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**MANAGEMENT DISCUSSION SECTION**

Operator: Hello and welcome to the Columbia Sportswear Third Quarter 2010 Earnings Conference Call. As a reminder, all lines will be on listen-only mode and we will conduct a Q&A session following the company's prepared remarks. [Operator Instructions]

At this time, I'd like to turn the call over to Mr. Ron Parham, Senior Director of Investor Relations and Corporate Communications. Go ahead, please.

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**Ron Parham, Senior Director of Investor Relations and Corporate Communications**

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Thanks, Amanda. Good afternoon and thanks for joining us on today's call. Earlier this afternoon, we announced our third quarter results, spring wholesale backlog and updated financial outlook for the fourth quarter and full year 2010. With me today to discuss those topics and answer your questions are: President and CEO, Tim Boyle; Senior Vice President of Finance, Chief Financial Officer and Treasurer, Tom Cusick; Executive Vice President and Chief Operating Officer, Bryan Timm; and Senior Vice President and General Counsel, Peter Bragdon. Our Chairman, Gert Boyle is unable to join us today, because she is in Portland receiving the Statesman of the Year Award from the Oregon Business Association.

So before we begin our prepared remarks let me remind everyone that this conference call will contain forward-looking statements regarding Columbia's business opportunities and anticipated results of operations. Please bear in mind that forward-looking information is subject to many risks and uncertainties and actual results may differ materially from what is projected. Many of these risks and uncertainties are described in Columbia's Annual Report on Form 10-K for the year ended December 31, 2009 and subsequent filings 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, or to conform the forward-looking statements to actual results, or to changes in our expectations.

One last housekeeping note: I want to remind listeners about the new protocol we mentioned during our second quarter conference call and have now adopted beginning this quarter, in an effort to reserve more time on the call for your questions. Shortly after the issuance of our earnings release today at 4 PM Eastern Time, we posted a detailed financial commentary by Senior Vice President and CFO, Tom Cusick to our Investor Relations website at <http://investor.columbia.com/results.cfm>, and also furnished this commentary to the SEC on Form 8-K. By allowing you to review those detailed comments and formulate your questions before the call, we've been able to significantly shorten our prepared remarks and move more quickly to your questions.

Now, I'll turn the call over to Tim.

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**Tim Boyle, President and Chief Executive Officer**

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Thanks, Ron. Welcome everyone and thank you for joining us this afternoon to discuss third quarter results and our updated outlook for 2010. We're very pleased to report earlier today that third quarter revenues surpassed \$500 million for the first time in our history, increasing 16% over last year's third quarter. We remain on pace for 2010 to be a year of record sales totaling more than \$1.4 billion.

We're very excited about the retail launch of our fall 2010 product line, which has been working its way into stores around the world. The entire line features numerous innovations wrapped in great styling to keep consumers warm, dry and protected this winter. The focal point of our integrated

global marketing effort has been Omni-Heat, which we believe represents one of the most innovative technologies to hit the outdoor industry in decades.

Our sales, merchandising and operations teams have done a tremendous job working closely with our key retail partners around the world to get the products on to the selling floor, educate the retail sales staff, and make sure that pictures and graphics are in place to create maximum impact at point-of-sale where most of purchase decisions are ultimately made.

Our Omni-Heat print and ad campaign launched in the October issues of leading outdoor, lifestyle, travel and fashion magazines around the world and six Omni-Heat TV ads have been running on many of the most popular Internet broadcast TV shows on fox.com, Hulu, CBS.com, CNN, ESPN, MSN and similar major online properties in Europe, Russia, Canada, Japan, Korea and China.

The Omni-Heat Freezer Tour has been working its way around the world providing consumers, retail staffs and key media with the unique opportunity to feel the benefits of Omni-Heat inside an industrial freezer set to 20 degrees below zero. So far the Freezer Tour has appeared at U.S. venues like the ESPN X Games held in Los Angeles in July, the Chicago Air and Water Show in August and the Albuquerque Balloon Festival in October.

In Europe, the Freezer Tour has visited Geneva, Berne, Lausanne, Salzburg and Innsbruck, seven key cities in Canada including Toronto, Calgary, Vancouver and Ottawa, multiple stops in Eastern Europe, Hong Kong and in China with plans to visit many more key cities in the upcoming months.

