
MANAGEMENT DISCUSSION SECTION

Operator: Good afternoon. My name is Christian, and I will be your conference operator today. At this time I would like to welcome everyone to the Second-Quarter 2009 Earnings Release Conference Call. All lines have been placed on mute to prevent any background noise. After the speakers' remarks, there will be a question-and-answer session. [Operator Instructions] Thank you.

Mr. Ron Parham, you may begin your conference.

Ron Parham, Senior Director of Investor Relations and Corporate Communications

Thank you, operator. Good afternoon, everyone, and thanks for joining us on today's call. About an hour ago we issued our press release and financial schedules covering the results of our second quarter of 2009. With me today to discuss those results and answer your questions are Columbia's Chairman, Gert Boyle; President and CEO, Tim Boyle; Vice President of Finance and Chief Financial Officer, Tom Cusick; Executive Vice President and Chief Operating Officer, Bryan Timm; Executive Vice President of Sales and Marketing, Mick McCormick; and Vice President and General Counsel, Peter Bragdon.

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

Gertrude Boyle, Chairman

I'd like to remind everyone that this conference call will contain forward-looking statements regarding Columbia's business opportunities and anticipated results of operations. Please bear in mind that forward-looking information is subject to many risks and uncertainties, and actual results may differ materially from what is projected. Many of these risks and uncertainties are described in Columbia's annual report on Form 10-K for the year ending December 31, 2008, and its most recently filed quarterly report on Form 10-Q, as well as 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 to conform the forward-looking statements to actual results or to report changes in our expectations.

Ron Parham, Senior Director of Investor Relations and Corporate Communications

Thank you, Gert. I'll hand the call over to Tim.

Timothy P. Boyle, President and Chief Executive Officer

Thanks, Ron. Welcome, everyone, and thank you for joining us this afternoon to discuss the results of our second quarter. I'm going to keep my prepared remarks very brief today for two reasons. First, the second quarter is by far our smallest quarter of the year, typically accounting for approximately 15% of our annual net sales. Our fixed operating costs are not absorbed as effectively as in other quarters, and we report the lowest operating earnings, or loss in this case, of any quarter. Second, during last quarter's conference call, I focused my comments on the weak condition of the global retail environment. Since April, we have all seen and heard the continuing reports of weak retail sales, increasing unemployment, mounting mortgage foreclosures and additional corporate and individual bankruptcies. You're all well aware of these realities and – that

we and other consumer companies are operating under, and I'm not likely to add anything to the discussion that would be different than what you're hearing from others.

As you know, the typical product cycle in this industry is about 18 months from product concept to retail floor. Over the past 18 months, you've heard us repeatedly describe the emphasis increasingly we are placing on product innovation focused around technologies that are easy to understand and that solve real problems for Outdoor consumers.

As one measure of that new focus, I'm pleased to note that we have had more pending product – excuse me -- more pending patent applications today than at any time in our 71-year history. You've also heard us describe our new focus on developing products that address the needs of Outdoor consumers within six broad categories: winter, water, trail, travel, fish/hunt, and golf. Over the past year you've watched as we launched our Greater Outdoors global brand campaign developed by our new brand agency. After nine months, market research performed by NPD tells us that our message of inclusiveness and democratic access to the outdoors is resonating with Outdoor consumers of all abilities, ages, genders and geographic regions.

Over the past 18 to 24 months, you've heard us describe the talent that we are attracting to our team, including product merchandising, e-commerce, European management, retail, as well as the internal promotion of several leaders. We're working with these new teammates to drive our strategic initiatives.

I'm very encouraged by how far our go-to-market initiatives have evolved over the past 18 months. Our fall 2009 products that have already started shipping partially reflect the influence of these new leaders and new initiatives. We're looking forward to consumers seeing these products at retail beginning this fall.

Even more, we're looking forward to delivering our spring 2010 line, because it will be the first to fully reflect the influence of our new go-to-market efforts. We have been showcasing this line at trade shows and order-writing shows around the world, including last week at the Outdoor Retailer Summer Market Trade Show in Salt Lake City, the European Outdoor Show in Friedrichshafen, Germany, and at numerous shows in Japan, China and Russia.

As a company, we are committed to an increasing – to an increased focus on product innovation, enhanced design, brand enhancing distribution, and new marketing strategies because we believe strongly that they will generate long-term value for shareholders by creating a stronger brand with strong emotional connections to consumers.

We are taking encouragement from some early recognition in the form of product awards that suggest the industry is beginning to notice that things are changing here at Columbia. Two weeks ago at the Outdoor Show in Friedrichshafen, Germany, our Ravenous trail running shoe and our Movex trail pack were selected as the most innovative products in their respective categories. These are significant awards because they validate our renewed focus on innovation and recognize the creativity and effort of our product design and marketing teams.

In the U.S., retailers, analysts and investors attended the Outdoor Retailer Summer Market last week in Salt Lake and got a front-row view of some of the highlights of our spring 2010 product line, and the featured launch styles and advertising that will lead our multichannel marketing efforts next spring.

The changes we have implemented in our go-to-market strategy in the last 18 months are only the beginning. We still have a ways to go before we can say that we have truly taken our brand to a new level within the minds of Outdoor consumers.

