, did you clear the spring? You came out of June with inventories up I think 13, 14. Did you clear that? As you had --?

Tim Boyle - Columbia Sportswear - President and CEO

Yes we did. We had sales made in Q2 that we delivered in Q3.

Virginia Genereux - Merrill Lynch - Analyst

So I guess there's not the dynamic that we saw in spring where cancellations of products led to a difficult backlog compare? That's not going on here?

Tim Boyle - Columbia Sportswear - President and CEO

No. Cancellations are not an issue at the inventory levels today.

Virginia Genereux - Merrill Lynch - Analyst

It's more of this move to just make sure you have enough replenishment. And it's really that, it's really the replenishment dynamic that is leading you to say "let's have some more outlet stores"?

Tim Boyle - Columbia Sportswear - President and CEO

No, not really. No, the really -- we will take it on the chin as it relates to our inventory levels. We are higher than we'd like to be but it is in the areas that are very strong performers for the Company. That's why we feel comfortable guiding with an increase in our gross margins but we just -- we have too much. We ordered slightly too much so that the issue of retail and the inventory levels are quite different. Not connected.

The retail component of the business and the initiatives there have been under way since early 2007 and really the results that we've seen, really since the beginning of '07, lead us to the correct strategy of adding a few more stores.

Virginia Genereux - Merrill Lynch - Analyst

Right. I mean I think that's great you only have eight or so. But let me ask you, Tim, how are you not -- can you comment a little bit on the current -- on the retail environment? How are you not seeing the cancellations (inaudible)?

Tim Boyle - Columbia Sportswear - President and CEO

Certainly. Well, remember, the Company's business is primarily shipping advance orders that we have. So we have orders coming in from -- that have come in from customers in, say, November of last year through March of this year and beyond. And while we do see the macro trends impacting our customers and we see weather conditions that are impacting our customer sell-through we haven't seen significant cancellations. Now we would like it to get cold anytime soon. But today we haven't seen any significant cancels.

Virginia Genereux - Merrill Lynch - Analyst

Have you seen better sales results where weather has gotten a little bit colder? Do you know about that? Wal-Mart talked about -- .

Tim Boyle - Columbia Sportswear - President and CEO

Yes, we have. And we've also seen significant sales in our products which are more transitional in weight, fleece and lightweight products like that that don't require the cold weather. But it is now time for it to get cold.

Virginia Genereux - Merrill Lynch - Analyst

And I'm sorry, David, one more. About the increased marketing spend and stuff for next year, should we --? Bryan, I was thinking that D&A would sort of be up in the first quarter mid 2s or something. So SG&A outside of D&A is up you know then eight to nine kind of thing. Is that the rate of investment we should be thinking about for the -- on a quarterly basis?

Tim Boyle - Columbia Sportswear - President and CEO

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I think it's a little too early to tell. Again, I think Tim's comment in terms of we are going to approach this in terms of the number of gross impressions. I think we've given a little bit of guidance for Q1 but as you know we really have very little visibility into our fall '08 order book. And so in terms of how that's going to play out, I think it's a little bit premature at this point.

Tim Boyle - Columbia Sportswear - President and CEO

Yes, again, Virginia, I'd just add on to what Bryan says. I don't think you should expect ratable expense levels in the advertising because we are going to be focusing on periods of time when consumers are in fact buying. And so it won't necessarily match up with our shipping.

Virginia Genereux - Merrill Lynch - Analyst

Okay. Because I mean, you said in your release you say -- you say or these initiatives may preclude us from achieving margin leverage in '08 and I think to Robby's question, we are wondering is that flat? Is that you are going to try to adhere to flat margins or -- ?

Tim Boyle - Columbia Sportswear - President and CEO

We don't know what our top line is going to be for '08. We haven't taken any business for fall and that is going to be a key component.

Virginia Genereux - Merrill Lynch - Analyst

But is your agenda -- are you willing to invest? You know, is this a year in which you are willing to invest if the top line doesn't come together?

Tim Boyle - Columbia Sportswear - President and CEO

We really haven't made the decisions particularly on exactly the level but we want to make sure that our consumers know more about us more frequently. So yes we are going to be investing in that area.

Operator

Jeffrey Edelman.

Jeffrey Edelman - UBS - Analyst

Not to belabor the inventory issue too much, but the guidance for the first quarter, are you assuming any replenishment there? And then will the second quarter really be the swing factor in terms of getting rid of the replenishment inventory?