Our key retail partners have devoted millions in co-op advertising dollars to their own Omni-Heat marketing executions including mailers, catalogs, local print, television ads, and of course their own websites introducing consumers to the benefits of Omni-Heat. After more than 18 months in preparation, it's very exciting for all of us here to see consumers beginning to respond to Omni-Heat, even though winter weather hasn't taken hold in most of our key markets, making it too early to gauge the success of those efforts. We're committed to Omni-Heat as a long-term technology platform and will be adding even more innovative technologies to the Omni-Heat family in fall 2011.

The increase in our projected 2010 net sales and much of the pressure on 2010 operating margins is the result of investments we have chosen to make to reclaim market share; to shift our business towards more innovative and premium products; to drive consumer awareness of all of our major brands, particularly the Columbia brand; and to improve our business systems and processes. We believe we are achieving many of our goals in the marketplace and have therefore begun to invest more heavily in our infrastructure and systems. To successfully secure market share and retail floor space for our fall 2010 innovations, we chose to expedite manufacturing and shipping in a capacity-constrained environment, which has had a particularly pronounced impact on our 2010 profitability.

In keeping with our promise to reserve more time for questions, that concludes my prepared remarks. If you have not already done so, we urge you to review the detailed CFO financial commentary that we furnished earlier today on Form 8-K and on the IR section of our website at [www.investors.columbia.com](http://www.investors.columbia.com).

And now, I'd like to open the call to questions. Operator, could you help us with that?

**QUESTION AND ANSWER SECTION**

Operator: [Operator Instructions] Our first question comes from Robert Drbul's [Barclays Capital, Inc.] location. Go ahead, please.

**<Q>**: Actually this is Steven Gregory from Mandalay Research; a couple questions, guys. Good job on the quarter. A few months ago in The Wall Street Journal, they were talking about how in 2001 (sic) [2011] companies in your type industry are going to be looking really to drive more revenue online and bring customers on the site to really enhance the shopping experience. Can you provide some color on the call today as to what is your e-commerce vision going forward and how do you plan to take the company there?

**<A – Tim Boyle>**: Well, Steven, this is Tim. So we launched just about a year ago our e-com commercial business where we are actually selling on our site now. And this – the results have been very gratifying. But, at the end of the day, the reason for us to have that e-com site is to drive awareness of the brand and to have purchase decisions being made by consumers, whether they buy from us or at our retailers for us to be top of mind.

So as just a point of information, our site traffic since we moved to a commercial commerce site from just a marketing site, our traffic has more than doubled. And as we look at the conversion rates, they approximate the industry average, which means something like the high 90% of consumers that visit learn about our products and then go buy them at one of our retailers. But we're very, very pleased with our just the e-com business.

**<Q>**: Yeah. Do you actually have revenue numbers that you can throw out for the e-commerce site, you break those down from total revenue?

**<A – Tim Boyle>**: Because we're primarily a wholesale business, we don't give the typical retailer metrics on any of the businesses. But I can tell you we're very pleased with the results there.

**<Q>**: Okay. And you said traffic has doubled, where would you like it to be in the next couple of years? I mean it obviously has done tremendous, where would you like to be in terms of – in next couple of years from now? How much would you like to be driving online? And also another thing, are you guys developing mobile applications to where someone can download iPhone app or Google Android app to be able to launch ability to go to your site?

**<A – Tim Boyle>**: So, yes, we have multiple ways to reach our sites including Facebook and other social media and apps. And that's going to continue to be a big part of our business. We hope that our site business will grow exponentially, and that's our expectation. Thanks for the questions.

**<Q>**: Thanks.

Operator: Thank You. Our next question actually comes from Robert Drbul's location. [Barclays Capital] Go ahead, please.

**<Q – Robert Drbul>**: Hi, good evening.

**<A – Tim Boyle>**: Hey, Bob.

**<Q – Robert Drbul>**: How are you, Tim?

**<A – Tim Boyle>**: Good.

**<Q – Robert Drbul>**: I guess some – couple of questions on the – some of the new products that are hitting right now, the gross margin profile of the Omni-Heat product, is it coming in as expected

are you achieving sort of the merchandise margin rates that you anticipated as you entered the fall season? And how are you thinking about it sort of into the fourth quarter? And I guess the other way I'm trying to figure out is can you qualify the air freight cost in the gross margin line for us, Tom?

**<A – Tim Boyle>**: Yes, so Bob, let me just sort of give you a little color on what we're seeing as it relates to sell-through today on Omni-Heat, which is really the key technology driver for the sales for us for this year. Our goal was to give ourselves more gross margin and to give our retailers more gross margin. And I think as it relates to those initiatives, we were successful. We are seeing very gratifying sales results, even though the merchandise is just really hitting the floor and where we have the highest visibility is on our own stores where the Omni-Heat is performing multiple percentage points sell-through better than our non-Omni-Heat products. So we think this is the beginning of really great stuff for us. Obviously we're disappointed in the costs to get the merchandise here in a timely manner. And I'm going to ask Tom to really speak to where we are in quantifying that.