As a first step towards that goal, we believe that the changes we have made to date have begun to alter the perception of our brand among influential specialty retailers globally. With product lines that contain more innovative styles, we are positioning ourselves to implement a more disciplined segmentation strategy across our distribution channels, targeting products that contain our best technologies to specialty retail stores that cater to more discerning, serious Outdoor consumers. These consumers in turn influence the next level of Outdoor enthusiasts and drive demand for the brand, ultimately benefiting our wholesale partners across all segments of distribution.

At the same time, we're also well aware of two realities. The first reality is that those of you who have been following us for more than two years have heard us cite similar past efforts that we believed would put us on a renewed growth trajectory. While internally we see vast differences between these current efforts and those previous, we understand that we need to produce improved financial results that tangibly validate our strategies before we can expect analysts and investors to alter their perceptions. The second reality is the very challenging macroeconomic conditions that exist around the world, which we believe to continue at least through the remainder of 2009 and into 2010.

So I have to temper your expectations around how soon these new go-to-market strategies will produce measurable increases in reported sales and operating income. However, we will consider it a success in these economic times if we're able to gain measurable market share against key competitors and position ourselves for long-term success.

So I'll now hand the call over to Tom to review the financial results.

Thomas B. Cusick, Vice President Finance and Chief Financial Officer

Thank you, Tim, and good afternoon, everyone. I will begin with a brief review of the income statement and balance sheet. Please recall that Q2 is our lowest volume quarter of the year as we ramp down our spring shipments and begin fall delivery. Regional net sales comparisons often produce large percentage variances due to the small base of comparison and because of shifts in the timing of fall shipments to international distributors that may occur late in the second quarter or early in the third quarter.

Overall, the second quarter came in better than the outlook we provided in April due to a smaller decline in net sales than anticipated, along with diligent expense management and a favorable effect of cost-control measures that we have implemented over the past year. Second-quarter net sales decreased 16% to \$179.2 million, with changes in foreign currency exchange rates contributing four percentage points of that decrease.

Looking at Q2 2009 net sales on a regional basis compared with Q2 2008, U.S. sales increased 2% to \$97.7 million driven by growth in U.S. retail, as there were 16 more U.S.-based retail stores operating at the end of Q2 2009 as compared to the same period last year.

U.S. wholesale sales showed a high-single-digit percentage decline primarily due to the Columbia brand and primarily concentrated in our Sportswear category, which is typically the largest category in our spring season business. The decrease in U.S. wholesale sales was also due in part to increased order cancellations, credit extension limitations and the bankruptcy of several wholesale customers.

EMEA sales declined 47% to \$33.7 million, including a five-percentage-point drag from foreign currency exchange rates. Our EMEA distributor business declined mid-50s percent, reflecting very difficult macroeconomic conditions in our largest distributor regions, coupled with a shift in fall shipments into the third quarter from the second quarter, as compared to the same periods last year.

Net sales in our EMEA direct business showed a mid-30s percent decline, including an 11-percentage-point negative effect from foreign currency exchange rates. The remaining decrease reflects the difficult macroeconomic conditions, the soft spring 2009 order book that was previously announced, and the product assortment and market positioning issues in the region that we've mentioned in previous calls. We expect fall 2009 to continue to be challenging for us in this region.

Net sales in our LAAP region remained essentially flat at \$39.9 million. To date, this region has been very resilient and outperformed the rest of the world. Foreign currency exchange rates played a significant role in both our Japan and Korea businesses. Mid-teens percent growth in our Japan business was aided by a five-percentage-point gain from the effect of currency. Conversely, the effects of currency in our Korea business turned high-20s-percentage constant dollar growth into a 2% decline for the quarter. Net sales to our LAAP distributors showed a 20% decline due to a shift in the timing of shipments in the third quarter -- into the third quarter and the rescheduling of some orders for southern hemisphere distributors from the second quarter to the fourth quarter. This rescheduling better aligns with the selling seasons for southern hemisphere customers that lag our product seasons by six months.

Net sales in Canada declined 44% to \$7.9 million, including a 10-percentage-point currency headwind. The remaining decrease reflects the soft spring 2009 order book which includes the planned reductions in some channels of distribution as well as increased order cancellations and some shift in the timing of shipments into the third quarter.

Looking at second-quarter net sales by product category compared with Q2 2008, Sportswear net sales declined \$17.1 million, or 15%, mostly related to the Columbia brand net sales declines in North America and Europe. Footwear net sales declined \$9.1 million, or 21%, mostly attributable to lower EMEA net sales. Outerwear net sales decreased \$6.7 million, or 16%, in the second quarter. This decrease was primarily driven by a net sale decline in the EMEA distributor business and was partially offset by net sales increases in the U.S. wholesale and retail businesses. Accessories and equipment net sales decreased \$1 million, or 8%.

From a brand perspective, the 16% decline in second-quarter net sales can be primarily isolated to the Columbia brand, which was down \$32 million, or 17%. Mountain Hardwear net sales declined 4%, while Sorel, Montrail, and Pacific Trail net sales were insignificant in the second quarter of each year.

Gross margins increased by 130 basis points to 41.5% in the second quarter, primarily due to the favorable effect of regional sales mix, as the relative portion of lower gross margin sales through our distributor businesses decreased and the relative proportion of our higher gross margin sales through our expanded base of U.S. retail stores increased.