Tim Boyle - Columbia Sportswear - President and CEO

Well Q1 will have replenishment. Our replenishment business is growing. It's still -- it's not tremendously significant. It is in the 10 to 15% range of our volumes, but is growing. So we'll have replenishment at every quarter as we go forward. But really, again just to reiterate, our inventory levels are higher in those areas that we consider to be staple products. Maybe products that have been in the line for 10 years in certain instances.

So the expectation is we are not when the liquidating those things if they don't generally, the bulk of them are not seasonal in nature.

Jeffrey Edelman - UBS - Analyst

Well, then, what's really changing in your business model? Are your customers asking you to -- are they looking to buy less and looking for you to stand there to replace basic product? Because you never really did this before except in the fourth quarter. Or is it an issue of you're really just trying to drive incremental business.

Because this has been evolving. I'm not sure how it fully plays out. Do you go to a much, much bigger replenishment model?

Tim Boyle - Columbia Sportswear - President and CEO

As you've seen in the companies changing over the last several years outerwear is becoming a smaller part of our business and sportswear is by far the largest portion today. And when you are in the sportswear business certain components are key basics and that would include men's trousers; and it can include some other parts of the business. We have got some fleece products in our key replenishment programs as well as other basic merchandise.

So as the company grows its sportswear business, the customers expect you to be able to put in a product offering and maintain it at an inventory -- at an optimum inventory level. So as we get bigger in that business we are going to have to be more connected with the auto replenishment part of the business.

But today again as I said, it's in the teens in terms of the size of the business. But over time it will be a bigger part; but I would expect frankly we will always be, for the most part, a seasonal business with the replenishment items taking a smaller portion, but important in certain businesses.

Jeffrey Edelman - UBS - Analyst

Then as others have asked about the expenses, realizing that you are getting help now by some currency benefit, as we think about the business longer-term we probably look at, let's say maybe high single digit top line growth. Is a more normalized margin to look at in the midteens at this point as we start to see costs to drive the business continue to go up whether it's in line with sales just ahead of sales? Is that sort of like a reasonable long-term assumption?

Tim Boyle - Columbia Sportswear - President and CEO

I personally still have very significant growth goals for the Company and I'm very cognizant that we haven't hit those goals in the recent past. But I believe that the opportunity exists for us to grow at very solid rates, getting our businesses geographically focused, and getting our footwear business back on track. And the hope is and the investment in the Company is going to be to strengthen that ultimate vision in the short-term investments and marketing are going to be required slightly ahead of the volume.

Operator

Kate McShane.

Kate McShane - Citigroup - Analyst

Thank you very much. Just a quick question on your backlog numbers today. Are you seeing any type of changed in demand from certain distribution channels for your product? It seems like some of your big customers are very focused on private label and exclusive outdoor brands. I was wondering if that was impacting you at all and that could be some of the reason why spring backlogs were a little bit weaker.

Tim Boyle - Columbia Sportswear - President and CEO

I would say our spring backlog announcement was separate from our footwear business and that's -- the initiatives that we really put forth for spring '08 were very well-received. But the residual products that we had in the line were not received as well.

So I felt that our spring footwear business showed great promise and the investments we are making there are solid. But we still have some hangover from our prior seasonal business, prior seasons products. There's no question that through consolidation that our customers have been

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requesting more. And it's our goal to be able to provide more for our customers. But the most important thing we can provide is a solid consumer demand and that is why we are discussing the advertising that we are focusing on.

Kate McShane - Citigroup - Analyst

Thanks. One other question to do with Pacific Trail. Can you give us a little more detail behind what some of the issues are with that brand? Has the product changed substantially since you've taken ownership of it and what seems to be some of the pushback you are hearing from customers? And has there been any kind of problems on the supply or sourcing side?

Bryan Timm - Columbia Sportswear - CFO

Certainly. Well as you remember we acquired that business and its backlog or order book last year, late in the year. And we ended at fulfilling the business on time but the product was not -- did not sell through very well. So our goal was to try and move the business along and especially focus on that Value Channel.

It's an area of the business that we don't understand very well and are still learning. So we made frankly strong investments in that part of the business to understand it and to be -- make sure that we understand how to approach that business and what the logical key points are. There have been no issues regarding supply. So the results that we talked about today in follow-up '07 delivery are a direct reflection of our week order book back in March.

Operator

Brian McGough.