**<A – Thomas Cusick>**: Yeah. So, Bob, maybe I can shed some additional context for the air freight tab this year. We made a conscious decision back in April to fill our fall 2010 demand in an effort to market – to take market share on our exciting new innovations that we believe will continue drive the top line moving forward. The result of this aggressive market share pursuit has resulted in obviously higher air freight cost both in unit volumes and in air freight rates. Without the year-over-year freight rate increases alone, we would have leveraged our operating margin in the third quarter and the full year. In looking back, we absolutely believe it was the right decision to make to continue the momentum for our brands.

**<Q – Robert Drbul>**: And Tom, so when – as you look sort of into the fourth quarter I guess and even – is this pressure based on what you're doing for spring and bringing the stuff in early, is it expected to become alleviated at some point here? I mean how – what's the ongoing pressure that we should expect here?

**<A – Thomas Cusick>**: Yes. So there is a normal amount of air freight in our operating model, generally speaking. However, it's more of a fall issue than a spring issue and it's most pronounced in the third quarter. So as we look at the fourth quarter, we will have definitely some margin pressure as a result of air freight. But as we look into spring 2010 at least as it relates to spring '09, we're not anticipating really much margin compression at all from air freight.

**<Q – Robert Drbul>**: Got it. Okay. And then just had a question on the inventory. Have you had any significant cancellations? And I think you laid out on the inventory in the commentary that you provided earlier around a build for inventory for the outlets. Can you maybe just comment on the buckets on the inventory as you look forward, like replenishment, how much is going to be replenishment? How much is going to be for the stores? And how much will you pull forward? Is there any way to think about that?

**<A – Thomas Cusick>**: Yeah. So a couple of answers there. As it relates to cancel rates at least as based on where we are season to date through the fourth quarter here, our cancel rates are actually down a little bit. And when we look at the season taken as a whole, we would expect cancel rates to be generally comparable, maybe slightly higher, but not dramatically higher than last year.

As it relates to inventory in the makeup, as we approach year-end, the vast majority of the increase in inventory that we expect as of year-end will be purely a timing shift, we received our spring 2010 inventory last year generally later than normal. And this year we expect to receive the spring '11 inventory timely, which makes that a little bit of a difficult comp year-over-year.

And then as it relates to replenishment, we had abnormally low levels of replenishment exiting 2009 and we have brought those back to normal levels. So that will also be a little bit of a comp difference year-over-year. And then we will carryover a bit more inventory from fall '10 into 2011 for retail than we did on a relative basis last year.

<Q – Robert Drbul>: Got it. Thank you very much.

<A – Tim Boyle>: Thanks, Rob.

Operator: Thank you. Our next question comes from Kate McShane with Citigroup. Go ahead please.

<Q – Katharine McShane>: Hi, everyone.

<A – Tim Boyle>: Hey, Kate.

<Q – Katharine McShane>: With the expedited shipping, just to be clear. I mean, how much of it is a result of meeting the demand for your product and is there any expedited shipping, because of anything that's going on with the capacity of the boats?

<A – Bryan Timm>: Yeah, this is Bryan, Kate. I guess, just maybe a quick history in terms of kind of how this came upon us, we typically ship capacities for a lot of our fall business kind of call it for the fall '10 business we would have done that kind of in the summer months of '09 through fall. Those capacities that we said would have been on a smaller estimate of ultimate the fall demand that we had. So as we continue through the ordering cycle with our accounts basically in the January timeframe, it became where we had to basically to hit floor sets for our customers that early demand we needed to air freight and we basically decided on the amount of units that we would fly in to make sure that we could hit those floor sets for our customers.

As Tom mentioned earlier, the part we didn't know about hit us kind of in the later summer months where a lot of the air carriers basically increased their rates. And when you take that coupled with the mix of footwear, which also our footwear business is growing more this year that definitely kind of ultimately led to a much increased freight. The ocean side of it, I would say that 2009 was an abnormally low ocean freight rate year as most of the carriers really were quite aggressive in their pricing. Obviously in 2010, that turned back the other direction and the ocean freight rates also increased.

