MANAGEMENT DISCUSSION SECTION

Operator: Ladies and gentlemen, hello and welcome to the Columbia Sportswear Second Quarter Financial Results Conference Call. Please note that all lines are in listen-only mode and there will be a question-and-answer session at the end of the call. [Operator Instructions]

And now to start off our conference, I would like to welcome and turn the call over to Mr. Ron Parham, Senior Director of Investor Relations and Corporate Communications. Go ahead, please.

Ron Parham, Senior Director of Investor Relations and Corporate Communications

Thanks, Lisa. Good afternoon and thanks for joining us on today's call. Earlier this afternoon, we announced our second quarter results and our updated financial outlook for the third quarter and full year 2010. With me today on the call are President and CEO, Tim Boyle; Senior Vice President of Finance, Chief Financial Officer and Treasurer, Tom Cusick; Executive Vice President and Chief Operating Officer, Bryan Timm; and Senior Vice President and General Counsel, Peter Bragdon. Our Chairman, Gert Boyle is unable to join us today. She sends her regrets, but she is undergoing a minor elective surgery. So that means that I get 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 those risks and uncertainties are described in Columbia's Annual Report on Form 10-K for the year ended December 31, 2009 and subsequent filings with the SEC. Forward-looking statements in this conference call are based on our current expectations and beliefs, and we do not undertake any duty to update any of the forward-looking statements after the date of this conference call, or to conform the forward-looking statements to actual results, or to changes in our expectations.

Before I hand the call over to Tim, I want to point out an upcoming change to our conference call protocol that we planned to implement in October, when we announce our third quarter results and our Spring '11 backlog. Immediately following the issuance of our earnings release at approximately 4:00 Eastern Time, we will post a written commentary and analysis by Tom Cusick, Senior Vice President and Chief Financial Officer and Treasurer on our Investor Relations website at www.columbia.com/results.cfm. Analysts and investors can then read the commentary before the start of our earnings conference call at 5 p.m. Eastern Time and that will limit our prepared remarks to brief summary comments by Tim and Tom, and then, we'll move more quickly into the Q&A portion of the call.

We think that this new approach will make it easier and more efficient for you and make the time spent on the call more productive for everyone. Just one other quick reminder about the meeting for analysts and portfolio managers that we'll be hosting on Wednesday, August 4, at 10 a.m. at the Outdoor Retailer Summer Market Trade Show in Salt Lake City, if you've not already RSVP'd, we ask that you please do so by July 28. And if for some reason you didn't receive invitation, but do plan to attend Summer OR or could make it to Summer OR, please email me at rparham@columbia.com and I'll make sure and get the information about the event to you, we will also be webcasting that presentation.

So with that, I will turn the call over to Tim.

Tim Boyle, President and Chief Executive Officer

Thanks, Ron. Welcome everyone and thank you for joining us this afternoon to discuss our second quarter results and our updated outlook for 2010. I want to touch quickly on a couple of highlights from the second quarter and then Tom will cover the financial results and our updated outlook for 2010 in more detail. As a reminder, the second quarter is 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 in this case a loss of any quarter. We expect to generate the majority of our annual sales in all of our expected annual profitability in the second half of the year.

Second quarter sales grew 24% following 10% sales growth in the first quarter bringing us to a 16% sales growth through the first half of the year. Q2 sales grew at a double-digit rate in every product category.

Our U.S. wholesale business was the largest contributor to second quarter sales growth, up 20% over the last year's Q2. We were focused on executing the global launch of Omni-Heat, our innovative suite of warmth technologies, which is already beginning to appear in the stores. The launch will be supported by the largest, and most integrated global marketing campaign in our 72 year history with peak visibility occurring in early October, when people in the Northern Hemisphere naturally start thinking about staying warm. The campaign will feature creative online and print advertising, our first television ads in almost two years and bold in-store graphics and fixture packages combined with our retail partners owned co-op advertising efforts in their local markets.

In addition, we will be holding a series of experiential consumer events in major cities across the country beginning next week at the summer X-Games in Los Angeles, and stretching into February at events like the Central Park Winter Jam in New York. Many of these events will feature a traveling freezer, allowing consumers to try on Omi-Heat apparel, footwear, gloves and hats and experience the unique performance properties of Omni-Heat reflective, Omni-Heat thermal insulation and Omni-Heat electric technologies.