Brian McGough - Morgan Stanley - Analyst

Tim, with the increased marketing next year and with you doing retail both at the same time, it just sounds like there's a real notable change in your view as to how you want to manage this brand. So I guess, one, am I reading that right? And, two, if I am I am wondering what brought that on? Has this been building over the years and the overall lousy the environment out there right now, it's just the icing on the cake? Or was there something else?

So I was hoping I could get your sense just from a strategic standpoint as to what led you to do it.

Tim Boyle - Columbia Sportswear - President and CEO

Right. So we want to make sure that investors understand that we are keenly focused on our wholesale business and we believe that there are several key strategic pluses to the business. There's also areas we need to work on.

We have to segregate the issue of the retail initiatives from that discussion. It just happens to be simultaneous, I think. We've been working on this retail initiatives as I said, since the first part of '07 and we just didn't want to have investors not understand that it is an area that we're going to be experimenting with.

So retail in the U.S. for us is still going to be, even with the addition of 15 stores next year, are going to be pale by comparison to our wholesale business. And in fact, we don't want people to leave with the idea that we are changing the business model. Because we are not.

There are areas where the Company can certainly improve its wholesale business and that is going to be keenly part of our strategies going forward. But we realize that the brand can sustain some additional points of distribution, especially in the outlet area. And frankly almost -- virtually every competitor that we have has a much more significant presence at outlet than we currently have.

So key for us, in terms of making this move, was having a solid experienced team in place that can run a profitable solid business. We've got that now and it is now time to continue to prove our way in retail.

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Brian McGough - Morgan Stanley - Analyst

So how about on the marketing side though? What -- was that just, I mean with sales week? Was the time just to spend more to give -- to top on a kick start or was there something else behind it?

Tim Boyle - Columbia Sportswear - President and CEO

No no. I think when we -- So our strategy has always been to have a solid marketing program behind our brands and I think our brands are very well done. Our research into the area shows that we have a very high awareness level. But frankly we wanted to make sure that as the business continued to move forward that we were capable of creating additional demand for the brand by effective use of our advertising dollars.

So the Company is going to continue with its very popular brand of advertising. By that I mean rather irreverent use of Gert and focus on product categories. A particular product in our marketing. But we believe that this competition has gotten tougher and we want to make sure that we are toe to toe with those competitors to make sure that we are getting a voice -- our voice heard.

Brian McGough - Morgan Stanley - Analyst

And I guess lastly would you give us an update on Mountain Hardware?

Tim Boyle - Columbia Sportswear - President and CEO

Certainly. As you saw Mountain Hardware volumes increased nicely in the quarter. The brand has done very well and the specialty business has embraced our approach on the [runhead] business, specifically for specialty stores and we continue to be very pleased with how that business is going forward.

We think there is more, lots more opportunity for Mountain Hardware. When we bought the brand in '03 we thought that we could get it up to -- in five years -- to be about \$100 million brand and we are on pace to be able to do that. So we are very pleased with how -- the results there.

Operator

Jim Duffy.

Jim Duffy - Thomas Weisel Partners - Analyst

A couple of quick questions I guess, probably, for Bryan. In '06 you spent about 4.4% of revenue on advertising. In '07, will you be leveraging advertising? Has that been one of the areas where you found leverage in the model?

Bryan Timm - Columbia Sportswear - CFO

There might be a little bit of leverage in the model for '07 there. I don't think it's significant.

Jim Duffy - Thomas Weisel Partners - Analyst

And then help me reconcile the spring backlog at flattish and then your guidance for 1Q revenue of 4%?

Bryan Timm - Columbia Sportswear - CFO

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Well I guess there are a couple of things. In terms of flat backlog there are a couple of things that add onto that. Number one, being the retail initiatives that Tim talked about. So we do have five new outlets this year and we do also have some in plan for the first half of next year. So we are going to layer on top of that business, on top of what we've already got. I think that's pretty much the larger driver.

Jim Duffy - Thomas Weisel Partners - Analyst

Then I guess a follow up to Jeff's question. Does your retail initiatives allow you to take a more aggressive stance with inventory that you think might help you to better chase business? Is that part of the philosophy or am I missing something?

Bryan Timm - Columbia Sportswear - CFO

No. It's -- I think where our plans are is as the business model moves around on weather, it will give us the opportunity to liquidate merchandise at higher gross margins than we otherwise would be able to get.