<Q – Katharine McShane>: Okay. That's really helpful. Thanks, Bryan. My other question is on your disclosure about more investment during the quarter and more investment in the fourth quarter to secure market share and infrastructure investments, et cetera. Is this something that you had been contemplating in the beginning of the year and that's why it wasn't in your guidance originally? Or what has changed from what you were thinking when you last talked to us back in July to what you're disclosing today?

<A – Bryan Timm>: So, yeah, Kate, let me just – the air freight issue – we contemplate some air freight, we had no idea that the rates were going to be as dramatically increased as they were. As it relates to the comments regarding infrastructure and other questions you might have, I'm going to ask Tom to speak to those.

<A – Thomas Cusick>: Yeah, Kate, this is Tom. As it relates to the infrastructure investment, I believe we've been talking about those, actually since the April timeframe. So in terms of areas of spend, there's really been no change. We continue to invest in the IT infrastructure and business systems as we alluded to. And as the year has carried on, those investments have been more back-end weighted in the year than front-end. So those are driving some of the SG&A increase in absolute dollar terms in Q3 and Q4.

**<Q – Katharine McShane>**: Okay. Just as a follow-up to that. So – I do realize that you guys have been talking about investing in your infrastructure. So is there something incremental? I mean you did say it's more back-half loaded. But is there something incremental that's changed that? And then also, is there something incremental in terms of what you did with securing some floor space and marketing, et cetera?

**<A – Thomas Cusick>**: Yeah. As it relates to the SG&A spend and specifically marketing, I think we've communicated that we were going to increase our marketing spend by roughly 25 basis points from 5.25 to 5.5 for the year. So that stayed consistent.

As it relates to the incremental SG&A implied in our outlook from now as compared to July, the revenue number's up in rough terms, roughly 25 million. So there's some incremental variable costs associated with that incremental revenue.

In addition, our currency assumptions have changed, given further strengthening with both the euro and the yen. And that's actually driven close to half that SG&A increase. And then there's some other compensation and non-recurring costs that weren't contemplated in July that are now included in the outlook.

So those are the three major components; currency, variable cost and these non-recurring costs that we anticipate incurring in the fourth quarter.

**<Q – Katharine McShane>**: Okay, great. Thanks so much.

Operator: Thank You. Our next question is from Eric Tracy with Friedman, Billings, Ramsey. Go ahead, please.

**<Q – Eric Tracy>**: Good Afternoon. If I could, I know you're not giving explicit guidance for next year. But is there any way given sort of product cost inflation's such a big topic these days to maybe sort of speak to what you're seeing now, sort of the exposure from a raw materials perspective, cotton in particular? Maybe how we should think about your buying patterns there, labor, freight, as well sort of incrementally beyond the air freight this year, how we think about next year? And then the ability to offset with pricing. Clearly, Omni-Heat should support higher levels; but just trying to get a sense of that dynamic as we think about next year?

**<A – Bryan Timm>**: Sure, this is Bryan. So on the raw materials side, I know there's a lot of talk about cotton pricing currently. So just to kind of give you some context about cotton fabrics for us, I would say that the dollars we spend on cotton fabrics as a percentage of our total cost of goods sold is probably in the low single-digit. So not necessarily a particularly large driver, given the variety of products that we make.

From a labor perspective, I think we've mentioned before, that about two-thirds of our production are out of Vietnam and China. Those two countries have probably seen the largest labor increases as of late. So certainly from a labor perspective, that is giving us cost increases.

With respect to freight, we typically renegotiate our ocean as well as potentially air freight rates in about the May timeframe; so I really can't comment on what the freight rates may do for a full year 2011.

To the extent that we can build in a lot of these increases into our selling prices ultimately, obviously it's a bit early to talk about fall '11 as we're currently into a week of our sales meeting here over the course of the next several weeks. So we'll be just going to market here and finalizing pricing in the next little bit.

**<Q – Eric Tracy>**: Okay. No, thank you, that's really helpful. And just in terms of the labor cost component again, obviously – the two-thirds in Vietnam and China, is there a level of flexibility to sort of move the sourcing next year? Or how should we think about that?

**<A – Bryan Timm>**: Sure. Again, I think in a typical environment, I would say that it's much – we have a lot more flexibility than we probably have currently. Obviously, there is limited capacities in Asia. And therefore, we pretty much are sticking with our traditional factory groups that we work with as well as trying to secure new capacities. So I think really using that as an opportunity for flexibility, it's probably a little bit muted now from where they would have otherwise been in a typical environment.