All of these marketing efforts are centered on creating awareness and driving consumer demand for Omni-Heat products this fall and winter. We remain encouraged by retailer reception to our fall line and are poised to execute this global marketing program designed to create consumer demand, drive profitable sell-through for our retail partners, and ultimately elevate each of our brands.

Now, I'll hand the call off to Tom to review the financial results.

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

Thank you, Tim, and good afternoon, everyone. I'll begin with a brief overview of the income statement and balance sheet. Please recall that Q2 is our lowest volume quarter of the year as we wind down our spring shipments and begin fall deliveries. Regional net sales comparisons often produce large percentage variances due to the small base of comparison, and because of shifts in the timing of shipments.

Overall, the second quarter came in better than our outlook we provided in April, driven largely by our stronger U.S. wholesale business, which experienced higher than planned reorders and lower cancellations of spring 2010 product.

Second quarter net sales increased 24% to $221.8 million with changes in foreign currency exchange rates contributing two percentage points of that increase. A combination of increased demand and shifts in the timing of product shipments contribute to the sales growth for the quarter. Looking at Q2 2010, net sales on a regional basis compared with Q2 2009. U.S. sales increased 27% to $123.7 million driven by growth in the wholesale business followed by the retail business and primarily concentrated in the Colombia brand.

U.S. wholesale sales have showed a low 20% increase driven by increased demand as well as a shift in the timing of spring 2010 product shipments. U.S. retail sales showed a low 50% increase. There were nine more U.S.-based retail stores operating at the end of the second quarter, as compared to the same period last year.

EMEA sales increased 15% to $38.6 million, including a one percentage point negative impact from foreign currency exchange rates. Our EMEA distributor business increased low 20%, and concentrated in the Colombia brand and comprised primarily of initial shipments of our fall 2010 orders and aided by improved macroeconomic conditions in Russia.

Net sales in our EMEA direct business showed a high single-digit percent increase including a three percentage point of negative effect from foreign currency exchange rates. The net sales increased primarily consisted of Colombia brand net sales followed by Mountain Hardware. The net sales increase was predominantly due to a shift in timing of spring shipments from the first quarter of 2010 to the second quarter.

Net sales in our LAAP region increased 30% to $51.8 million including a nine percentage point benefit from foreign currency exchange rates. Foreign currency exchange rates played a significant role in our Korean business, although 50% growth was aided by a low 20 percentage point currency tailwind. Japan net sales showed a high teens percent increase, primarily concentrated in Colombia branded apparel aided by a six percentage point benefit from foreign currency exchange rates. Net sales to our LAAP distributors experienced mid 20% growth due to the reschedule against some orders for Southern Hemisphere distributors from the fourth quarter of 2009 to the second quarter of 2010. This final step in rescheduling better aligns with the selling season for Southern Hemisphere customers that lag our product seasons by six months.

Net sales in Canada declined 3% to $7.7 million, including a 13 percentage point benefit from foreign currency exchange rates. The decrease is primarily due to a shift in the timing of Spring shipments into the first quarter. Looking at the second quarter net sales by product categories, compared to Q2 2009, sportswear net sales increased $23.5 million or 24%, mostly related to increased Colombia branded net sales in the U.S. across both the wholesale and retail channels.

Outerwear net sales increased $8.3 million or 24% in the second quarter, primarily driven by the Colombia brand in the U.S. and LAAP regions. Accessories and equipment net sales increased $5.5 million or 45%, driven by the Mountain Hardware and Colombia brands in the U.S. and LAAP regions. While footwear net sales increased $5.3 million or 16%, due to Colombia branded increases in every region except Canada. From a brand perspective, the 24% increase in second quarter net sales was concentrated in the Colombia brand, which increased $37.4 million or 23%. Mountain Hardware net sales increased $5.1 million or 39%, while Sorel, Montrail and Pacific Trail net sales were insignificant in the second quarter of each year.

Gross margins increased by 220 basis points to 43.7% in the second quarter, primarily due to a higher relative volume of full price product sales at higher gross margins and a higher volume of retail sales at higher gross margins through our expanded U.S. base of retail stores, driven by lower and more targeted markdowns in our outlet channel.

