
MANAGEMENT DISCUSSION SECTION

Operator: Greetings and welcome to the Columbia Sportswear Fourth Quarter and Fiscal Year 2010 Earnings Conference Call. At this time, all participants are in a listen-only mode. A brief question-and-answer session will follow the formal presentation. [Operator Instructions] As a reminder, this conference is being recorded.

It is now my pleasure to introduce your host, Ron Parham, Senior Director of Investor Relations, and Corporate Communications for Columbia Sportswear. Thank you. Mr. Parham, you may begin.

Ron Parham, Sr., Senior Director of Investor Relations and Corporate Communications

Thanks Bob. Good afternoon, everyone, and thanks for joining us on today's call. Earlier this afternoon, we announced our fourth quarter and full-year 2010 financial results – I'm sorry, 2010 financial results and a preliminary 2011 outlook.

With me today to discuss those topics and answer your questions are our 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.

Before we begin our prepared remarks, I am going to turn it over to Chairman, Tim Boyle, who has an important reminder.

Gert Boyle, Chairman

Good afternoon. 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, 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 to conform the forward-looking statements to actual results, or a change in our expectations.

Ron Parham, Senior Director of Investor Relations and Corporate Communications

Thanks, Gert. I just have one last housekeeping note before I turn the call over to Tim, just to remind those who have been with us before and maybe those who haven't listened in before, we established a new protocol last quarter, in an effort to reserve more time on the call for your questions. So shortly after the issuance of our earnings release, this afternoon, at 4 PM Eastern, we also posted a detailed financial commentary by SVP and CFO, Tom Cusick, to our Investor Relations website at <http://investor.columbia.com/results.cfm>, and we also furnished this commentary to the SEC on Form 8-K together with our earnings release. So – and that will be our protocol going forward and we encourage everyone to take time to review the financial commentary and that should help formulate your questions before future calls.

So I'll turn the call over now to Tim.

Tim Boyle, President and Chief Executive Officer

Thanks, Ron. Welcome, everyone, and thank you for joining us this afternoon to discuss our 2010 results and preliminary 2011 outlook. First, we want to thank everyone for their calls and concerns for Gert after the recent home invasion incident. Many of you have asked about how Gert is doing. As you can tell, she is doing great with the exception of a cold. We remain under advice from the prosecutor not to discuss the ongoing legal proceedings and therefore will not have any further comment about it on today's call.

Turning to our financial results we are naturally very pleased with the fourth quarter sales growth of 28% up, completing a year in which sales grew 19% to a record \$1.48 billion. The growth was fueled by double digit increases from all three of our major brands, each of our product categories, and each of our geographic regions. Full year operating results came in at 7%, which, while better than expected back in October and comparable to 2009 operating margins of 7.1%, are still well below our long-term goals. In 2010, we began to see some very encouraging changes in the marketplace.

In each of our major markets, the conversations about our brands among wholesale customers, trade media, consumer media and most importantly consumers is changing. The emphasis we've placed on product innovation, enhanced styling, improved retail presentation, and integrated marketing has begun to elevate each of our brands and forge stronger emotional connections with consumers. Nowhere is that more evident than in the results of our direct-to-consumer channels. We believe that our brick-and-mortar stores and e-commerce sites provide the best and most reliable evidence of how consumers are responding to our efforts to deliver performance and innovation.

Fourth quarter and full year net sales exceeded our October outlook, driven by a strong product line led by Omni-Heat. Our direct-to-consumer channels benefited from favorable fall weather and a strong holiday season. Columbia, Sorel and Mountain Hardwear e-comm sites had an outstanding quarter and year and together with steadily improving performance at our brick-and-mortar stores significantly improved their contribution to our top and bottom line.

Retailers have seen the positive consumer response to our 2010 line and are finding a lot to be excited about in our fall 2011 line. It features a much larger assortment of Omni-Heat styles including our new Omni-Heat base layer, Omni-Heat electric jackets, gloves and boots and several new waterproof breathable footwear and glove styles constructed using our newly acquired OutDry Technology.

Similarly, leading premium footwear stores in every region of the world have seen the rapid sell-through of our fall 2010 Sorel line and are seeking our expanded fall 2011 assortment of classic winter performance boots for men, and new fashion-forward styles for women. Mountain Hardwear, under new leadership, with a renewed commitment to innovation is positioning itself for continued growth around a strong technology platform, to help consumers push the boundaries of their own achievements.

We will be launching a Montrail e-comm site this spring which will help that brand gain more consumer awareness and availability. I believe we have more innovative products across our brand portfolio than at any time in the company's history. We intend to keep fueling our product engines and delivering innovations that benefit outdoor consumers and challenge our competitors to keep up.