**<Q – Eric Tracy>**: Okay.

**<A – Thomas Cusick>**: And then, Eric, this is Tom. As it relates to currency for 2011, we are anticipating some slight headwinds in the first half of the year for spring and some slight tailwinds in the back half. But generally, currency should be fairly neutral to the model in 2011.

**<Q – Eric Tracy>**: Okay. And then Tom, you mentioned just in terms of the cancellation rates, I think I heard you say sort of the expectation maybe it up ticks a little bit on a relative basis year-over-year? And I'm wondering a little bit sort of what the assumption is around that, given I would imagine, really decent sell-through here on the Omni-Heat?

**<A – Thomas Cusick>**: Yeah. So I mentioned that season-to-date, we're actually ahead of last year. But the weather has not been our friend over the course of the past month. So that would be a cause for some concern at this point.

**<Q – Eric Tracy>**: Okay, okay. And then lastly, just sort of housekeeping real quick. Tax rate, Tom, for the balance of the year?

**<A – Thomas Cusick>**: So we're planning for the full year a 26% tax rate.

**<Q – Eric Tracy>**: Okay. And I'm sorry, if I could follow, one last – just in terms of the investments you talked about. Behind marketing and infrastructure, IT, happening kind of Q3, Q4, is there any way to communicate that? It's probably too early, but just sort of how we should think about that next year as well, maybe first half of the year?

**<A – Thomas Cusick>**: I would say we're early stage in the ERP implementation. We're just beginning blueprinting here in a few weeks. So we would expect those costs to continue through 2011.

**<Q – Eric Tracy>**: Okay, all right. Thanks, guys.

Operator: Thank you. [Operator instructions] Our next question comes from Michelle Tan's location with Goldman Sachs. Go ahead, please.

**<Q – Michelle Tan>**: Great, thanks. Hey, guys. I want to just start maybe talking about the spring backlog, the '12, Omni-Heat was obviously a big win for you in the fall with the retailers. Curious if there were any kind of key things that really resonated in spring, or whether it was just more broad-based across the spring buy?

**<A – Tim Boyle>**: Yeah, Michelle, this is Tim. So we keep reiterating the uniqueness about Omni-Heat and the fact that it's visible. And the two key – actually, the three key focuses for us for spring '12 – wait a minute, where am I, spring '11, sorry – we're – our insect blocker, our new waterproof, breathable membrane, Omni-Dry and of course reiterating our business strength in our Omni-Shade focus on sun protection.

So none those are visible and none of those really had any specific impact on the business, although the business did grow in virtually every area of the business geographically and brand. So we had a great lift, we think a lot of that has to do with the quality reflection of Omni-Heat as it relates to residual impact from fall '10. And our expectation is quite high for the balance of the year in terms of our future bookings.

**<Q – Michelle Tan>**: Okay, great. And just a follow-up on the whole sell through question and the cancellation question for fall. I mean what are you hearing from the retailers? Are they getting more nervous or are you – about kind of the levels about-sell through and weather, or is it just more that you are anticipating a change in how they are feeling as we move further into the season?

**<A – Tim Boyle>**: Well just, first of all, the sell-through on Omni-Heat has been – I mean, I don't want to over sell this, but it's has been better than gratifying. So where we have complete visibility, i.e. our own stores, it's been spectacular. But we don't know in a period of economic uncertainty and weather uncertainty we're unclear as to how our retailers will react. We have almost no carryover of Omni-Heat plan. We have plan to sell that out. And it looks that will in fact occur. So the initiative has been well received, it's selling well at retail and that's going to be great; it's just sort of the overall macro environment of how that's going to impact us from economic and weather conditions.

**<Q – Michelle Tan>**: Perfect, got it. And then my last one was, if you look at the performance of your markets outside the U.S. and look at some of the variability and the results in the backlog, do you think the variations by market are primarily macro driven or when you look at the markets like Canada, do you think that is more operational changes that need to be made there and kind of update us on where you are?

**<A – Tim Boyle>**: So I think – I believe that the teams we have in place today globally are the right people and that we're making steps to right the business everywhere, we're well along in those processes. We haven't been able to demonstrate that in a sales number yet in some markets, although our expectation is that we will soon be able to demonstrate – the fact that we fixed a lot of those businesses and can move forward. So I'm actually very encouraged, and as I said, we're here in Central Oregon, we have almost 700 people globally looking at our fall '11 products in advance of our selling season, and there has never been more excitement, at least that I know of in looking forward. So we're excited here.

**<Q – Michelle Tan>**: Okay. Thanks, guys. Good luck.

**<A – Tim Boyle>**: Thanks.

**<A – Thomas Cusick>**: Thank you.

Operator: Thank you. Our next question is from Mitch Kummetz with R. W. Baird. Go ahead please.