SG&A expense increased 23% to $113.5 million, representing 51.1% of second quarter net sales, compared to 51.5% in last year's second quarter. The increase in absolute dollar terms was due to an increase in global personnel costs, including increased head count, the reinstatement of personnel and benefit programs that were curtailed or postponed in 2009 and transitional cost associated with internalizing our sales organizations in North America and Europe. Incremental expenses to support our expanded retail businesses and a planned increase in advertising spend also contribute to the increase in the quarter. The operating loss for the second quarter of 2010 was $14.7 million or 6.6% of net sales, compared to an operating loss of $15.9 million or 8.9% of net sales for the comparable quarter in 2009.

The income tax benefit for the second quarter of 2010 was $3.7 million according to a 26% tax rate, compared to a 35.5% tax rate for the second quarter of 2009. The net loss for the second quarter of 2010 was $10.6 million or $0.31 per diluted share, compared to a net loss of $9.9 million or $0.29 per diluted share for the second quarter of 2009.

Now turning to the balance sheet and comparing June 30, 2010 amounts to June 30, 2009. The balance sheet remains very strong with cash and short-term investments totaling $398.3 million as compared to $317.7 million at the same time last year. Consolidated accounts receivable declined to $145.5 million versus $146.8 million a year ago. Accounts receivable decreased less than the 1% on a sales increase of 24% in the quarter, primarily due to higher retail sales, lower receivables from extended term close out sales and improved payment terms with some customers.

Consolidated DSO decreased to 59 days from 74 days at June 30, 2009. Write-offs for uncollectible accounts receivable were not significant for the second quarter of 2010 or 2009. Consolidated inventories increased 6% to $310.5 million, compared to $293.4 million last year. This growth is driven by the initial receipt of inventory to fulfill the previously announced 19% increase in our fall backlog. In the second quarter of 2010, we used approximately $3.5 million in cash for operations, spent $7.4 million on CapEx and paid $6.1 million in dividends.

Depreciation and amortization expense for the quarter was $9.4 million versus $8.5 million in last year's second quarter. Today we announced that Colombia's Board of Directors approved a third quarter dividend of $0.18 per share.

Now let's turn our attention to the outlook for 2010. Consistent with our April outlook, the dynamic nature of both retailer and consumer demand in the current economic environment limits our visibility and our ability to estimate future results. Our business is highly seasonal with the second half accounting for approximately two-thirds of our annual sales and all of our operating income. All projections related to anticipated future results are forward-looking in nature and are based on backlog and forecast, which may change perhaps significantly.

We are raising our outlook for full-year 2010 revenues to increase approximately 14 to 16% from fiscal year 2009, based on a combination of factors, including a 19% increase in our fall 2010 order backlog previously announced, expected incremental sales from our direct-to-consumer channel and our first half 2010 actual results.

We expect full-year 2010 operating margin to be comparable to 2009 with gross margin expansion of approximately 75 basis points, offset by SG&A expansion of approximately 75 basis points. The expected gross margin expansion for full-year 2010 is the result of a high relative volume of full priced product sales in our wholesale business, a higher relative volume of direct-to-consumer sales at higher gross margins, favorable foreign currency hedge rates for fall 2010 partially offset by increased cost to expedite production and delivery of fall orders.

The cost we anticipate incurring to match our production to customer demand in a capacity constrained environment underscores why we are engaged in significant investments in our business systems and processes to improve operational flexibility and performance across our supply chains.

As previously announced, the anticipated increase in full year 2010 SG&A is comprised of the following major components. The effect of the company's retail expansion initiatives, increased marketing investment to support the global launch of our fall 2010 product lines, increased head count and reinstatement of personnel and benefit programs that were curtailed or postponed last year, expenses associated with various initiatives to improve our IT infrastructure, business processes, and our enterprise data and information management across the organization and transitional costs associated with internalizing our sales organizations in North America and Europe. Taking together, we expect all these investments to absorb our anticipated gross margin expansion in 2010 resulting in full year operating margin that approximates 2009 operating margin.