With our preliminary 2011 outlook, anticipating another year of double-digit growth, we are intently focused on leveraging our operating margin. 2010 was a great year for strengthening our brands

and increasing our sales in every region. We are determined to seize this momentum and keep the innovation pipeline flowing. That concludes my prepared remarks.

If you have not already done so, we urge you to take the time after the conclusion of today's conference call to review the detailed CFO financial commentary that we furnished earlier today on Form 8-K, and also available on the IR section of our website, at www.investor.columbia.com.

So thank you very much. I would like to now open the call to questions.

QUESTION AND ANSWER SECTION

Operator: [Operator Instructions] Our first question comes from the line of Bob Drbul with Barclay's Capital. Please proceed with your question.

<Q – Robert Drbul>: Hi, good afternoon.

<A – Tim Boyle>: Hey, Bob.

<Q – Robert Drbul>: Hi, Tim. I guess I got a couple of questions for you. The first one, the preliminary '11 guidance, you talked about double digit revenue increase. Can you give us a feel for how much, orders, how many orders you have, both the percentage number, sort of where you are year-over-year, to give us a comfort on that type of forecast at this point?

<A – Tim Boyle>: Sure, well, as you know, it's not historically been our practice to give an outlook on the full year this early. However, we want to make sure that investors understand that as they look at the cost structure, the fixed cost structure of the business, as it exists today, we didn't want people to be whip-sawed around the quarters, so we wanted to make sure that they had visibility to the extent we could provide that to the full year. So we typically don't talk about the strength of our book as it relates to percentages. However, we believe that we have enough information today to be able to tell investors where we think the year will end.

<Q – Robert Drbul>: Okay. And on the inventory, up 41%, you gave a couple of buckets in terms of where the investments in inventory are. Can you quantify each of those buckets to help us get a little bit more comfortable with it? And do you feel like those are clean inventories versus the excess levels?

<A – Thomas Cusick>: Sure, Bob. This is Tom. Overall, we're comfortable with our inventory position. Please recall that last year, our inventory was down 13% as we exited the year, due to the fact that we had received spring later than normal and that we had actually stocked out of various replenishment styles. So we look at the aging exiting 2010, the inventory is very clean. Less than half the growth is related to the fall '10 excess that we're carrying over for our retail business. And then the balance is a combination of spring '11, as well as inventory designated for retail, plus our higher level of replenishment inventory year-over-year.

<Q – Robert Drbul>: Great. And then last question that I have is, you also forecast increased 2011 gross margins. My one specific question is when you look at 2010, the results that you just had, the air freight expense that you had, is there a dollar number that is incorporated that you will not likely repeat in 2011 to help us feel comfortable with the increase in gross margin forecast that you're giving?

<A – Thomas Cusick>: Yeah. I guess I would say that it's too early to put a specific number on 2011 air freight. Obviously, 2010 was significantly higher than the norm. I would say that 2011 will likely be higher than the norm, but lower than 2010's air freight. That's how we see the business today at least.

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

<A – Tim Boyle>: Thanks, Bob.

Operator: Thank you. Our next question comes from the line of Reed Anderson with D.A. Davidson. Please proceed with your question.

<Q – Reed Anderson>: Hi, guys. Congrats, great quarter.

<A – Thomas Cusick>: Thanks, Reed.

<Q – Reed Anderson>: A couple of things. Tim, on footwear, obviously Sorel has had a ton of momentum here and even the Columbia has – particularly the winter product has as well. I'm just wondering and I figure that's going to keep going forward as well. But when we look at the other piece of footwear, the more spring, summer, the shoe piece, the trail running, I would think it's a little early to see a lot of growth in that this year, that's more of a '12 event. But can you just give us some color on your thoughts on growing the non-winter footwear business?

<A – Tim Boyle>: Well, yeah. Thanks. We, as you know, have been talking about footwear and its opportunity for a long period of time. And we are seeing signs in the business now that we're getting the kinds of acceptance from our customers that we believe we deserve after the major changes we've made in the design staffs and the merchandising staffs here at the company.

So we're very encouraged on our spring business, and we believe it's going to just continue to improve as we get more seasoning on our design staff, and more successful products placed out there. So we're very excited about it. Frankly, that's going to be the key to having our footwear business be as large as it should be.

<Q – Reed Anderson>: Okay. Fair enough. And then looking at the apparel piece, we're kind of here now where your outerwear and your sportswear businesses are kind of at parity. And I'm just curious, as you look into '11, I mean is that – do you think they continue to grow at similar rates or given where the product is, does maybe outerwear continue to grow a little faster this year? And then second part of that question is, just where are we now in terms of margin differential? If I think back years ago, my recollection was your outerwear was slightly better margin business, but I'm just curious on an update on that as well, please.