SG&A expense increased 1% to \$92.2 million, representing 51.5% of second-quarter net sales, compared to 42.8% in last year's second quarter. The increase in absolute dollar terms was almost entirely related to our direct-to-consumer initiatives. These cost increases were partially mitigated by cost-reduction initiatives which began in 2008 and included reductions in head count, incentive compensation, benefits, and other discretionary costs.

As a percentage of sales, the SG&A expense deleverage is the result of the combined effect of the revenue contraction at our wholesale and distributor businesses globally, coupled with an increased fixed cost base resulting from our expanding retail business.

The operating loss for the second quarter of 2009 was \$15.3 million, or 8.5% of net sales, compared to an operating loss of less than 1% of net sales for the comparable quarter in 2008.

The income tax benefit for the second quarter of 2009 was \$5.4 million, equating to a 35.5% tax rate, compared to an 11.6% tax rate for the second quarter 2008. The increase in our second-quarter 2009 tax rate was due to an abnormally low tax rate in the second quarter of 2008 which was amplified by insignificant discrete events against a small pre-tax loss last year.

The net loss for the second quarter of 2009 was \$9.9 million, or \$0.29 per deluded share, compared to a loss of \$1.8 million, or \$0.05 per deluded share, for the second quarter of 2008.

Now turning to the balance sheet and comparing June 30, 2009, amounts to June 30, 2008, the balance sheet remains very strong with cash and short-term investments totaling \$318 million, versus \$327 million at the same time last year. Consolidated accounts receivable at June 30, 2009, declined 15% to \$147 million, versus \$173 million a year ago. This decrease was predominantly related to the decrease in wholesale sales for the quarter.

Consolidated DSO increased to 74 days from 73 days at June 30, 2008. As would be expected in this environment, our accounts receivable portfolio was slightly more raised at June 30, 2009, as compared to the same time last year. Write-offs for uncollectable accounts receivable were not significant for the second quarter of 2009. We continue to actively manage our credit risk, cash collections, and shipments in an effort to minimize credit losses. Our reserve for doubtful accounts was \$8.8 million, or 5.7% of accounts receivable, at June 30, 2009, versus \$7 million, or 3.9%, at the same time last year.

Consolidated inventories increased 7% to \$293 million, compared to \$273 million last year. This increase is largely due to timing as we experienced better on-time delivery performance from our vendors for the fall 2009 product season, resulting in earlier than planned inventory receipts, and to a lesser degree incremental inventory related to the company's expanded base of retail stores at June 30, 2009. We expect the consolidated inventory levels will decline on a year-over-year comparative basis through the end of the fall 2009 shipping season as we have bought more conservatively this year. However, due to the uncertainty of both the volume and timing of spring 2010 inventory receipts, inventory may or may not decrease on a year-over-year basis at December 31, 2009.

In the second quarter of 2009, we generated approximately \$29.5 million in cash from operations, spent \$8.7 million on capital expenditures, and paid \$5.4 million in dividends.

Depreciation and amortization expense for the quarter was \$8.5 million, versus \$7.3 million in last year's second quarter. Today we announced that Columbia's Board of Directors approved a third-quarter dividend of \$0.16 per share.

Now let's turn our attention to the outlook for 2009. Consistent with our April outlook, we are not providing as much detail about our expectations given the worldwide economic environment and uncertainty surrounding consumer demand and other factors that affect our business. However, we will discuss how we are managing our business today and how we intend to manage it through this period of uncertainty under the assumption that the global economy does not deteriorate further from current levels. Actual results could differ, perhaps materially, from our current outlook.

Based on our previously announced 15% decline in our combined fall order backlog, we are reaffirming our full-year revenue and operating income outlook. We continue to expect total 2009 net sales to decline in the low double digits on a percentage basis compared to 2008. We expect our full-year wholesale business to decline in the mid-teens on a percentage basis, including the anticipated negative effects of currency exchange rates, and to be slightly offset by growth in our direct-to-consumer business. We expect full-year operating margin to decline approximately 300 to 350 basis points from 2008, including the impairment charge recorded in the fourth quarter of last year.

This decline is primarily due to SG&A deleverage and to a lesser degree some contraction in gross margins. The gross margin contraction is primarily due to a higher volume of close-out product sales, a more promotional retail environment, and the negative effects of foreign currency hedge risks. The SG&A deleverage is a result of the revenue contraction in our wholesale business in North America and Europe, our international distributor businesses and an increased fixed cost base resulting from our expanding retail business.

We are planning our marketing and advertising spend for 2009 as a percentage of sales to be down slightly from 2008 levels.

We are currently estimating the full-year income tax rate to be approximately 31%. However, it could be higher or lower than that in each of the remaining quarters of 2009 based on a geographic mix of taxable income and specific events occurring in each quarter.

We are currently planning approximately \$50 million in capital spending during 2009, compared to \$54 million for 2008, with approximately \$32 million of that related to retail expansion, including e-commerce, systems, and modest investment in Japan and Korea, and approximately \$18 million related to maintenance and infrastructure projects. As it relates to our direct-to-consumer initiatives, we expect to launch our U.S. Columbia brand e-commerce site this summer and the Sorel brand later this fall. We expect to add a total of 19 stores in North America and Europe this year, and we will end 2009 with 48 stores in the U.S., 10 in Europe, and three in Canada.