Jim Duffy - Thomas Weisel Partners - Analyst

So it's just margin protection?

Tim Boyle - Columbia Sportswear - President and CEO

It's just margin protection but you know if we are going to run a solid retail business we can't -- we have to have reliable sources of supply. It won't fluctuate all over the board. This gives us another safety valve for the periods of time when we have bad weather that's not conducive to the business.

Jim Duffy - Thomas Weisel Partners - Analyst

Makes a lot of sense to me. Thanks.

Operator

John Shanley.

John Shanley - Susquehanna Financial - Analyst

Good afternoon, folks. Tim, the warmer weather that we have had in the last couple of months, historically what has that done terms of order cancellations? When you do get them, when do they normally materialize? Is it around this time or is it later in the season if retailers do have a backlog of their own inventory?

Tim Boyle - Columbia Sportswear - President and CEO

Well we get new orders every day and cancels every day. But the biggest months for selling outerwear are certainly November and December. But January can be almost as big as November in some cases, depending on the weather.

John Shanley - Susquehanna Financial - Analyst

And have you gotten any indication? A lot of your retail accounts, could it be some of the big box general merchandise guys and even the sportings good guys seem to have already gone promotional and they've been running some sales at least on our checks. Has that indicated to you that there may be some more cancellations coming down the pike?

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Tim Boyle - Columbia Sportswear - President and CEO

We are not anticipating a significant cancel but our business's -- our business model is to not have a significant amount of speculative inventory for the back end. So the plans that we've given you and guidance we've given you for Q4 and Q1 anticipate the cancels that we expect to get. And so it's -- we have basically built that into our model.

John Shanley - Susquehanna Financial - Analyst

Fair enough. How many outlet stores does the Company currently have, Tim? Is it eight or nine?

Tim Boyle - Columbia Sportswear - President and CEO

Yes. It's less than 10 or maybe in the 10 range and I think we've got a few more opening in the next balance of the quarter. And then next year would be in the range of 15 spread all over the calendar, depending on when we can put together a retail location.

John Shanley - Susquehanna Financial - Analyst

Right and how many stores do you envision sales in the next three years? Is this 15 every year for the next couple of years? Or is there a maximum amount that you are envisioning opening in terms of outlet stores?

Tim Boyle - Columbia Sportswear - President and CEO

We have modeled in about 15 a year but we want to make sure people understand. We are -- our focus is to be a great wholesale supplier and supply our retailers with the best possible merchandise with high consumer demand. We've never considered ourselves to be expert at retail and we are going to continue to measure our progress not only with topline but also with a focus on return. And we will have to see a high return or we won't continue to invest in that business.

John Shanley - Susquehanna Financial - Analyst

Most of your competitors make a nice profit on their outlet store business and they don't talk about it very much but it is a nice profit center for them. So better way of liquidating it through your own outlets than giving it away to the retailers.

But aside from that on the in-line stores, are they going to be something like your Portland store in terms of size? Or are they going to be much smaller properties?

Tim Boyle - Columbia Sportswear - President and CEO

I think they could at the maximum be about the size of the Portland store, but they are likely to be a little smaller. We are still in the process of developing the final model on what those stores will look like.

But we really want -- they aren't planned to be Taj Mahals. They are planned to be effective at showing a brand. Showing the brand's strengths and the brand's breadth but at the same time contributors to the Company's operating margin.

John Shanley - Susquehanna Financial - Analyst

Could be 10 to 12,000 square foot boxes?

Tim Boyle - Columbia Sportswear - President and CEO

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They could be, I suppose. It depends really on the location and what we're able to find.

John Shanley - Susquehanna Financial - Analyst

I get a better sense in terms of the cost factors then. Then lastly, Bryan, I'm still having a little bit of trouble coming up with the guidance you gave us on earnings, a 6% decline in the fourth quarter and 15% decline in the first quarter and margins are going to hold up.

So the SG&A is going to ramp up pretty substantially. Will that be the major factor in terms of the earnings decline in both those quarters?

Bryan Timm - Columbia Sportswear - CFO

Yes, you're exactly right. In Q4 of the SG&A we've got some personnel costs as we ramp up the retail part of the initiative as well as, again, the depreciation from both the two major projects we have are hitting us in Q4 as well. Those are the largest line items in SG&A.

John Shanley - Susquehanna Financial - Analyst

And what happens in the first quarter to cause that big earnings decline there?