<A – Tim Boyle>: Certainly. I would say based on the spectacular winter weather year we had really globally, that our expectation is we'll have a higher growth rate in our outerwear. So that's our expectation. The margins are closer to parity than they had historically been today. And so I think we're going to have a great outerwear year. We believe that the numbers we shared with you earlier in terms of our preliminary view are likely – that's what our margins are likely to be.

<Q – Reed Anderson>: And then – I'm sorry. And then one last question, just a quick – and maybe this was in Tom's written remarks, I didn't see it, but just an update on – you had said, you're doing a Montrail website in spring, stores you'll be adding or just other direct to consumer points of contact that will be incremental this year versus last?

<A – Tim Boyle>: Yeah. Reed, I'm going to ask Tom to answer that last question, but I did want to point out that the Sorel margins in footwear are fairly significantly north of what we've been able to accomplish in footwear generally. So that gives us some comfort there. And then, Tom, did you want to talk a little about the retail components?

<A – Thomas Cusick>: Yeah. So Reed, as it relates to 2011, and the new store plan, we're currently planning a small handful of new stores in 2011, although at this point we haven't signed any leases for those stores.

<Q – Reed Anderson>: Okay. Fair enough. So a handful, and spread likely throughout the year type of thing?

<A – Thomas Cusick>: Correct. And at this point, it would be probably more back half, just given where we are today.

<Q – Reed Anderson>: Good. That's it for me. Good luck.

<A – Tim Boyle>: Thanks.

<A – Thomas Cusick>: Thank you.

Operator: Thank you. Our next question comes from the line of Kate McShane with Citi Investment Research. Please proceed with your question.

<Q – Kate McShane>: Hi. Thank you very much. I was wondering if you could help me reconcile the plus 12% spring order backlog that you had highlighted last quarter and the mid-to-high single-digit sales guidance for Q1. I know it's not a perfect read-through to your sales, but do you feel that retailers are getting a little concerned about anything, and there has been some cancellations of orders, or is it just not related?

<A – Thomas Cusick>: Yeah, Kate, this is Tom. It really does not have to do with cancellations at this point. It's really more of a function of we actually had more timely production of our spring '11 line this year, and we actually shipped a higher percentage of our distributor and U.S. wholesale business actually in December of this year, where those shipments would have happened in Q1 of last year. So it's really a timing shift.

<Q – Kate McShane>: Okay. Great. And then in terms of inflation, I know everybody is facing higher costs going into the year. Have you given any guidance into – just because you have so many diverse product categories, especially now that footwear seems to have some good momentum, in terms of how much exposure you really do have to cotton, or is everything really much more – is oil really the bigger component of your raw materials?

<A – Bryan Timm>: Kate, this is Bryan. I think certainly there is a lot of factors out there affecting all of our product categories, from petroleum affecting a lot of our yarns, our nylon, et cetera, and then of course, cotton affecting a lot of our cotton sportswear products. I think it's safe to say that at least as it relates to full-year 2011, we've got those PO's issued for the most part, and negotiated pricing, and so the kind of preliminary guidance that both Tim and Tom have talked about, that would be baked into that set of guidance.

<Q – Kate McShane>: Okay. Terrific. And then my last question is about Mountain Hardwear. I wondered, I think you were successful in obtaining some more floor space at places like Dick's Sporting Goods this past winter season, and I wondered what your longer term strategy is for Mountain Hardwear in terms of increasing distribution and the growth trajectory for that brand.

<A – Tim Boyle>: Yeah. This is Tim, Kate. So as you know, we've really positioned Mountain Hardwear, and I think appropriately so, as a top end brand, and its primary customers are specialty stores, and better sporting goods stores. And yes, we have obtained bigger distribution at Dick's but we also have a significant distribution at places like REI and others. So our goal is to really continue to keep that brand at a premium, in terms of its distribution systems, and then really concentrate on getting it more fully distributed throughout the specialty network around the U.S., and globally. So we have very high hopes. As you know, we made a change in the senior management there, and Topher Gaylord is managing that business well, fleshing out his team, and I think we've got very excited -- we're very excited about the potential there.

<Q – Kate McShane>: Okay. Great. Thank you.

Operator: Thank you. Our next question comes from the line of Michelle Tan with Goldman Sachs. Please proceed with your question.

<Q – Michelle Tan>: Great, thanks. I wanted to start, sorry if I missed this in your comments, but how expanded are you planning Omni-Heat this fall versus 2010? Is there any kind of relative measure you can give us for the number of units you're planning or the breadth of the assortment?

<A – Tim Boyle>: Hey, Michelle. This is Tim. So it is about four times as much by comparison to 2010. So if we had about – I think 10% of our products carried the Omni-Heat features, then we've got four times, we've got about 40% of our fall 2011 products carry that Omni-Heat.