Looking specifically at Q3, we expect net sales to contract in the low double-digit percent range due to the decrease in fall order backlog reported in April. Q3 2009 operating margin expected to contract approximately 650 to 700 basis points from 2008. This operating margin contraction is comprised of approximately 300 basis points of gross margin contraction and 400 basis points of SG&A expansion. The anticipated gross margin contraction is primarily driven by unfavorable currency hedge rates in Canada, lower outerwear gross margins in the U.S. wholesale business, partially offset by improved gross margins in the U.S. retail business.

Consistent with our full-year expectation, the SG&A deleverage is a result of the anticipated revenue contraction in our wholesale businesses in North America and Europe and our international distributor businesses, coupled with an increased fixed cost base resulting from our expanding retail business. Please note that the interplay of our three different distribution models, including wholesale, retail, and distributor businesses, can cause significant variability in quarterly sales, gross margin, and SG&A expense both sequentially and on a year-over-year comparative basis, as can be seen in our outlook for Q3 and the full year.

That concludes my remarks. I'll hand it back to Tim for some final comments.

Timothy P. Boyle, President and Chief Executive Officer

Thanks, Tom. We're only about half-way through the process of taking orders for the spring 2010 season, and we'll report our spring order backlog in October along with our 2009 third-quarter results. I'm not going to go out on the limb and make any characterizations about what we're seeing so far in those orders because it's just simply too early and there are too many unpredictable forces at work across the global retail landscape.

We think there are still some rough patches for the economies in our key markets that for reasons well beyond our control could continue to dampen the immediate effects of our revitalized product and marketing strategies. These macro-realities continue to have an impact on how we're managing our business in the near term with a strong focus on expense management and inventory control.

Those macro-challenges are not deterring us from bringing much needed innovation to the Outdoor industry. Our product teams are well down the road on fall 2010 and have started planning the concepts that will drive the spring 2011 lines.

Our balance sheet, with \$318 million in cash and no long-term debt, continues to provide us with the financial flexibility to invest in our strategic initiatives to position our brands for when the global economy recovers.

At this time, we'd like to open up the call to questions. Operator, can you help us with that, please?

QUESTION AND ANSWER SECTION

Operator: [Operator Instructions] Our first question comes from the line of Bob Drbul with Barclays Capital.

<Q – Robert Drbul>: Good evening.

<A – Timothy Boyle>: Bob.

<Q – Robert Drbul>: Tim, couple questions. I guess first with the completion of the Tour de France, I was just wondering -- you guys have gotten a lot of press in terms of your sponsorship. And I just -- from your perspective, can you maybe give us a little bit of insight on terms of how you feel like it's impacting your business at all on the marketing side?

<A – Timothy Boyle>: Well, we're just thrilled with how the team performed and especially Mark Cavendish with six stage wins, which is really unprecedented, especially from a guy from the UK. So you can imagine our coverage in the UK and in Europe generally was phenomenal. So lots of exposure for the brand and -- but we frankly haven't seen as much direct pickup in the business, but certainly the brand is on the tips of the tongues of sports fans and bicycling fans across the U.S. and Europe.

<Q – Robert Drbul>: Okay. And then just had a couple questions on the outlook for the third quarter and the fourth quarter. I guess the first one is, when you look at the visibility levels and the guidance that you've given or the guidelines that you've given us for the third and fourth quarter, how firm are your plans for shipping in terms of the third and fourth quarter in terms of looking at what is implied with the fourth-quarter guidance when you consider that, given the third-quarter guidance?

<A – Timothy Boyle>: I'll let Tom speak to it specifically, because I know it's -- there've been some movement between the quarters. But in general, as is our history and the way we give our outlooks is that it's with a high degree of review of the existing order book and with an understanding that we get cancels every day and we get orders every day. But -- so our outlook today is our best view of what we see as the future, but I know there's -- that Tom will have a little bit more color on that.

<A – Thomas Cusick>: Yeah, Bob, I would say that probably the biggest unknown is really the macroeconomic and credit environment. So barring any major fallout there, I would say it's generally fairly consistent with the last few years.

<Q – Robert Drbul>: Okay. And just on -- Tim, I guess the final question for you is, as you look at the outlook for the business and you look to the spring period, at what point in time do you think the retailers have cut too deep in terms of inventory, or do you think that there's a possibility of any replenishment-type sales as you look the next six to nine months?

<A – Timothy Boyle>: Well, I think -- it's my experience that retailers are being ultraconservative in their purchases for the future, and I believe that they may well be planning themselves into a decline which is sort of guaranteed. If you buy not enough, you can't fulfill the order -- you can't fulfill the consumer demand. I don't know what our other competitors are doing. We're taking a very, very conservative view of speculative inventory, and we're going to make sure that we've got the right inventory and levels which can support orders that we receive, but we're really not going to go much beyond that.

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

<A – Timothy Boyle>: Thanks, Bob.

Operator: Our next question comes from the line of Eric Tracy with BB&T Capital Markets.

<Q – Eric Tracy>: Good evening, guys.

<A – Timothy Boyle>: Eric.

<Q – Eric Tracy>: First, maybe we could talk a little bit about pricing. I know last week you talked about ASPs, at least on the apparel side, up 10%. Maybe talk a little bit about what you're seeing sort of in the core sporting goods channel with apparel and then again sort of the evolution of some of the product innovations you've made, how that flows through. And then again possibly if I could push just on the product cost side around that as well, is it a margin-neutral event that we should think about as we look to the spring '010 line?

