

COLDWATER CREEK

Moderator: Marie Hirsch
March 5, 2008
3:45 p.m. CT

Operator: Welcome to the Coldwater Creek investor conference call. Today's call is being recorded.

With us today, we have Mr. Daniel Griesemer, president and chief executive officer; Ms. Georgia Shonk-Simmons, president and chief merchandising officer; Mr. Tim Martin, senior vice president and chief financial officer; and Ms. Marie Hirsch, director of investor relations.

Ms. Hirsch, please go ahead.

Marie Hirsch: Thank you, Operator. Good afternoon and welcome to Coldwater Creek's 2007 fourth-quarter and fiscal yearend conference call. If you've not received a copy of the release distributed this afternoon, please contact our offices at 208-265-3977, and we will send one out to you immediately. We will begin with a few formal comments from management and then open up the lines for your questions.

During the course of this conference call, we may make forward-looking statements regarding future events or performance of the company including forward-looking statements and projections about our operation results, business initiatives, growth opportunities, and prospects. We want to emphasize that any projections involve judgment that individual judgments may vary. Any projections we make today are based on information available to us now which is subject to

change as the quarter progresses. Actual results may differ substantially from what we say today and no one should assume later in the quarter that the comments we provide today are still valid.

Moreover, we are not undertaking any obligation to provide updates in the future. The documents – I'm sorry, the documents that company files from time to time with the Securities and Exchange Commission, including our most recent Form 10-K and Form 10-Q contain and identify important factors including the risks and uncertainties described under Risk Factors that could cause actual results to differ materially from those contained in any forward-looking statements.

The call will be archived approximately one hour after the call end and so Wednesday March 12th of this year. The replay can be accessed by dialing 719-457-0820 and giving the pin number of 2717467. The replay and the transcript of the call will also be available in the Investor Relations section of the company's Web site.

And now, I'd like to introduce Daniel Griesemer, President and Chief Executive Officer.

Daniel Griesemer: Thank you, Marie. Good afternoon, ladies and gentlemen and thank you for joining us today as we discuss our results for the fourth quarter and fiscal yearend, February 2nd, 2008.

Today, I'll briefly review those results and then spend sometime talking about our strategic and tactical plan to position Coldwater Creek path to a sustainable and profitable growth, then we'll give you additional detail on our operating and financial results and Georgia will then provide an update on our merchandising initiatives. And then I'll discuss our guidance for 2008 before taking your question.

In fiscal 2007, we delivered sales of \$1.15 billion and a net loss of 3 cents per basic and diluted share. In line with the revised guidance we gave in January but a disappointment to me and our entire management team, while the challenging macro environment negatively impacted our

customer's willingness to shop and spend. We also suffered from an over assortment of merchandise and a lack of newness or differentiating product. As a result, we were more promotional than we would have preferred in order to ensure that we maintained clean inventories.

We now have a clear understanding of what went wrong and we feel good about the changes we've made so far. We are confident that we are moving in the right direction and despite our soft sales we maintained a strong cash position. And have been able to continue to grow without borrowing to fund that growth. We are particularly pleased that in spite of slower consumer spending, we decreased inventory at retail including the DC by 9.3 percent per square foot.

In a moment, I will discuss some of the other specific initiatives we are implementing to improve our business. But first, it's important to note that we firmly believe that our fundamental business model is intact and the large and lucrative opportunity to bring our great brand to retail centers nationwide remains the same. We are still targeting the same baby boomer demographic-women 35 and older. We are very focused on this core customer who is the fastest growing demographic in the country. And we are not looking to grow by changing our target customer demographic or adding other businesses.

In short, our destination is the same. It's how we are going about getting there that needs to change. Historically, we have focused on service operations and our channels of distribution going forward. Our guiding principles have evolved to the point where product and the customer experience are the foundation of all decision making at Coldwater Creek. By keeping these two critical aspects of our business product mind at all times, we position ourselves to achieve sustainable profitable growth over the long-term. We are working to ensure that every functional area the company is in alignment in regards to understanding and implementing our guiding principles. And we were well on our way to make sure this happens.