Bryan Timm - Columbia Sportswear - CFO

Right. Well, again, it's really the items we have been discussing. It is advertising. It's the retail initiative and of course the -- at least the Portland distribution center depreciation. Because, again, we didn't put that online until April of this year. So we have got a quarter worth of depreciation there. Those are the three primary drivers of that 270 basis point increase in SG&A.

Operator

(OPERATOR INSTRUCTIONS). John Rouleau.

John Rouleau - Wachovia Securities - Analyst

Bryan, along the lines of that last question there, the 270 basis point increase in SG&A in the first quarter. Can you quantify some of that between those three components or at least maybe rank them or help us think about them that way?

Bryan Timm - Columbia Sportswear - CFO

You bet. Yes, in terms of ranking it's pretty much just what I mentioned. It's advertising being No. one, in terms of what we planned. It is the retail initiative, both the personnel, the rent, other operating costs associated with that initiative. And then again the depreciation falling off, third. Again those are the primary drivers. I think all else is very insignificant.

John Rouleau - Wachovia Securities - Analyst

Great. Then, Tim, you talked a little bit -- my question, next question is around the advertising. And you talked to some degree you said it yourself and I would agree that your awareness is pretty high amongst consumers. Maybe an area where you don't always get the most credit for is the technical advancements and the technical side of the garments.

Can I assume that that is going to be a pretty major focus or can you talk about the strategic direction of the advertising? Is it going to be real focused? Is it just meant to basically increase brand awareness? Or will it be really focused around some of these new tech initiatives and the technical side of the garments?

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Tim Boyle - Columbia Sportswear - President and CEO

Well exactly, John. They are going to go right to focusing on the two sigs for spring, the significant initiatives that we have planned which is OMNI-SHADE and its unique proposition in terms of our apparel, protective apparel platform, and then TECHLITE the footwear initiative. So we are going to talk about both of those things very significantly.

But there'll be a mixture of messages, including there'll be strict brand messages. There will be messages about particular products and particular places to get the product. We will be connected with our retailers and driving consumers right into their stores.

John Rouleau - Wachovia Securities - Analyst

Okay. And then I want to make sure I got this right, but as far as the replenishments sportswear business is concerned, it sounds like strategically you have made a decision to go after that business a little bit more. But it also sounds like right now your inventories on that side are a little bit higher than you would like them to be.

Is that a fair assessment?

Tim Boyle - Columbia Sportswear - President and CEO

That's accurate. The replenishment business is going to continue to grow for us. We just got a little ahead on our buying patterns and we will bring those into line. But that is going to be, over time, a bigger part of our business, but it wouldn't be the biggest part.

John Rouleau - Wachovia Securities - Analyst

So they're up by design but they're also up a little bit more than you would like them to be?

Tim Boyle - Columbia Sportswear - President and CEO

Correct.

John Rouleau - Wachovia Securities - Analyst

Then last question, department stores. It's a channel that I guess your penetration has been a little bit lower just based on the way that you've run the business and limited margin support. But with the replenishment becoming a bigger piece, I would think that that might be helpful in penetrating some of those areas.

Can you just talk about department stores and maybe how that fits into the replenishment side?

Tim Boyle - Columbia Sportswear - President and CEO

Absolutely. Actually our department store business has grown over time. We just haven't been successful in some of the larger national department stores. But in fact at Kohls and at Penney's and some of the regional department stores we've been very successful. We actually think the replenishment business will continue to help us there because the markdowns are infrequent on these items; allow the merchants to have a higher gross margin on the sell-through they got, because they don't get marked down.

John Rouleau - Wachovia Securities - Analyst

You brought up a good point. The Kohls and Penney's has been predominantly a outerwear-driven type relationship in business. I mean is there the ability to do some sportswear or some other products in there now that active wear is taking on more of a role in some of those chains?

Tim Boyle - Columbia Sportswear - President and CEO

Right. We actually have a pretty good-sized sportswear business at both of those locations. And also our fleece business has been quite good there and fleece for us is reported in our sportswear (inaudible) . We have got good solid businesses across multiple categories and in footwear, frankly, at Kohls.

Operator

Reed Anderson.

Reed Anderson - D.A. Davidson - Analyst

Good afternoon. Most of my questions have been answered but just curious. Tim, coming out of the second quarter you talked or commented about expecting softness in Europe, but I'm just curious to what extent being down 17%, how much worse that was perhaps than your expectations? Then, secondly, do we think it gets even worse from here or is -- was the third quarter perhaps an inflection point in European business?