<A – Timothy Boyle>: Okay. Let me make sure I've got it all. I'll just run through the questions as I've noted them here. So as it relates to ASPs, I know the bulk of our innovations have been in items that are – that have more technology and more focus on solutions, and so naturally they're slightly higher in average selling price. But we always have to remember that our key – one of keywords in the company's keyword set is value. We want to make sure that our democratic innovations are available at multiple price points across our product range.

As it relates to costing, the demand in Asia obviously is reduced based on the macroeconomic conditions. So we're seeing more timely deliveries from our factories as a result of that and also less pressure on costing. So we're really – we're not able to talk about whether or not we're going to be able to capture much of that reduction in price yet, but the expectation is we'll have competitive pricing for future seasons.

<Q – Eric Tracy>: Okay. And in just the respect to again kind of within the current environment in the sporting goods channel, again the dynamic of -- be it potential pressure on some of the higher ends, premium product versus private label and sort of where you feel like you're positioned from a value proposition.

<A – Timothy Boyle>: Well, yeah, as it relates to value proposition, we're generally not at the same price point as private label; we're generally above that. But at the end of the day, retailers have to decide whether or not they want to take the risk of an enhanced private label position against slightly lower risk buying products from brands like Columbia which can be close to private label, but offer them the ability to – more flexibility on product selection. And so our typical competitive set has been private label, but I think we're positioning ourselves to move not only above that but into a more premium position, especially as it relates to specialty stores.

<Q – Eric Tracy>: Okay. And then maybe just lastly, just from – sort of embedded within the guidance I think, relatively flattish G&A for the balance of the year. How we should think about again additional opportunities from a cost saving perspective, should top line come in a little bit lighter, sort of levers you can pull there, as well as maybe the cadence around the marketing. I would assume some bit of ramp heading into the '010 line or is that primarily a Q1-type event?

<A – Thomas Cusick>: So as it relates to the marketing, our marketing spend generally comes in in line with sales. So as we look at marketing spend for the year, I think, Ross, a bit less than 20 basis points relative to last year. So I would expect that marketing spend to be pro rata to sales in the back half.

<A – Timothy Boyle>: Yeah, there are other levers we can still pull to reduce costs, and we've shown over the last several years that we're prepared to make decisions that can get our costs in line with our revenues.

<Q – Eric Tracy>: Okay; great. Thank you all. Best of luck.

<A – Timothy Boyle>: Thank you.

Operator: Our next questioner comes from the line of Kate McShane with Citi Investment Research.

<Q – Kate McShane>: Hi; good afternoon.

<A – Timothy Boyle>: Kate.

<Q – Kate McShane>: This follows Bob Drbul's question a little bit, but I was wondering if you could help us understand a little bit better the mechanics of how you will manage your winter business this year. If retailers have to chase inventory in the fall, how will you be able to address this if you are taking a conservative stance on the speculative inventory?

<A – Timothy Boyle>: Well, Kate, in historical periods we have taken our order book and made a speculative purchase on top of that to give ourselves the ability to chase business. This year as we talked early in the season when we released our order backlog for fall, we said we're going to take a very conservative approach, which we have. And our expectation is that retailers, if they come chasing merchandise to Columbia for any significant quantities, they're going to be disappointed. We will have some, obviously, because we've got cancellations and we've had some bankruptcies. But we have by far the smallest amount of speculative inventory that we've had in the years that I can recollect. So retailers will be – won't be able to find everything they need from us if the trends continue that business will be robust and they'll just be – they'll have to find it somewhere else.

<Q – Kate McShane>: Okay. And I may have missed in your prepared comments, but can you just explain why sales in the quarter were slightly better than your original guidance?

<A – Thomas Cusick>: Yes, it's predominantly – Kate, it's predominantly related to some shift in timing of the U.S. wholesale sales predominantly from the third quarter to the second quarter.

<Q – Kate McShane>: Okay; great. Thanks so much.

<A – Timothy Boyle>: Thank you.

Operator: Our next question comes from the line of Reed Anderson with D.A. Davidson.

<Q – Reed Anderson>: Afternoon.

<A – Timothy Boyle>: Hey, Reed.

<Q – Reed Anderson>: Hi. A question on the direct piece of the business. It looks – looking back at my notes, it looks like you've stepped up at least a little bit the store growth expectations for this year. So I'm just – I mean presumably that means you feel good about where that business is performing. Or is it also a reflection of just there's ample product out there you want to clean out, that sort of thing? Could you just talk a little bit about how you're thinking about that right now?

<A – Timothy Boyle>: Sure, Reed. Well, I think we're – have to check with Tom to be sure, but I think we're right on pace where we thought we'd be with our direct-to-consumer business. I don't think we've grown it faster than we had planned. We're looking now at an inventory levels that are much cleaner, frankly, than they've been in past years, and we're really looking now at how we want to go forward with the retail business and whether or not we need to be as growing as rapidly as we are today. It's been a real significant part of the business, and we've been pleased with the results so far, but we're not getting -- our goal is to continue to remain primarily a wholesale business, and our outlet stores are specifically to help us relieve inventories from time to time, and

then the branded stores are really a -- is a very effective marketing tool for us. So we'll be analyzing over the course of the next several months how our performance is and we have planned continued investments both here and in Europe and in Canada, but maybe not to the pace that they've been.

<Q – Reed Anderson>: Okay. And then in terms of -- when you get to the end of this year you're going to have 50, 60 stores. I mean it makes sense that we'd start to see a little lift on the gross margin next year because of that, all other things being equal.