We are currently planning the full-year 2010 income tax rate to be approximately 28%, however, it could be higher or lower than that in each of the remaining quarters based on the geographic mix of taxable income and specific events that may occur in each quarter. We are currently planning approximately $40 million in capital spending during 2010 with approximately 12 million of that related to retail expansion and approximately 28 million related to maintenance and infrastructure projects.

Looking specifically at Q3, we expect net sales to increase in the mid-teens percent range due to the increase in fall order backlog reported in April and incremental direct-to-consumer sales. Q3 2010 operating margin is expected to contract approximately 200 basis points from 2009. This operating margin contraction is comprised of approximately 100 basis points of gross margin contraction and 100 basis points of SG&A expansion. The anticipated gross margin contraction is primarily driven by the incremental cost to expedite production and delivery of fall orders. Third quarter SG&A expansion is consistent with the factors contributing to the increase in full-year SG&A.

As we begin to experience the benefits of the investments that we've made in our product development and design functions, we're making additional investments in marketing to drive consumer demand. We are also making investments in IT infrastructure and business process improvements to support long-term growth opportunities and help leverage our business model over the long-term.

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

Tim Boyle, President and Chief Executive Officer

Thanks, Tom. We've recognized that there are growing concerns about the strength of the economy and consumer spending. But we also believe that consumers are drawn to real innovations whose benefits are easy to understand. The proposition behind Omni-Heat is as simple as it is bold, that Omni-Heat represents the revolutionary advance and tended to give consumers a reason to replace all their winter footwear and apparel with the latest in warmth technology.

The revolution that we are attempting to achieve with Omni-Heat as a warmth technology, we intend to replicate in future seasons on each of the other benefits that are of greatest importance to outdoor consumers; keeping cool, keeping dry and protected from harmful elements like UV rays and insects. Our balance sheet remains very strong and provides us with the working capital flexibility we need to fuel substantial growth.

Thank you all for listening in. We'd be happy to take questions.

QUESTION AND ANSWER SECTION

Operator: [Operator Instructions]. Our first question comes from Michelle Tan [Goldman Sachs]. Michelle, go ahead, please.

<Q – Michelle Tan>: Great, thanks. Hey guys, I was wondering if you could just clarify something on the gross margin guidance for the full-year, up 75. I think that's a little lower than what you were guiding to before. And I was just wondering what the difference is since you beat your gross margin plan for second quarter.

<A – Thomas Cusick>: Hi Michelle, this is Tom. Most of the change from the prior outlook going from 100 basis points to 75 basis points of expansion, the major component of change is the incremental airfreight that we'll incur here in the third quarter to ensure timely delivery of product to customers.

<Q – Michelle Tan>: Okay, great. And then, anyway we should be thinking about any kind of inflationary pressure starting to come into play, will you see that at all for fall or is that really more of spring 2011 and any sense of magnitude?

<A – Thomas Cusick>: Yeah. Really from our advantage point today, most of that inflationary pressure will be in 2011. For most of 2010, the sourcing environment has been fairly favorable.

<Q – Michelle Tan>: Okay, perfect. Then have you talked at all about the magnitude of what you could see in terms of cost pressure for spring '11 yet?

<A – Tim Boyle>: No. Michelle, this is Tim. No, we haven't talked about that at all. Our costs are fixed and our sales prices are fixed for spring '11. We're in the process of selling spring '11 now. But we haven't talked about any results at all and really don't intend to until we get further into the year.

<Q – Michelle Tan>: Okay, great. Well, thanks so much for the color and good luck.

<A – Tim Boyle>: Thank you.

Operator: Our next question comes from Bob Drbul from Barclays Capital.

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

<A – Tim Boyle>: Bob.

<A – Thomas Cusick>: Hi, Bob.

<Q – Robert Drbul>: I guess the first question that I have is when you guys look at the full-year around the sales outlook and then sort of the operating margin outlook, what sort of orders or reorders, the pre-orders that you've had with your backlog? Would you need to sort of get to a better operating margin performance versus what your plan is right now? What sort of incremental sales or how would you think about it from that standpoint?

<A – Tim Boyle>: Boy Bob, that's really a function of both geographic mix and channel mix, and we've really haven't put a number on that at this point. Our outlook as we see it is really embedded in our guidance.