**<Q – Mitch Kummetz>**: Yeah, thank you. Just a few questions. First on the cancellation rates again there is an expectation that that creeps up over the balance of the year. Is that because you're starting to see some of your retail customers getting a little bit nervous with inventory levels, and so you're thinking that maybe at some point they are going to have to increase their promotions; and is that why in the press release you're talking about some gross margin pressure from higher proportion of closeouts in Q4?

**<A – Tim Boyle>**: Well, we don't see anything specific in the future other than the weather that we're looking at today and have for the last month, especially when it compares to last year's weather during the last 30 days, certainly in the U.S. So there is nothing specific we're looking at.



**<A – Thomas Cusick>**: Yeah. Mitch, this is Tom. If things trend the way they have season to date, then we'll be very comparable to slightly down. So there is really nothing specifically we're pointing at. So I certainly don't want you all to overreact to that statement.

**<Q – Mitch Kummetz>**: Okay. Let me ask you about the gross margin. Gross margin was down 90 bps in the third quarter. And you guys highlight the different puts and takes on the gross margin. Could you quantify the impact of those different buckets and then maybe address how you expect those to play out in the fourth quarter? Obviously, you're expecting pressure from freight. But could you quantify the impact of that in both Q3 and your outlook for Q4 and then maybe talk to some of the other impacts as well?

**<A – Thomas Cusick>**: Yeah. I don't really want to get into too much detail on that, Mitch. But I guess it would be fair to say that had we incurred a comparable amount of air freight year-over-year on a relative basis, we would have leveraged at the operating margin level in the third quarter.

**<Q – Mitch Kummetz>**: Okay. And then on the spring backlog, well, first of all, going to fall, obviously it was up significantly for fall, '10. I would imagine that some of that increase was just based on the Omni-Heat, you're getting a better sell-in to some of these outdoor specialty accounts. And I'm wondering, Tim, you kind of talked about that there is some piggyback effect, is that where you are seeing a lot of the increase for spring '11, is that you've won some real estate back with some of these outdoor retailers. And now you're getting benefit of that because of the Omni-Heat for fall. Is that kind of what you talking about?

**<A – Thomas Cusick>**: Yes. I mean, we really saw across the board geographically and across the channel lift. And so where in the past, we'd really had – we'd struggled in some channels and some geographies, we really are going beyond that today.

**<Q – Mitch Kummetz>**: Okay. And then on your own retail business, did you guys say what the comp was for the quarter? It sounds like the Omni-Heat hit those stores earlier and you had a good representation in your own stores. Just wondering how much impact did that have on the comp in your stores. And if you saw your comps accelerate over the course of the quarter as more of that product started to flow into your own stores?

**<A – Thomas Cusick>**: Well as you know, Mitch, because we're not a retailer, we don't report those specific financial details about the retail business. And really what we look at is sort of the relative sales of Omni-Heat versus non-Omni-Heat, and that's where we see significant uplift in the Omni-Heat both in selling and in the anecdotal measurements that we get. So that's where we're seeing the excitement and that's how we can sort of compare ourselves extrapolate it across the other channels that we sell through.

**<Q – Mitch Kummetz>**: Okay, that's helpful. Thanks, good luck.

**<A – Thomas Cusick>**: Thanks.

Operator: Thank you. Our next question is from Robby Ohmes with Bank of America Merrill Lynch. Go ahead please.

**<Q – Robert Ohmes>**: Oh, thanks. Good afternoon, guys. Hey, I have a follow-up on some questions that were already asked. I know you don't want to give guidance on 2011, but I think what we're all trying to understand is, and I get that you have this one-time freight thing hitting, but you said you would lever the operating margin, if that hadn't happened and there is a lot of expense pressures that sound like one-time expense pressures.

So in 2011, if you sort of just think about the rate of growth in SG&A dollars and maybe Tim, you could work into this, the costs related to the internationalization of the sales force organization, and if those are significant and there is any leverage to come next year. But I think we all are trying to understand if you have another year, where you grow revenues near 20%, could you get very significant operating margin leverage or could there be a whole another layer of expenses coming in next year that we don't know about?

**<A – Tim Boyle>**: Well, Robby so, for me personally, I find it disappointing and embarrassing to be reporting bigger revenue numbers and not having leverage. This is something that we worked on diligently here. And we don't take it lightly that we aren't performing even to the average of the industry. We are very focused leverage, I can tell you that that's a keen area of discussion among the management group and as you might imagine our board. And so my expectations personally are that the business is going to be much healthier with a winter without a better top line. So maybe, Tom, can maybe answer more specifics you might have.