<A – Timothy Boyle>: Yeah, I'll let Tom speak to that specifically.

<A – Thomas Cusick>: If it relates to 2010, our 2010 retail business, Reed, we'd prefer not to comment on 2010 at this point.

<Q – Reed Anderson>: Okay.

<A – Thomas Cusick>: I think that's a little premature.

<Q – Reed Anderson>: That's fine. I was just -- in general. That's fine, though. And then, in terms of -- just switching gears a little bit -- in terms of the -- we saw a lot of new product last week and you're taking a little bit younger look at your demographic, or at least from a positioning standpoint. I was just curious; is that also going to involve may be some new fixturing perhaps at the store? Is that a piece that we should think about that as we look at your presentation at retail that might change a little bit as we move into that line being introduced?

<A – Timothy Boyle>: Yeah. I think whether or not you've seen any of the new blue fixturing that we've been installing over time, that's -- we consider to be a significant improvement and a higher visibility in-store and more excitement. But we aren't going to be able to refurbish all these fixtures that we have placed globally quickly, so we're going to be doing it over time with some enhancements to allow us to show off the product line. And a good place for you take a peek at that might at the Mall of America where I think we've got the new fixturing systems installed there. And the retrofits, as you will, for the existing fixtures, we'll carry out some of that blue signage, as well as some of the paper point-of-purchase systems that we'll be using over the next several seasons will also brighten them up as well.

<Q – Reed Anderson>: Good. And then lastly, just -- I was just curious -- I know it's a little small piece -- but the Canadian piece, the comment that you had I think in the press release you'd exited some channels. Just curious what that was.

<A – Timothy Boyle>: Well, over time we just want to make sure that the brands -- all the brands that we have are situated in the right places and we -- as an example, we've taken the Sorel product and really elevated it to where we believe it properly belongs, which then frankly in a Wal-Mart environment is an example. In Canada, we just couldn't continue with that kind of a business and have Holt Renfrew and Wal-Mart carrying the same product.

<Q – Reed Anderson>: That's what I figured. Thank you.

<A – Timothy Boyle>: Thanks.

Operator: Our next question comes from Michelle Tan with Goldman Sachs.

<Q – Michelle Tan>: Great; thanks. Good afternoon.

<A – Timothy Boyle>: Afternoon.

<Q – Michelle Tan>: I was wondering -- I know it's a small quarter, but what's the offset to beating plan on sales and cost for this quarter that has you not raising the full-year guidance?

<A – Thomas Cusick>: Yeah, Michelle, I would say that with regard to the outlook for the full year, the overshoot in Q2 was predominantly U.S. wholesale business, as I alluded to earlier, and that's really a timing shift. As it relates to the back-half, we don't feel like we're being any more conservative or any more aggressive in our outlook than we were 90 days ago or how we have planned the business historically. We did underspend on the SG&A front. So if there was any upside opportunity for the year, I would say it would be more SG&A related than top line related.

<Q – Michelle Tan>: Okay; great --

<A – Thomas Cusick>: And then secondarily as it relates to the back-half, I would expect that we'll experience another shift when we look at our distributor business, that the spring '10 business ships between December and January. And as we've seen that business shift from Q2 to Q3 this year for fall, I would expect a similar happening for the spring business that shifts -- that ships in December and some shift into January.

<Q – Michelle Tan>: Okay, and that's reflected in the plan or is that the --

<A – Thomas Cusick>: That is reflected in our guidance; yes.

<Q – Michelle Tan>: Okay; great. And then on the gross margin side, up this quarter but the third-quarter guidance has more severe erosion. Is there markdown activity that's shifting out of Q2 into Q3?

<A – Thomas Cusick>: No, the predominant effect of the margin decline in Q3 is the hedge rates for the Canadian business. Cost of goods in Canada -- when -- we generally hedge upwards of a year in advance of when the goods ship, and we've experienced roughly a 20% devaluation in the Canadian dollar. So the cost of goods have gone up on a year-over-year basis, and they ship the majority of their fall in Q3.

<Q – Michelle Tan>: Okay; okay. So that's basically the -- it's a lag impact from last year's currency move because of the hedging strategy. That the right way to think about it?

<A – Thomas Cusick>: The hedging strategy's consistent with past practice. However, the change in hedge rates year over year is very unfavorable for Canada this year compared to last year.

<Q – Michelle Tan>: Okay. And how big is Canada out of your third-quarter business?

<A – Thomas Cusick>: I don't have that number; I'll come back at you with that.

<Q – Michelle Tan>: Okay; that's great. And then I just have a couple more. First on the inventory increase, how much of that was the timing shift? Have you quantified it?

<A – Thomas Cusick>: The vast majority of that increase is timing.

<Q – Michelle Tan>: So without it would have been more like flattish?

<A – Thomas Cusick>: I would say without -- all things being equal, we should have been down. If you look at the last --

<Q – Michelle Tan>: Okay.

<A – **Thomas Cusick**>: Again, with our inventory -- the majority of our inventory is received in June and July for fall and similarly December and January for the spring business, so it's very hard to predict inventory at June and December. If you look at the last couple of quarters, say March and September of last year, our inventory actually dropped down I think it was roughly 6% in both those periods, so you can see that we've truly managed inventory down.