Over the past several months we held extensive off-site strategic planning sessions and our entire senior management team left these meeting energized about our company, our direction and our prospects to effectively compete and succeed in our sector.

Additionally, both I and members of the senior management team were in the process of meeting with all 13,000 Coldwater Creek employees to discuss, unify and rally them around our new philosophy. We have already developed and prioritized specific goals and objectives and are now in the process of ensuring that they're implemented at all level. We are confident the entire organization will benefit from our efforts to empower our employees and ensure that each individual feels ultimately connected and intimately connected to our companies growth and success.

We recently conducted extensive research on our customer to help us reconfirm our product needs and lay the ground work for our merchandising, creative and marketing initiatives. Our research confirmed what we knew from years of capturing customer information from catalog, Internet and in-store purchases. When she shops she's in search of fit, quality, comfort, and style. We were pleased to find the research supports division for our brand which Georgia will discuss later.

We've always been closely connected with our customer but the difference is now is that our research combined with our goal to return our brand heritage will drive our product and customer experience. Our merchandising team has already begun incorporating this concept into our upcoming collections. Given the current consumer environment we are cautiously optimistic about the back half of 2008 while you will begin to see some incremental improvements in the summer. Our stores will really start to look different and our product will be more differentiated by the fall and holiday of 2008.

We are confident that we will then begin to hit our stride and our stores will show the culmination of all our effort and better reflect the essence of our brand. We expect the benefits of our strategic initiatives will begin to reflect in our financial results on the second half of the year with further improvements in 2009. As our stores and merchandise more fully reflect the adjustments we are making to restore our brand.

Next, I'd like to share some of our key strategic initiatives for sustainable growth and long-term profitability. First, improve our product. Our number one priority is improving our product. We believe that our success hinges on our product and having the most compelling and appropriate offerings for our customer. Recently, we moved away from our true brand heritage. Started to chase trends and watch as our product became homogenized with those of our peers. We are committed to returning to the look and feel with Coldwater Creek brands stands for rooted in the west, comfortable and casual with the focus on quality, fit and consistency.

Additionally, we are committed to ensure that all touch points of the brand will reinforce this fundamental theme along with changes to our products assortment. We are also making major changes to better and align inventories with demand and positively affect our product margins.

Now I'm turning to some of those specific margin initiatives. First, we are lowering our SKU count by at least 20 percent in order to provide a more focus and cohesive offering. We believe we will benefit from directing our efforts towards fewer categories and executing them extremely well. This SKU reduction will begin to show itself with our summer deliveries with the full impact of the initiative showing at the back half of 2008 when we roll out the fall collection.

Second, we are committed to decreasing our retail inventories per square foot by an average of approximately 15 percent in 2008. Conservatively managing our inventory level is the critical component of improving margins and returning to full price selling. Given the necessary

merchandise lead times we anticipate the back half of the year will show the full impact of our improved product assortments on inventory level.

Third, we are expanding our direct sourcing from 50 percent in 2007 to approximately 60 percent in 2008, giving us the ability to achieve higher initial margins. This expansion in our direct sourcing is a multiyear initiative and will ultimately result on approximately 70 percent of our inventory in source directly.

And fourth, we are working towards restoring the regular price heritage to our brand by being more prudent with our levels of promotional activity and discounting going forward. Specifically, we will be limiting the frequency, the length, duration, and amount of our overall promotion cadence. We will also be refining our promotional approach to feature fewer but more targeted campaigns.

Our next big initiative to improve is to improve operating efficiencies. We've carefully evaluated our entire organization determine where we can improve operational efficiencies. We do not believe our primary problems are expense control issues. We do believe that we can be more efficient and cost effective as we work to turn the business around.