<Q – Michelle Tan>: And will you expand kind of what type of retail you put Omni-Heat into as you broaden it out?

<A – Tim Boyle>: No, for 2011, we're going to continue with the very successful strategy of a relatively narrow distribution among the company's broad distribution channels. So it's going to be very focused on specialty stores, sporting goods, and that's where, we're going to continue to maintain a very narrow distribution on that.

<Q – Michelle Tan>: Okay. Great. And then I know you guys last year, or this past year, ended up seeing a lot more demand than you originally anticipated and chasing those goods were very expensive for you in the second half. I was wondering if there is any way for us to think about what the margin could have looked like, not just, to Bob's point, the air freight piece but also that excess capacity. If you weren't chasing and were more kind of planned the way you are for 2011, what would the margin difference have been?

<A – Tim Boyle>: Well, I don't think we've really given any specifics around what the margin could have been although we certainly would have leveraged the business without those additional costs. And frankly, it was expensive to the company and I will maybe let Tom talk about more specifics, but we really were committed to making sure that we got this product delivered and as close to on time as we possibly could, so it was a keen focus for us. We're not excited about having to expend those kind of funds on that – for that reason, but frankly, we thought it was worth it, and our goal for 2011 is to significantly reduce those expenses. And so, Tom, I don't know if you had further comments on --

<A – Thomas Cusick>: Yeah, Michelle. We've not publicly disclosed what that number is to date and would prefer not to.

<Q – Michelle Tan>: Okay. That's fair. But is it right to think about it as, with the business planned up 4X for 2011, you shouldn't be incurring much of the chasing piece of that cost that you saw in 2010?

<A – Tim Boyle>: Yeah, now, just for clarification, we're offering four times as many styles on Omni-Heat. We don't expect the business – although we would love it if it were, we're not expecting the business to be four times up.

But yes, so the goal is, and I believe that we will do everything we can, obviously, to make this happen, is to have a very – a closer match to our order book and our production schedule so that we can tell customers when they can expect the merchandise and be very on time with a more normal delivery method.

<Q – Michelle Tan>: Okay. Perfect. And then I've got one last one for you guys. It sounds like you're doing more to shift the clearing strategy to your owned outlets versus doing the third party closeout. Is that a material benefit to gross margin in aggregate for the company?

<A – Tim Boyle>: Well, we are moving to really manage the distribution of excess like Omni-Heat in our own stores where we can really control it. And I believe it's accretive to the business when we do it that way. So we think we have the proper number of stores today. We could have a few more, obviously. As Tom mentioned, we've got a handful planned, but I think the plan would be that we try and manage the business to liquidate the bulk of our excesses through our own stores.

<Q – Michelle Tan>: Great. And is that just more managing to less clearance in aggregate as opposed to shifting how you clear or...?

<A – Tim Boyle>: Yeah, well it's always our goal to have a better match of our order book and production, so that we don't have excess. But it's important to – when we do make mistakes we want to be able to clear it at the highest possible value.

<Q – Michelle Tan>: Got it. Okay, great. Thanks so much, guys, and good luck.

<A – Tim Boyle>: Thank you.

Operator: Thank you. Our next question comes from the line of Eric Tracy with FBR Capital Markets. Please proceed with your question.

<Q – Eric Tracy>: Good afternoon. If I could just follow-up I guess on, Tom, is it possible to quantify the kind of [inaudible] forward from the spring order book into the fourth quarter?

<A – Thomas Cusick>: In terms of how much of the growth in Q4 related to spring, is that the question, Eric?

<Q – Eric Tracy>: Yes, Tom, that would be great.

<A – Thomas Cusick>: In round numbers, it's in the 20% range.

<Q – Eric Tracy>: 20%, I'm sorry...

<A – Thomas Cusick>: The spring '11 over spring '10 growth as it relates to the total growth recognized in the quarter related to spring '11.

<Q – Eric Tracy>: Okay, okay. Great, that's helpful. And then maybe just a follow-up on the product cost side, Bryan, you mentioned that you -- you're locked in on the cost. Is that kind of full year, or is that through the first half? I'm just trying to get some comfort level of visibility with [inaudible] cotton, but some of the polys, as well as days in manufacturing. I know you've got a much more limited sort of exposure to China specifically, but if you could kind of just talk through again sort of where you're locked in on those costs and how we should be thinking about that?

<A – Bryan Timm>: Sure. So again, my comments earlier were really related to the full year 2011 so that would be our spring '11 season and our fall '11 season where we've got the bulk of our P.O.s written to factories and pretty much the easy to complete book of business negotiated from a factory side. So as it relates to spring '12 and beyond, obviously we're working on various measures to try and mitigate some of those cost increases. When you got cotton at the highest price, all time today, at \$1.96, and you've got spun yarn polys also increasing, nylon up 20%, the different inputs into some of your synthetics, like the chips, and whatnot, that are up 40%, obviously there is a lot of moving parts outwardly that look like from a commodity perspective are going to continue to pressure our margins.