<Q – **Michelle Tan**>: Okay; perfect. And then just on the bigger picture, recognizing the environment is challenging, would we hope to start to at least see the market share gains, the relative share gains from some of the product category initiatives for spring 2010, or is that more developing throughout the year?

<A – **Timothy Boyle**>: Well, I think the plan obviously is with our 2010 business that the expectation is that we can start -- again, to gain market share against our competitors. At the end of the day, who knows what result's going to be of this CIT [Group Inc.] -- how that resolves itself? But many of our smaller competitors that take portions of market share are capitalized through CIT, and if they're not able to fulfill their orders, we'll have a quicker gain.

<Q – **Michelle Tan**>: Got it; that's very helpful. Thank you and good luck.

<A – **Timothy Boyle**>: Thank you.

<A – **Thomas Cusick**>: Michelle, this is Tom. Just to circle back on the Canadian business in Q3, it's a low-double-digit percentage of the total business for Q3.

<Q – **Michelle Tan**>: Great. Thanks for the help.

Operator: Our next question comes from the line of Chris Svezia with Susquehanna Financial Group.

<Q – **Christopher Svezia**>: Afternoon, everybody. A couple of questions. I guess first, just, Tom for you, just on the direct-to-consumer piece of the business, could you maybe just quantify maybe in the corner the percentage of the business it was versus last year, and then maybe any thoughts for maybe year-end based on your guidance, roughly what percentage of the business that potentially could be? And if at all, any color on comps, if you can provide that, during the quarter from your company-owned retail stores. That'll be helpful.

<A – **Thomas Cusick**>: Yeah, so we've made a decision internally that we're not going to disclose our U.S. retail business comp store data or the sales themselves at this time.

<Q – **Christopher Svezia**>: Okay. So --

<A – **Thomas Cusick**>: And historically we've not disclosed that to date.

<Q – **Christopher Svezia**>: Okay. I guess the other question I have is, I guess, Tim, for you. When you have and you go to these trade shows and you speak to your -- the retail customers in the sporting goods and the Outdoor specialty channels of distribution, can you maybe we just talk about, maybe not so much to your business specifically, but how they are looking at sort of frame of reference for spring, and any thoughts about how they're looking at inventory commitments, what's their commentary or what's their thought about how they look at the various channels this year and the turn into spring of next year in terms of their commitment to product and to innovation?

<A – **Timothy Boyle**>: Well, I think they're all looking for innovative products, and so they have selling staffs on the floor that can truly explain these more unusual products and can really make sure the consumers understand how different they are from prior products. So I think they're on the forefront of these new categories of merchandise that we offer and that others offer.

I would say that specialty retailers are still going to be very conservative in their approach to business for spring '10. So our expectations are that we're going to get our share and better, but we don't know for sure how big an order that we're going to get from these guys. And again, we want to be very cautious in terms of talking about the great reception that we've had for spring '10 and for '10 in general, but we've got our fingers crossed.

<Q – Christopher Svezia>: Okay. And then just on -- when you guys think about your business and some of these new initiatives and the product that we saw at OR, I guess when you step back and you look at the level of investment you might need to make in the business to potentially grow it, I'm not throwing in it for next year, but I'm just trying to think about, do you have to step back and start to make investments in sales team or in infrastructure to start potentially growing the business, or do you look at your infrastructure right now and believe that you have what you have in place to grow this business at this point?

<A – Timothy Boyle>: Well, we have -- we've overinvested in our physical distribution facilities and capacities, not only here in the U.S. in anticipation of growth, but especially in Europe. So we aren't going to need to make any investments in infrastructure to support a solid and frankly large wholesale business. And our sales teams are well in place and we believe we're poised and with the expectation that there could be some significant leverage once we start getting some growth out of the top line.

<A – Thomas Cusick>: And Chris, this is Tom. I would say you can see the fixed cost deleverage happening this year, so I mean that's obviously evidence that that infrastructure's in place. We've not taken that out.

<Q – Christopher Svezia>: Okay. Thank you very much. Appreciate it.

Operator: Our next question comes from the line of the Mitch Kummetz with Robert Baird.

<Q – Mitch Kummetz>: Thank you. Let's see; I've got a couple of questions on retail and a few on FX. So on the retail side, could you just update us on what your quarter-end store counts were by geography?

<A – Timothy Boyle>: I'll ask Tom to help with that, Mitch.

<Q – Mitch Kummetz>: Thanks.

<A – Thomas Cusick>: Yeah, so in the U.S., Mitch, we had 26 stores.

<Q – Mitch Kummetz>: Okay.

<A – Thomas Cusick>: In Europe -- let me see here. I think we're at six stores, and Canada, two.

<Q – Mitch Kummetz>: Okay. And did you say that at year-end you were looking at -- I thought you said 48 in the U.S.

<A – Thomas Cusick>: I'm sorry; I'm sorry; I'm a year off here. We're at 42 in the -- 42 in the U.S.

<Q – Mitch Kummetz>: 42 U.S.?

<A – Thomas Cusick>: Yeah. Expecting to end the year at 48.

<Q – Mitch Kummetz>: Okay, six in Europe and then two in Canada, right?

<A – Thomas Cusick>: Correct.

<Q – Mitch Kummetz>: Okay. And then in the press release it was mentioned on the U.S. business that your retail increased significantly for the quarter year over year. Could you just give us a little more color on that? I mean, does that mean – what is that in percentage terms? I mean, is that like a 50% increase or I mean can you just give us some better sense as to what significantly means in that?