<Q – Robert Drbul>: All right. And Tom, on the different components that you talked about, on the SG&A, can you talk about specifically on the marketing side of it? Whether a year-over-year increase or a dollar increase or a dollar plan that we should think about for the full-year? Just trying to understand exactly how aggressive you guys are going to be with the television, with the print et cetera.

<A – Thomas Cusick>: Sure. So we're currently planning our marketing at roughly 5.5% of sales for the year up from 5.25 a year ago. So up about 25 basis points.

<Q – Robert Drbul>: Okay.

<A – Tim Boyle>: Hey, Bob, which is – just as an aside to that – you know typically our co-op funds are in the neighborhood of 40% of our total ad spend. And for the first, really for the first time in a long time we've been very focused on having our retailers in lock step with us as it relates to the specific strategies that they are going to follow in their co-op and so we would expect that there will be a lot more emphasis on Omni-Heat because our retailers are going to be following our lead and focusing their efforts with their co-up funds on that initiative.

<Q – Robert Drbul>: Great. Thanks, Tim. And then, just one final question. I think it's probably for Tim. When you look at the economic environment, you look at your order book the uncertainties that you guys note around some of the retailers. Have you seen any like – you talked about higher reorders in the second quarter already, have you seen any sort of pullback from European customers or U.S. customers at all around this launch?

<A – Tim Boyle>: No, it's been an exciting time frankly. One that's – it's cost us a bit as Tom mentioned on the air freight that we're going to be expanding to get the merchandise here in a timely manner. We have been very pleased, but the floor sets are just now starting to hit the retailers. We had photographs of the store in Munich with the floor set of Omni-Heat product and we are expecting that there will be lots more of that stuff showing up now. But it's lot of anticipation, we're very excited.

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

<A – Tim Boyle>: Thanks.

Operator: The next question comes from Reed Anderson from D.A. Davidson. Go ahead, please.

<Q – Reed Anderson>: Hi. A couple of questions. First off, kind of get back to the SG&A piece, I mean, the quarter you just ended, obviously revenues were better than we have been thinking. But I mean the SG&A was – despite that was still I think lower than I would have anticipated. So I'm just wondering if there was, if we're ahead of the track here in terms of SG&A spending despite the plan that it's going to be up or were there some timing shift in there that might have impacted Q2 versus Q3 something like that?

<A – Tim Boyle>: Sure Reed, there is a little bit of timing shift in there from the first half to the second half around some of the project-related SG&A spend. But we believe we're still tracking to what's implied in our guidance here today.

<Q – Reed Anderson>: So – and so then basically anything didn't hit 2Q was probably baked into 3Q guidance more or less, is that fair?

<A – Tim Boyle>: That's correct.

<Q – Reed Anderson>: Okay, good. And then, I'm curious just you've made some real good progress on footwear and so – it's a small piece of your business, but just can you comment, Tim or whoever, just curious on the thoughts there in terms of expanding, reinvigorated distribution there really helping that whether it's more doors with existing customers or new customers? Just some color on that would be very helpful.

<A – Tim Boyle>: Sure. Well, just as a reminder, we've got really three major footwear brands. The Columbia brand, Sorel and Montrail, so I'll speak to each one of those specifically, as we announced, our fall backlog was up significantly in Columbia and Sorel specifically.

Talking about Colombia, it's the only brand that today has Omni-Heat technology, and of course many of our retailers, as they're embracing the head-to-toe Omni-Heat strategy, wanted to make sure that they increase their business with Colombia Footwear. So we're now just in the process of shipping all this – all the Colombia's merchandise, but we're very excited about how that's happened and the uptake from our traditional Colombia customers.

On Sorel though, it's a bit of a different story in that the sales – the backlog growth there is enormously significant up – north of 60% for fall '10. And then we have an expanded type of distribution and quantity of distribution as it relates to retailers where we're dealing with some fashion retailers, but also retailers that just recognize the strength of the Sorel brand and it's specific import to the women's market.

Montrail, on the other hand, is primarily a spring brand. So we're in the process of selling our spring Montrail products right now for spring '11 and the reception has been great, but again we're going to try and talk about '11 further along in the year.