But again, it's a matter of trying to make sure that we do have a diverse manufacturing base in terms of geography in Asia. China is not our largest country of origin, and labor rates certainly increasing as well, with some of the labor rates in the Guangdong Province up 18% just announced earlier this week. So again, a lot of moving parts and again, from our standpoint, the spring '12 and outward is just going to be how we can mitigate some of those cost increases.

<Q – Eric Tracy>: Okay. Is it possible to quantify just the back half, sort of the expectation of those overall input costs, what you're expecting?

<A – Bryan Timm>: No, again, I think in terms of – as it relates to, I would like to keep our comments today really related to fiscal year 2011, where we've got that visibility, and we know what we've done to price the line and mitigate cost increases respectively.

<Q – Eric Tracy>: Okay. Fair enough. Fair enough. And then maybe if I could just turn to the G&A side, for Tom, or Tim. Certainly not -- you're leveraging some of the costs that have been made over the past 12 to 18 months, so maybe just sort of talk through the magnitude and I guess cadence of some of the systems, investments, and sounds like some personnel as well, and just sort of how we should think about that playing out?

<A – Thomas Cusick>: Sure, Eric. This is Tom. I will take this one, at somewhat of a high level given that we're early in our planning for 2011. But as we see it, we're expecting SG&A to deleverage as we mentioned in the first half, as we anniversary investments and personnel during the first half of the year. And then we expect the relative quarterly growth of SG&A to peak mid-year. And then that rate of growth, that rate of relative growth, to decline in, sequentially in Q3 and Q4.

<Q – Eric Tracy>: Okay. So really front end loaded in terms of incremental investments, and then -

<A – Thomas Cusick>: In relative terms, yes.

<Q – Eric Tracy>: Okay. And then fair to assume the fourth quarter, just given the shift in direct to consumer, how should we think about that? I would imagine coming through a little bit more?

<A – Thomas Cusick>: Yeah, I guess I would like to save that discussion until we get to a more detailed discussion on our 2011 outlook in April.

<Q – Eric Tracy>: Okay. Fair enough. Okay. Thanks, guys.

<A – Thomas Cusick>: Thank you.

Operator: Thank you. Our next question comes from the line of Chris Svezia with Susquehanna Financial Group. Please proceed with your question.

<Q – Christopher Svezia>: Thank you. Good afternoon, everyone. I guess my first question is maybe if you can just talk a little bit about channels during the fourth quarter, and maybe as you look at the order book, as you move forward, between sort of the specialty channels, so the REI [inaudible] of the world, the sporting goods channels, and department store, and just in terms of maybe how they played out in the fourth quarter? I would assume specialty and sporting goods grew faster and just kind of your thoughts as you look into 2011, how they're growing.

<A – Tim Boyle>: Right. Well, the -- as you know, we don't really get specific in terms of channel distribution. However, we can tell you that our business at specialty and better sporting goods stores is much better in 2010, was much better in 2010, and again, with the strength of Omni-Heat and some of the other initiatives that the company had really, the uptake there was very significant. And we would expect that over the next year, certainly, for 2011 for that to be the case. As we said, we're not selling our Omni-Heat and other innovative products through the department store channel, so – and value channel, so it really is, it's narrow in terms of its distribution and the expectation is, as we said earlier, that we've got high growth in those – in that more specialized channel.

<Q – Christopher Svezia>: So it's fair to say that the department store channel continues to contract as a percentage of the business? Is that a fair statement?

<A – Tim Boyle>: Yes, I think that's fair.

<Q – Christopher Svezia>: Okay. Just on pricing, I know you guys, as you've increased the Omni platform and obviously even on the footwear side, you've moved more to MSRP versus MAP, I was just wondering where you stand on that, and just kind of as you go into 2011, if you'd just quantify percentage-wise how much of your apparel is now on MSRP versus MAP pricing or where that stands right now?

<A – Tim Boyle>: Well, the movement has been to have more of our merchandise at MSRP. It allows for better margins for the dealer, and hopefully better margins for ourselves. But at the end of the day, all of that is supported by a strong sell-through, and we've been very fortunate that we've had that this year, certainly on the Omni-Heat and other innovative products. So the goal is to continue to move up our returns for the company, and for our retailers. And we're well on our way.

<Q – Christopher Svezia>: Okay, Tim, is it fair to say it's still -- is it less than half at this point that's on MSRP, is that a fair statement, or --?

<A – Tim Boyle>: I don't know the specific percentages and probably it would be better to wait on specifics for April. But I think we're better than half at least now.