<A – Thomas Cusick>: Yeah, it is that order of magnitude; yes.

<Q – Mitch Kummetz>: Okay; all right. That's helpful. And then on the FX, I think this 4% drag on sales for the quarter -- what was the EPS impact of FX in Q2?

<A – Thomas Cusick>: So roughly \$0.02.

<Q – Mitch Kummetz>: Okay; all right. And then when you think about – I think in your guidance FX is about a 3% tailwind on sales for the full year. How do you think about that over the next couple of quarters? I would guess that by the fourth quarter you would be in a favorable FX comparison, at least on the top line.

<A – Thomas Cusick>: Yeah. Relatively neutral by year-end on the top line from just purely from a translation perspective.

<Q – Mitch Kummetz>: Yeah.

<A – Thomas Cusick>: But again we've got some headwinds from a hedge rate perspective.

<Q – Mitch Kummetz>: And that's my next question, because you said that you got about 12 months hedging the inventory, so at what point do you think FX moves from a headwind to a tailwind on gross margin? I mean it doesn't sound like over the balance of this year, but do you think you can get there by Q1 or Q2 next year, just given kind of the spot rates that you're hedging at today?

<A – Thomas Cusick>: Yeah.

<Q – Mitch Kummetz>: Versus your --

<A – Thomas Cusick>: Yeah. Assuming things stay generally where they're at, I would say by end of Q2 next year we should stabilize.

<Q – Mitch Kummetz>: Okay. That's very helpful. That's all I had. Thanks; good luck.

<A – Timothy Boyle>: Thanks, Mitch.

Operator: Our next question comes from the line of Tara Gary with RBC Capital Markets.

<Q>: Hi; good evening. Thanks for taking my call. At the retail division, I was just wondering if you could talk a little bit about early reads from a product standpoint such as any categories that are performing well or possibly any different compared to what you're seeing in the wholesale division.

<A – Timothy Boyle>: Well, we're just now delivering our fall merchandise, so we really don't have – we have very little information as it relates to fall. I can tell you that from – for spring '09, some of our best-selling merchandise was really in our PFG [performance fishing gear] product category where we had very significant sales and good solid sell-throughs everywhere it was placed. So expectations are high for that product category.

Other than that, fall is just now landing in the stores, and we just don't have any information. Somebody just anecdotally told me that Sorel footwear's starting to sell much better than in the past, but it's still – it's 100 degrees here in Portland today, so...

<Q>: Okay; yeah; understandable. And then my second question is the new fall product lineup -- how does that compare to the lineup that you had last year?

<A – Timothy Boyle>: Well, I think -- when we're talking about fall '09 or fall '10?

<Q>: Fall -- sorry. Yeah, what's coming out this fall?

<A – Timothy Boyle>: Okay. So the fall '09 I would say is an improvement over our fall '08 product line, but it's nowhere near the improvements that we have in the pipeline for fall '10. So our expectations are that fall '9 is an improvement and really speaks to some of the issues that we've had historically with the fall outerwear and footwear lines. And our expectations are high for high-quality sell-through, assuming the macroeconomic trends don't deteriorate. So that's the expectation. Fall '10 should be very exciting as well.

<Q>: Any numbers that you can put behind that, like if you have 10 new – like absolute new innovative products versus the prior year? If you [inaudible]

<A – Timothy Boyle>: I don't know the specific numerical comparisons, but we made significant changes in our fall '09 line, even though we didn't have the kinds of robust backlog increase that we expected. But those products that did get placed we think are better than the '08 comparisons.

<Q>: Okay; great. Well, thanks so much.

<A – Timothy Boyle>: Thank you.

Operator: [Operator Instructions] Our next question comes from the line of Jim Duffy with Thomas Weisel.

<Q – Christian Buss>: It's actually Christian Buss in for Jim; he's travelling right now. Was wondering if you could talk a little bit about the margin dynamics in the fourth quarter, particularly gross margin.

<A – Timothy Boyle>: Yeah. So probably the biggest impact for margin this Q4 will be the expanded U.S. retail business, which carries a higher margin. So if we look from Q3 to Q4, we'll see significant margin differential, predominantly driven by that phenomena.

<Q – Christian Buss>: And will clearance activity moderate or sort of the margin pressure from discounting moderate? Is that the expectation now?

<A – Timothy Boyle>: Generally speaking, I would say yes. We cleared most of our fall '8 product in the first quarter of last year.

<Q – Christian Buss>: Okay. And then just sort of final follow-up on that. If I'm doing my math right, based on the guidance, it looks like I should looking for year-over-year improvement in gross margin in the fourth quarter. Am I thinking about things correctly?

<A – Timothy Boyle>: Yeah; that's correct.

<Q – Christian Buss>: Okay. Thank you --

<A – Timothy Boyle>: And again, that's mostly driven by retail. And let me make sure I made my last statement accurately. We cleared most of our fall '8 business in the first quarter of this year. I think I said the first quarter of last year.

<A – Timothy Boyle>: Okay; that's helpful. Thank you.

Operator: [Operator Instructions]

Timothy P. Boyle, President and Chief Executive Officer

All right, thank you very much for listening in. We look forward to talking to you in October.

Operator: Ladies and gentlemen, this concludes the second quarter 2009 earnings release conference call. You may now disconnect.

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