<Q – Reed Anderson>: Makes sense, that's very helpful. Thank you. And then last question, just probably for Tom, inventory up about what I would have expected in the 2Q given what you talked about with fulfillments and so forth and earlier orders. We get to – if we get to the end of this year, inventory growth, is it still kind of flattish or would we see inventories you think up a little bit at the end of this year?

<A – Thomas Cusick>: Yeah, good question, Reed. We're expecting inventory to increase in the mid-teen range through the fall months, and then as we approach year-end, it's going to be more a function of the timing of receipt of spring orders or spring inventory based on spring backlog. So it's a little bit early to predict. But I would say that when we look at year-end 2009 inventory, we received our spring 2010 inventory later than normal at the end of 2010 and we were fairly lean with our replenishment inventory stock at the end of 2009. So it could be a little bit more of a challenging comp.

<Q – Reed Anderson>: Yeah, it makes sense. It would be up then, so good. Okay, that's very helpful. Thank you. Good luck.

<A – Thomas Cusick>: Thanks.

Operator: [Operator Instructions]. Our next question comes from Claire Gallacher from Capstone Investments.

<Q – Claire Gallacher>: Great. Thank you. I have a question about the mid-teens revenue guidance that you provided for Q3. How much is being driven by increase in your – in the prices of the merchandise and how much is being driven by actual units?

<A – Tim Boyle>: Yeah, it's a combination of both price and volume. I think as we mentioned last quarter, we're anticipating in the back half for fall a low-to-mid-single digit increase in ASPs.

<Q – Claire Gallacher>: Okay, great. And then the Omni-Heat product, is it in your own retail stores now? Is it being rolled out now and if so, can you talk about maybe the initial consumer reaction?

<A – Tim Boyle>: Yeah, I don't – I think it's – we're still between 10 days and two weeks away from it landing in our stores. So we're right on the edge and don't have any information for you yet.

<Q – Claire Gallacher>: Okay. Is it being rolled out to different channels at different times or is it all being rolled out kind of in the same week?

<A – Tim Boyle>: No, it's not a specific week launch, but it is highly focused on early October from a promotional standpoint when we're going to be having the biggest heavy-up in our marketing. So some categories of merchandise are going to be little earlier, the hunting is a little earlier and some customers are requesting slightly earlier delivery. But it's across-the-board and will be in sort of in total with our fall merchandise.

<Q – Claire Gallacher>: Okay, great. Thank you.

<A – Tim Boyle>: Thank you.

Operator: The next question comes from Eric Tracy from FBR Capital.

<Q – Eric Tracy>: Good afternoon. If I could follow-up on sort of incremental cost to support the launch and sort of higher demand, is it specifically just airfreight or are there other sort of sourcing inefficiencies or something at work? And is it just sort of a Q3 event and something we shouldn't expect to sort of replicate going forward or if there is sort of incremental demands, you might bear some of those costs going forward as well?

<A – Tim Boyle>: Well, no the primary increasing effect almost exclusively is the cost to expedite the merchandise to get it here. Again, it's complex and is spread across multiple quarters so the outlook we have given you today is our best view of what the results would be for fall '10.

<A – Thomas Cusick>: And Eric. This is Tom. I would say the majority of that – those expediting costs will be incurred in the third quarter as that product will land and then immediately be shipped to customers.

<Q – Eric Tracy>: Okay. So it's more of a launch specific type incremental cost as opposed to just servicing the higher level of overall top line growth?

<A – Tim Boyle>: I would say it's a function – it's multi – there's multiple components to it from later demand, earlier receipt of inventory from customers limited capacity in Asia, there is multiple components to this. So it's – there is really not one thing we can point to.

<Q – Eric Tracy>: Okay. And then maybe just – I know you don't want to get too specific as we look FY '11, but some – you've mentioned directionally incurring some of the inflationary pressures on input costs, be it raw materials, freight, labor, that probably start to come through in spring. Are you able to just sort of talk to the levers to sort of offset and maybe even more specifically the pricing power you feel like you may have in the channel. I know it's a lower volume in the first half and more sportswear driven, but perhaps just the pricing power that you might have to offset?

<A – Tim Boyle>: Certainly. This is Tim. And again, I just want to have the caveat that we really aren't talking at all about '11. However, it's been discussed at length by companies all – in many kinds of industries the pressure is on input prices. I just want to make sure everyone understands that it relates specifically to Columbia that the pricing input pressures from China, which some companies have pointed to specifically really is not as much of an impact for Columbia.