<Q – Christopher Svezia>: Okay. Two more quick questions, real quick here. Just on the gross margin you're going to be up pretty significantly in the first quarter, and just judging from your, Tom, from your comments here, it looks like you will have what you call a slight improvement for the year. I guess, is there a particular quarter or first half, second half, where it could actually be down possibly to get to whatever, what a slight means – or maybe if you can quantify at all what slight would mean for the year, is that 20 basis points, is that 50 basis points or, any color would be helpful?

<A – Thomas Cusick>: Yeah, my preference there to get into more details around this, Chris, would be in April, if we could. If we look specifically at Q1, the drivers of the gross margin expansion in kind of order of magnitude would be number one, less volume at closeout sales. Number two would be increased direct-to-consumer sales. And then we're also getting some currency benefit in the first half of the year. However, we do expect some slight headwinds currency-wise, on the gross margin in the back half of the year, given predominantly the euro.

<Q – Christopher Svezia>: Okay. And my last question, just more, particularly for the first quarter, just real quick here. When you're talking about your gross margin expanding around 175 basis points, and then SG&A increasing 250, I'm just, I'm having a little bit of hard time getting to that 4.2% operating margin, sort of equivalent with the first quarter last year. Is there anything I'm missing, or is the licensing income sort of growing disproportionately in the first...?

<A – Thomas Cusick>: Yes, licensing is growing disproportionately, and the SG&A expansion at 250 basis points is on the top end of the range.

<Q – Christopher Svezia>: Okay, all right. And if I could sneak one last one in. And the product that was at OR, more particularly the base layer product, just curious, what was the response, some retailers seemed pretty enthusiastic about that, and just kind of where you're placing that product, and when that ships, if you could?

<A – Tim Boyle>: Certainly. Well, as we said, because it's Omni-Heat, it's going to be confined to the better sporting goods stores, and specialty stores. The uptake has been frankly shocking. And that merchandise will be shipping in the beginning part of July, late June, beginning part of July, and then throughout the balance of the second half of the year. And it's been very exciting and we will have more to talk about specifically on base layer in April.

<Q – Christopher Svezia>: All right. Best of luck. Thank you very much.

<A – Tim Boyle>: Thank you.

<A – Thomas Cusick>: Thank you.

Operator: Thank you. Our next question comes from the line of Mitch Kummetz with Robert Baird. Please proceed with your question.

<Q – Mitch Kummetz>: Yeah, thanks. Boy, Chris asked a lot of my questions. But just a little clarification on that Q1, because I was struggling with the math as well to get flat operating margins. So, Tom, you mentioned SG&A, 250 is the high end of the range, but what about the licensing? Where are you seeing the growth of licensing? I was wondering if maybe there was some OutDry business in there. I was trying to get to that licensing number in the first quarter and kind of curious...

<A – Thomas Cusick>: Yes, the licensing number is a combination of both what we license in China, as well as what we license throughout the U.S. So the China number is driving that, some of that exponential growth in Q1.

<Q – Mitch Kummetz>: Okay. And should that carry through the year then? I mean should we expect continued improvement in that licensing line item?

<A – Thomas Cusick>: Yes, but probably not at that level.

<Q – Mitch Kummetz>: Okay. And then, Tim, on the, on Omni, obviously you guys had a very strong back half with Omni-Heat. I don't know if it is a fair question, but could you say how much of your back half outerwear sales were Omni-Heat versus non-Omni-Heat?

<A – Tim Boyle>: Yeah, Mitch, I don't have that stuff at my fingertips. But I can tell you that -- so I wouldn't be able to answer your question, and maybe we might be able to get closer to it as it relates to looking forward in April, but I can tell you that the sell-through rates were significantly better on Omni-Heat for our -- for our retailers.

<Q – Mitch Kummetz>: Got it. And then can you tell me, what did you learn on Omni-Heat in terms of like styles and price points? Were there certain styles of outerwear or, price points within the range that seemed to perform better at retail than others?

<A – Tim Boyle>: Well, I think what we learned is that first of all, the visible technology was key. And so we will use those learnings to drive our future innovations, that we want to make them as much as possible visible to the consumer. That's the number one thing we learned. Secondly, we realized probably that it has enormous opportunities in accessories, where we had great selling this year, but we didn't really realize how important it is in the accessory category.

And I would say that maybe the third thing that we've really been excited about, as was mentioned earlier is just the base layer category, where we've entered that category of merchandise in the past without success, once we have a clear differentiator like Omni-Heat for base layer it allows us to really enter that market and do well, which frankly there is an enormous opportunity in that business and this will allow us to get there.