Tim Boyle - Columbia Sportswear - President and CEO

Well, as you know we've got an advanced order system so we saw this softness in Europe clear back in second quarter when we talked about it when we released our backlog. So it was not unexpected. As we said, our backlog for spring is weaker than we like in Europe, as well. That's why we've got changes underway there to get our overhead in line with the revenues that we expect for the balance of this year and for next year.

Again, we are going to know more about the business as we get further along and we start taking orders for fall '08. But we expect weakness through spring '08 in our European business.

Operator

Sara Hasan.

Sara Hasan - McAdams Wright Ragen - Analyst

I am just wondering how you are thinking about your repurchase program. It seems like since you initiated the dividend a year ago you -- that repurchases have been kind of measly. And I am just wondering, is that a change in strategy or are you just not thinking opportunity is as great at this point?

Tim Boyle - Columbia Sportswear - President and CEO

I'm going to let Bryan handle that question.

Bryan Timm - Columbia Sportswear - CFO

It continues to be a great return of capital to shareholders. I think we have always been upfront that how aggressive we are in any one quarter is yet is -- remains to be seen. And we really aren't going to get into any specifics about our pre-purchasing patterns. So this particular quarter we decided not to purchase [any].

Operator

[Brad Kragan].

Brad Kragan Analyst

Can you talk a little bit about footwear, where you guys are in terms of improving that business overall? I think you mentioned that orders were down slightly. And just talk about what's some of your priorities there?

Tim Boyle - Columbia Sportswear - President and CEO

Certainly. We have been pretty clear that we felt it was important for us to be bringing differentiated value products to the marketplace. Otherwise we were going to suffer. And so our spring '07 business -- excuse me, our spring '08 business was very strong in our key initiative on our TECHLITE products, but weaker in the products that we carried over from spring '07.

So we saw great acceptance of the TECHLITE. There's lots more TECHLITE product in fall '08 and we continue under the direction of Mark [Enow] and his team to see solid improvements in the critical differentiated products that are going to bring us to the table.

I still consider it to be the largest product category -- the largest opportunity product category for us. And we're -- we just need to start proving it to ourselves and our investors.

Brad Kragan Analyst

And then I guess just a technical question about the mechanics of pricing with your customers, given the change in the outlet strategy. It would certainly make sense that that is going to affect pricing if sell-through doesn't materialize and you get cancellations, but will this have any implications for changes to pricing on the front end for your customers?

Tim Boyle - Columbia Sportswear - President and CEO

No. We don't tend -- I don't think there is any need for us to change any of our pricing structures. We don't -- this is not a significant amount of additional retail stores in our -- for our brand and certainly it's way less than most of our competitors have.

Operator

Virginia Genereux.

Virginia Genereux - Merrill Lynch - Analyst

Sorry. Two. Tim, maybe on the SHADE and TECHLITE, are they seasonal businesses? Is that a sort of first half?

Tim Boyle - Columbia Sportswear - President and CEO

So, OMNI-SHADE is our UPF protective apparel which the bulk of the volume is spring but we have a significant business in the Florida, Houston, Gulf Coast states which is very almost year-round. So we are going to continue to support that initiative. We are going to emphasize it in the spring. We will continue to support it in the fall just because the product sells very well down there.

TECHLITE is in the -- is a spring '08 introduction, but there is a significant amount of fall '08 footwear which carries TECHLITE. And that will continue to get emphasis year-round.

Virginia Genereux - Merrill Lynch - Analyst

Thank you. And then Montrail, Tim, just on the Montrail decline? Maybe it's just a seasonally -- funny quarter.

Tim Boyle - Columbia Sportswear - President and CEO

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It's a small business and we made some significant improvements in the products there. But we still had some residual products that just didn't perform as well as they should have at retail. So we think we are well along the way towards a really great business in Montrail and we've made a significant change in the team there over the last really 12 months. And the products that we are seen for the spring '07 and for -- excuse me spring '08 and fall '08, the newer ones have very significant opportunities.

Operator

Are there any closing remarks, Mr. Kiser?

David Kiser - Columbia Sportswear

We want to thank everyone for checking in with us today; and we're looking forward to talking to you in January at the end of our fourth quarter. Thank you very much, operator.

Operator

Thank you, Sir. Ladies and gentlemen, this concludes today's conference call. You may now disconnect.

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