Over the last several years China has represented in the range of a third of our volume. We source from about 12 different countries and that's really a function of our international business. So as it relates to being competitive when we're selling in the EU or in Argentina or Canada or wherever in the world we might be selling merchandise, we have to rely on a very diverse broad set of trading partners for these various markets that we import to.

So, while we haven't talked at all about '11. We certainly see the kinds of pressures that will be present on input. We believe we have increased our ability to price our merchandise appropriately. And again, we believe that this broad sourcing base will help us.

<Q – Eric Tracy>: Okay. Fair enough. I appreciate it guys. Thank you.

Operator: The next question comes from Kate McShane from Citi Investment Research.

<Q – Kate McShane>: Thank you. I have two questions today. The first one is, how flexible are you to chase inventory for the Omni-Heat product specifically? And have you seen any response from your competitors to this Omni-Heat product or have you seen any increase in advertising as a result of your launch from your competitors?

<A – Tim Boyle>: Well Kate, we really haven't seen anything of note. So our commitment to Omni-Heat is really – it has been concluded as it relates to what we have available to sell for fall '10. So when we're sold out we're going to be celebrating and be thrilled with our – with the results. And I might remind you, the Omni-Heat Reflective is a proprietary product. We've got patent applications in for that product and we've actually had some patents issued on that. So our expectation is that as that becomes a much more important part of our fall business, we're going to have additional pricing power and some protection against competitors. But nothing to report other than that.

<Q – Kate McShane>: Okay. Thank you.

Operator: The next question comes from Andrew Burns from Stifel Nicolaus.

<Q>: Good afternoon. Could you give us some color on owned retail in terms of what it represents as a percent of total sales?

<A – Tim Boyle>: I'm sorry, did you say owned retail?

<Q>: Yeah, as a percent of total sales, has it surpassed 10%?

<A – Tim Boyle>: We've generally not commented on any of our specific metrics around our retail business. It's a minority of the total make-up of the business, although we do have company-owned retail in each of that major geographies that we operate in, the US, Canada, Europe, Japan and Korea.

<Q>: Okay. And then, a follow-up from a previous question. Could you give us some detail on the expanded distribution for Sorel in terms of maybe new doors or is it more U.S. versus outside U.S., and also going forward? What's the opportunity after this season to continue expanding distribution for the brand? Thank you.

<A – Tim Boyle>: Certainly. Well, the expanded distribution has been, from a dollar standpoint, been larger in the U.S. and in Canada. But probably from a numeric standpoint, in terms of newer – and more customers has probably been larger in Europe in terms of the customers opened. So I can talk to you maybe about companies like Nordstrom and The Tannery, which would be really trendsetting as well as just the kinds of customers that you want to have.

And then in Canada, companies like Holt Renfrew have been big supporters of the brand. Bergdorf Goodman in New York was, for a number of seasons, one of our biggest customers, has now been replaced in terms of its size by other larger customers. So there's a multiple of these boutique-type customers. There's more to be opened, but frankly the bulk of our growth in these doors has been more or less a test. And so the expectation is that this will become a much larger business for us.

<Q>: Great, thank you.

Operator: Our next question comes from Chris Svezia, Susquehanna International Group.

<Q – Tom Haggerty>: Hi, this is Tom Haggerty in for Chris. Just two quick questions. On the gross margin side you guys, most of the pressure is coming in on the third quarter. It just kind of implies pretty decent expansion in the fourth quarter. I was wondering if you kind of give some color on what's driving that? And also what you're seeing for the back half in terms of currency? There was a lot of puts and takes this quarter, I just wanted to see what you have built into your guidance on that? Thanks.

<A – Tim Boyle>: Sure. As it relates to the fourth quarter, most of the gross margin expansion is comprised of two components. One is the higher relative volume of retail in the quarter as well as currency. For most of fall, currency is a tailwind for us in the back half for the year.

<Q – Tom Haggerty>: And that's from your hedging, I assume?

<A – Tim Boyle>: Correct.

<Q – Tom Haggerty>: Got it.