<Q – Mitch Kummetz>: Okay, maybe that is a good segue to another question. Because it seemed like at OR, that was definitely a part of the fall '11 line that you guys were highlighting. I'm just wondering what is the feedback coming out of that show, maybe reflective versus electric, and again, you did touch upon the base layer, and I'm just wondering if you could provide some

commentary on what you're hearing about the fall '11 line that, again, gives you confidence on the sales outlook for the year.

<A – Tim Boyle>: Certainly. And just remember, the actual order taking at that show is actually minimal. So we have a lot more confidence based on the book today. But what we're learning is that the reflective is much more interesting for consumers than really almost any other innovation that we have offered in the garments. It's visible and it's affordable. And so the expectation is that that has the opportunity to really have much longer legs than any of the other categories of merchandise that we have including the electric. The electric is important, but it's very affordable in terms of the reflective. And so it has been just shocking as I said as to how well the acceptance has gone of all those Omni-Heat products. But as I said on comments regarding base layer, where we've been – where we've failed in prior periods, it's been just shocking how well that has been accepted.

<Q – Mitch Kummetz>: Okay. And let me ask one last question. On your preliminary 2011 guidance, Tom, you talk about slight gross margin expansion in the 8-K and you list a few puts and takes there. Any way to kind of quantify the impact of those, of those kind of three items?

<A – Thomas Cusick>: Yeah. I would say probably the biggest benefit will be less air freight, at least as we see the business today.

<Q – Mitch Kummetz>: Okay. All right. And how about – just generally, what is kind of the percentage cost increase on the year as you've planned that out? And how have you offset that with price increases?

<A – Thomas Cusick>: Yeah. So I mean we're still taking orders for fall '11. So it's really premature to put any real numbers around that at the margin. But we will be prepared to talk in more depth there in April.

<Q – Mitch Kummetz>: Got it. Thanks, guys. Good luck.

<A – Thomas Cusick>: Okay.

<A – Tim Boyle>: Thanks, Mitch.

Operator: Thank you. Our next question comes from the line of Matt Dhane with Tieton Capital Management. Please proceed with your question.

<Q – Matt Dhane>: Great, thank you. I was hoping that you could discuss your European sales results and the impact of the product shipment movements that took place here over the last quarter?

<A – Tim Boyle>: Yeah. Certainly, and just by way of background, our order book in Europe develops later, which is sort of typical for that region, than the rest of the world. So it's more difficult for us to be specific about that. However, we have the same sorts of reports from our retailers as it relates to Omni-Heat in Europe, as we do here in the U.S., which was a dramatic sell-through and exciting future.

<A – Thomas Cusick>: And this is Tom. I would just add a couple of additional points. The fourth quarter in Europe was somewhat enhanced by the fact that we received the Sorel footwear product later this fall, versus a year ago, so that helped drive revenue growth in the quarter. In addition, we shipped spring '11 distributor shipments in the quarter so there was kind of a double whammy effect, so to speak, that enhanced Europe's revenue in the fourth quarter.

<Q – Matt Dhane>: Great. That's helpful, thank you.

Operator: Thank you. Our next question comes from the line of Sam Poser with Sterne, Agee. Please proceed with your question.

<Q – Sam Poser>: Good evening, or good afternoon. Just a couple of things. What percentage of your merchandise is made in China right now?

<A – Tim Boyle>: Hey, Sam, I will let Bryan be more specific but it's not our major sourcing country.

<A – Bryan Timm>: Yeah, Sam, it's actually more like a number two from a sourcing geography, and it's roughly about a third of the overall production.

<Q – Sam Poser>: And more so in footwear, I would assume than in apparel then?

<A – Bryan Timm>: Fairly equal, I would say.

<Q – Sam Poser>: Okay. And then getting – just going back to the inventory levels, I mean, based on – just sort of based on, call it a low doubles, high single guidance, and sort of in your margin, sort of the way you've described the margin, the inventories look like you probably have almost 20 – I would say between 24 and 25 – 24 to 23, 24, 25 weeks of supply right now. How does that work? Especially once you said that you shipped a lot of spring early. I just want to reconcile how that isn't potentially a problem.

<A – Thomas Cusick>: Yeah, I would say – Sam, this is Tom. I would say that the receipts of spring '11 in the quarter significantly outweigh the cost of goods that flowed through gross margin in Q4. So that's a piece of it. And then as we indicated in October, we intend to carry the fall '10 excess over and sell it through our retail channel this year.

So in terms of your weeks of supply, you're absolutely in the neighborhood. As we look at inventory, we would expect inventory, the growth rate to decline, as we make our way through the year. And when we get to Q4 and towards the end of the year, be comping at a rate at or below our planned growth rate.

<Q – Sam Poser>: Now, when you look at the inventory – you said, you had inventory – did you – you planned to have excess inventory for these stores? Is that – am I understanding that correctly?