**<A – Thomas Cusick>**: Yeah, Robby, so a couple of things here. We would expect to leverage the retail investments that we've made over the last couple of years in 2011 as well as the investment in internalizing our sales organizations in North America and Europe in 2011. We plan to manage our freight costs down in the back half of 2011, and we're keenly focused on leveraging SG&A as well.

**<Q – Robert Ohmes>**: And can you quantify the sales organization impact, is that \$10 million or 20 million, what was sort of the dual costs you guys have been running this year?

**<A – Thomas Cusick>**: I would say that it was – it had a higher deleveraging effect in 2009 that it did 2010 and it will turn into a leveraged item in 2011 without getting more specific than that.

**<Q – Robert Ohmes>**: Great. Thanks very much.

**<A – Tim Boyle>**: Thank, Robby.

Operator: Thank you. Our next question is from Howard Tubin with RBC Capital Markets. Go ahead please.

**<Q – Howard Tubin>**: Thanks, guys. Can you just give us maybe an update on your retail store strategy, maybe just remind us how many full-line stores and how many outlet stores you have now and what your thoughts are for store openings or not in 2011?

**<A – Tim Boyle>**: Certainly. Well, as you know the store opening focus for us was one that we instituted in 2009 – late '08 and then finishing up in '10, and our goals for the future would really be focused on efficient operation of those retail stores and then maximizing our investments there. Where I would see us making continued investments would be in the areas of e-com because of the high return not only for ourselves but also for our retail partners where we can really explain the product in high detail and hopefully have consumers go in their local communities and buy the merchandise there. As it relates to the other part of your question maybe I'll ask Tom to speak specifically on the numerical number of stores et cetera.

**<A – Thomas Cusick>**: Yeah, Howard, we will exit 2010 with 49 stores in the U.S. of which 8 are branded, 10 stores in Europe of which 3 are branded and then 2 outlets in Canada. And then as it relates to Japan and Korea, that's a different model, smaller footprints, a combination of branded stores, outlets and shop-in-shops and we'll exit 2010 with close to 100 stores in Japan and 188 in Korea. Not to mention the fact that we've got e-com businesses in U.S. for each of Columbia, Sorel and Mountain Hardwear all online currently.

**<Q – Howard Tubin>**: Yeah. Got it. Thanks very much.

Operator: Thank you. Our next question is from Christopher Svezia with Susquehanna Financial Group. Go ahead please.

**<Q – Christopher Svezia>**: Good Afternoon, everyone. Just a quick question, I don't know if you can – I think someone tried to ask this before, but I just wanted to see if I get some color here. Just on the gross margin for your outlook for the fourth quarter. Just, if there's any way maybe Tom you can just maybe talk a little more specifically about how much – I would assume you're seeing product margin improvement, I would assume mix is probably having some benefit. But then that's offset by freight and I would assume you're giving some opportunity for some markdown of product in the fourth quarter in your own company-owned stores. So I was just wondering if you can just talk more specifically about what the range from down 65, down 135, what that implies between those buckets if you could?

**<A – Thomas Cusick>**: Yeah. So the variance is really driven by the volume of our own retail and our full price product sales as compared to the portion that will be driven by the closeout or value channel. So there is some range of variance there and that's really what's driving that. And then the compression is – the overall compression is really a function of some incremental air freight. We will bring in – our footwear product is – generally comes in a little later than apparel and it's – we've aired some of that in late Q3, early Q4. So that's causing some compression in the margin in Q4 for that air freight. And then currency is a headwind and then there is a little bit of compression driven by a higher volume of closeout sales anticipated, however at a higher gross margin this year than last.

**<Q – Christopher Svezia>**: Okay. Okay, helpful. And then as you go into the first quarter, I think answering an earlier question, it seems like that air freight component goes away for the most part or falls off significantly from a sequential perspective?

**<A – Thomas Cusick>**: Definitely falls off significantly from a sequential perspective and really it normalizes in comparison to spring 2010.

**<Q – Christopher Svezia>**: Okay. And then, just on the international side for Europe, Middle East and Africa, which the revenues were down that give me some reference that – date of receipts of inventory, is that just due to the fact – again, going back to a freight situation, you didn't get product there soon enough and – how should we think about that as we go into the fourth quarter?