<A – Tim Boyle>: And then as it relates to the currency effect on the P&L in the second half, we're expecting about 1 to 2% negative effect on the top line and a couple of cents unfavorable effect on the bottom line in the second half of the year.

<Q – Tom Haggerty>: Okay, great. So nothing too much. Thanks a lot guys. Good luck.

<A – Tim Boyle>: Thank you.

Operator: The next question comes from Sam Poser from Sterne Agee.

<Q – Kenneth Stumphauzer>: Good afternoon everyone. This is actually Ken Stumphauzer on for Sam Poser. I was just wondering if you could actually talk about the FX hedges, kind of the mechanics behind it, and when they should be rolling off and whether you guys are exposed to transactional exposure perhaps in 2011?

<A – Thomas Cusick>: Sure, Ken. This is Tom. So we are hedging generally lags 12 months to the selling season. So we are – from a majority standpoint hedged for spring 2011. We have just become hedging as we begin to set prices for fall 2011. So it's about a 12 month lag effect.

<Q – Kenneth Stumphauzer>: Okay. And then as far as the regional component of the business, you guys did a significant amount of expansion if I recall correctly, early in the year – last year when do you start lapping the significant retail store – the retail store openings?

<A – Tim Boyle>: By and large I would say the first quarter of 2011. So for example this year, we will open four new stores, three of which have been opened, two branded stores and one outlet and we've got one more outlet planned for October and then – and those are all in the U.S. We have no current plans in Canada or Europe or new stores this year, so we should be through most of the major expansion efforts in this current year.

<Q – Kenneth Stumphauzer>: Okay.

<A – Thomas Cusick>: I might just add. We're going to be opening Mountain Hardwear or launching Mountain Hardwear e-comm this summer.

<Q – Kenneth Stumphauzer>: Okay. And then just one last question. I guess related to the retail component kind of things. To me, it appears like the sales volatility at least relative to guidance has significantly increased over the past 18 months. And I was just wondering if you guys can comment. Do you think that's retail or is that just kind of the general economic uncertainty, is it conservatism among your part? What's playing into the big deltas we're seeing there?

<A – Tim Boyle>: So I would say, I'm not sure I completely understand the question. But I would say that over the last 18 months, retail has been a bigger component of the total business than it has historically including our retail businesses in Japan and Korea. Those regions have grown generally faster than North America and Europe. Does that get at to your question?

<Q – Kenneth Stumphauzer>: I guess, what I'm getting out is that it seems like you guys have significantly exceeded guidance on top line over the past 18 months, more so in the past. And I was just wondering if there is something structurally different in the business that would be causing that, or if it's just broader economic uncertainty or if it's conservatism on your part?

<A – Tim Boyle>: Yeah, I think there's a couple of components there. One would be the retail side of the business, I would say, is a bit less predictable than the wholesale side of the business. So that has been a component and contributed to the upside this quarter. In addition, I would say that our cancellation rates in our wholesale business for Spring '10 versus spring '09 have been significantly decreased, which has also contributed to the upside we've experienced this quarter.

<Q – Kenneth Stumphauzer>: Okay. That's very helpful. Thank you, guys. Best of luck.

<A – Tim Boyle>: Thanks. Thank you.

Operator: [Operator Instructions] Our next question comes from Matt Dain from Tiason Capital Management.

<Q>: Hey. Thank you. I was curious what drove the retail stores to be greater than expectations for the past quarter?

<A – Tim Boyle>: I'm sorry, Matt. I don't understand – what were the components to improve our retail business?

<Q>: What your – I sense that the retail store turned in better sales results than was expected.

<A – Tim Boyle>: Okay. Yeah, no, I understand. So I guess the primary driver would be an improved economic outlook from what we saw early in the year when we were providing an outlook to investors. Secondarily, our retail team just continues to improve their abilities to manage the business and we have better in-stocks and just a better operating environment for our own retail stores.

I guess, the last piece would be, we did not have an e-comm business last year and that's an important part of our promotional and our retail business.

<Q>: That's helpful. Thank you.

Operator: There are currently no questions in queue.

Tim Boyle, President and Chief Executive Officer

All right, thank you very much for listening in. We look forward to talking to you at our next conference call when we will be reporting our spring backlog. Thanks.

Operator: Thank you ladies and gentlemen. This conference has concluded.