<A – Thomas Cusick>: Well, we've made decisions to carry the excess over for our stores. Some of this excess that we ended the year with was not intentionally planned.

<Q – Sam Poser>: And what kind of merchandise is that? And how are you going to handle that differently, sort of looking ahead towards the end of next year, I mean just from a planning process, conceptually?

<A – Thomas Cusick>: So it really spans the gamut in terms of product categories, a combination of outerwear, sportswear and footwear. And I would say there is more non-Omni-Heat than Omni-Heat, significantly more non-Omni-Heat than Omni-Heat, that we would carry over.

<Q – Sam Poser>: Okay, all right. And then lastly, I mean there's a lot of very interesting new product in the Omni-Heat category, including some very bright, I don't even know what the – what it was – what you called it, but they were very bright-colored outerwear pieces, as well as base layer, they were all shown together on the right-hand side in the booth there.

When – you're selling, are you segmenting with the 400% increase in the number of SKUs that you're going to have in the – the four times the number of SKUs you're going to have in the Omni-

Heat offerings, are you going to – how are you going to – I mean my favorite question, how are you going to segment that, because it's not all equal? I mean there's some very high end Omni-Heat and then there is stuff that's \$150, and there's \$400 pieces. How are you going to segment that from, let's say, sporting goods to the on-the-mountain guys to REI and so on and so forth?

<A – Tim Boyle>: Well, Sam, this is Tim. So all of those customers, the specialty stores as well as the better sporting goods guys, sell products in various ranges. So we're going to, as it relates to our distribution system, specifically in Omni-Heat, it's going to be narrowly allowed to specialty stores and better sporting goods stores. And we want those guys to sell volumes. So we have to have some Omni-Heat styles. Actually, there are some accessories which are down in the \$30, \$40 each, head bands, things like that. We have to make this broadly available to consumers. It's a very democratic initiative for us. And we want there to be lots of Omni-Heat worn this, in fall '11.

<Q – Sam Poser>: I'm more thinking from the high end of, if one of the more moderate sporting goods stores wanted to bring in some of the \$400 pieces, is that -- or are you really going to keep that upper end stuff sort of, really special by control on your part, versus what those retailers want to buy, potentially?

<A – Tim Boyle>: Yeah, that very expensive stuff naturally selects itself. The larger sporting goods operations just don't have the ability to sell that kind of merchandise, and sort of naturally selects themselves into the more popular price points. So that's how -- that's our expectation, and so far, what we've see happen.

<Q – Sam Poser>: Thank you very much. And good luck.

<A – Tim Boyle>: Thanks, Sam.

<A>: Thanks.

Operator: Our next question comes from the line of Jim Duffy with Stifel, Nicolaus. Please proceed with your question.

<Q – Eric Alexander>: Hello, everyone. This is actually Eric Alexander in place of Jim Duffy, his associate. Congrats on a good quarter. A lot of my questions have been answered, but I do have a follow-on to something touched upon earlier related to the manufacturing capacity. I believe it was stated that you have a bulk of the manufacturing capacity lined up. I just wanted to, with capacity constraints becoming a touchpoint these days, if the fall order book checks up better than expected, do you guys feel comfortable that you have capacity available?

<A – Bryan Timm>: Yes, this is Bryan. So I think we'll all remember fall '10 for us was something that in terms of the net sales growth there, that with a little bit of un-forecasted demand, obviously, we proceeded through this year. I think we tried to be a little bit more precise with respect to our plans for fall '11 and at least at this point we feel pretty comfortable with having the capacities that are commensurate with the guidance that both Tim and Tom talked about earlier.

<Q – Eric Alexander>: Okay. That is helpful. And then last question, it's more of a general stake, probably for Tim. As far as – it appears you guys are taking share. Where do you see, based on your perceptions, where are you seeing share take? Is it from the bigger players or maybe some of the smaller players? I don't know if that's too broad of a question, but I will try it out.

<A – Tim Boyle>: Okay, it's hard to know with much specificity, we try and talk to our retailers as much as we can, but they play things fairly close to their vest. So in terms of the outerwear category, we are probably taking, if not share from the larger competitors that we have, certainly some of their growth, possibly. As it relates to base layer, having really never been in base layer,

I'm sure we're taking some share from the traditional base layer players, which would include Duofold, private label and possibly even some Under Armour.

<Q – Eric Alexander>: Okay. That is helpful. Thank you for the time.

<A – Tim Boyle>: Thanks.

Operator: There are no further questions at this time. I would like to turn the floor back over to management for closing comments.

Tim Boyle, President and Chief Executive Officer

Well, thank you very much for listening with us today. We're looking forward to being more specific about the balance of the year in our April call. So again, thank you very much.

Operator: This concludes today's teleconference. You may disconnect your lines at this time. Thank you for your participation.

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