**<A – Thomas Cusick>**: Yes, so that was really a phenomenon for both Canada and Europe. So they were more heavily affected by later receipts of inventory than the other regions and as a result both of their fall backlogs were up and so we would expect their back half revenue more heavily weighted towards the fourth quarter. That's real – it's really just a timing thing between Q3 and Q4.

**<Q – Christopher Svezia>**: Okay. And then the last question I had is just on the Omni-Heat product, when we walked around retail and just kind of looked at the product as it came out October 10, some retailers were out there showcasing the product and having POP out there. Some major chains were not, it might have just been a store-specific situation. But I guess could you talk to was there any sort of issues of getting timing of getting key product out there or point of purchase displays out there and is that just the timing issue or some retailers might not have been fully onboard with getting all the POP out there on a timely basis? Just wondering maybe if you can talk about if you're seeing anything on your end as it pertains to that?

**<A – Tim Boyd>**: Yeah, certainly, well – I mean without knowing specifically where you went, we certainly concentrated our in-store efforts on the high-volume retail stores by each of our major retailers. So if you went to a C or D store for one of these guys, it may not have been as fully built out in terms of a retail presence as the A stores. But we spent a lot of time and effort with our field

merchandising teams and – with the field merchandising teams that are – that our retailers have to make sure that we had the right stores covered in spades.

**<Q – Christopher Svezia>**: Okay. It was in New Jersey and it was Sports Authority and Dick's were the two retailers.

**<A – Tim Boyd>**: I don't know which store you went to but we spent a lot of time with both of those retailers getting their best stores looking great.

**<Q – Christopher Svezia>**: Okay, all right. Best of luck. Thanks.

**<A – Tim Boyd>**: Thanks.

Operator: Thank you. [Operator Instructions] Our next question is from Ken Stumphauzer with Sterne, Agee. Go ahead please.

**<Q – Ken Stumphauzer>**: Good afternoon guys. Just, first, a clarification on the guidance that you gave for the full year. That number does incorporate the tax benefit you realized this quarter, correct?

**<A – Thomas Cusick>**: Correct.

**<Q – Ken Stumphauzer>**: Okay. Secondly, as far as the backlog goes I know that you are largely a backlog-driven company but I'm curious if you have any perspective on whether perhaps there might be some pull forward of demand into that number, just because of retailers' concerns about supply chain issues?

**<A – Tim Boyd>**: You mean, whether people might accelerate the delivery of the merchandise?

**<Q – Ken Stumphauzer>**: Accelerate deliveries or even perhaps be more willing to commit to backlog orders versus depending on replenishment orders, because of supply chain issues we've seen over the past 12 months. Not specific to you guys, but across the industry.

**<A – Tim Boyd>**: Yeah. So I really can only speak to us. We'd be thrilled if that happened. And – but – I'm not anticipating it, but it is possible, I suppose.

**<Q – Ken Stumphauzer>**: Okay. And then just secondly, in thinking about the payables growth, Tom, in the quarter? What was that related to?

**<A – Thomas Cusick>**: Yeah. We had more in transit inventory and just the pure later receipt of inventory in the quarter caused that payable number to spike. But that's all – that's virtually all inventory. In addition, we pay duties at the time of shipment, not at the time of receipt. So you'll likely see that piece of the payable build over time.

**<Q – Ken Stumphauzer>**: Okay. And then one last thing related to the ERP implementation I think you guys said you're putting into place next year. And historically, we've seen when companies implement ERP systems, they can run into operational issues. So I'm just curious how you guys are going to approach that and what kind of safeguards you're going to put in place to prevent that from happening?

**<A – Bryan Timm>**: Well, obviously – this is Bryan – obviously, these types of projects come with a certain amount of risk. But I would say, as Tom mentioned earlier, we start blueprinting this quarter. The blueprinting will be a global exercise where we really set one platform to service the entire corporation and all regions. I think from a risk management standpoint, certainly we have assembled a team that, both as employees as well as outside consultants, that will help us do this

project. Like I said, until we really complete the global blueprinting, I think the full scope and kind of project plan will really kind of unveil itself after the conclusion of the blueprint.

<Q – Ken Stumphauzer>: Okay. Thanks, guys. Best of luck.

<A – Bryan Timm>: Thank you.

<A – Tim Boyd>: Thank you.

Operator: Thank you and there are currently no more questions.

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**Tim Boyle, President and Chief Executive Officer**

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Well, thanks everyone for listening in, we look forward to talking to you in January with the results of the final full year.

Operator: Thank you ladies and gentlemen. This call has been concluded.

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