In total, we've eliminated 65 positions at our home office not specifically cost savings measure but rather the first step in our finding the focus on our product and our customer experience. However, this did result in approximately \$6 million in cost saving for fiscal 2008. We will be reducing our catalog circulation from approximately 130 million to a 104 million in order to be more cost effective while still driving our business.

On the marketing side, historically, we have used a very broad base strategy of national magazine advertising, testing on television and over the last several years significant increases in catalog circulation. Now, we are shifting to a more point of sale in store focus. Our efforts will be

focused on maintaining and better engaging our best customers as well as attracting new customers through select advertising placement. If you will notice the significant reduction in Coldwater Creek as to carry a promotional discount, a net savings will be over \$35 million from both our catalog circulation reduction and our more focus marketing initiatives.

Overall, we anticipate \$50 million to \$60 million in aggregate annual cost savings from the combination of all these initiatives just outlined. In addition, we have reevaluated all of our capital expenditures and eliminated where possible and deferred where appropriate resulting in a \$30 million to \$40 million reduction in cap ex in 2008. We also believe that our SKU count reduction initiative will have a cascading effect in reducing expenses throughout the entire organization including design, sourcing and creates departments, as well as inventory control and administrative cost. We also expect the positive impacts will be felt at the store level from a lower SKU count.

And finally, we will prudently manage our growth. We have a strong balance sheet and a healthy working capital. They will only improve as we continue to reduce our inventory per square foot. And we believe a prudent use of our capital is to continue our store growth plans and path locations. In light of the current soft retail environment, we have tempered our growth plans with a reduced store opening pace of approximately 50 premium stores per year going forward. These numbers not a quota we are looking to meet but rather what we think is best for maximizing the Coldwater Creek brand opportunity.

Ultimately, we believe our chain target is somewhere between 500 and 550 stores. We believe there are several compelling reasons we should continue to open new stores in spite of the challenging macro environment. Our store economics are quite attractive and this is proving to be an ideal time to expand our national footprint and take advantage of opportunistic leases. We're continuing to be selective with our real estate and only locating in a site. We're being

offered fine locations in top tiers centers and we believe investing in store growth is the best use of our cash.

And finally, we are positioning ourselves to take advantage of our growing boomer demographic. Opening a new store is not a strain on our liquidity or infrastructure. We only use our existing cash and free cash flow to fund store growth and will not take on debt to fund our retail expansion. Our build out expense are approximately \$150 per square foot but on average we received 50 percent in tenant allowances thereby significantly reducing our out of pocket expense and leaving the total Coldwater Creek investment per unit at approximately \$450,000 assuming 6,000 square foot store.

Based on our plan, 50 stores in 2008 this is a total of approximately \$22.5 million in net store build cost. We expect to end fiscal 2008 with more cash than we end in 2007 even with the addition of 50 new stores.

Now to summarize the net effect of these initiatives, as I mentioned earlier we expect the benefits of these initiatives will begin to reflect in our financial results in the second half of the year with further improvements in 2009 as our stores and merchandise more fully reflect the adjustments we are making to the store our brand.

Once the initiatives discussed were fully implemented we expect to see the following results. Average transaction values will be up since we have restored our brand's full price heritage. Conversions will improve due to better and more unique and more differentiated product offerings to our core customers. Margins will increase since there will be fewer SKUs, less inventory per square foot, more direct sourcing, and a significant reduction in promotional, discounting and sale activity. Inventory will be downed on the first square foot basis and we will have significantly reduced our comparable SG&A cost. As you can see, the net effect of all these initiatives is a healthier and more profitable company.

Overall, our growth will be tempered but we believe we are taking the right steps for the long-term interest of the business and shareholders. Although the next few quarters appear challenging particularly as we see no immediate external stimulus to improve spending. We are confident that by executing on these strategic initiatives I've discussed over the long-term we will return to sustainable profitability.

And now I'll like to turn the call over to Tim.

Tim Martin: Thank you, Dan. Looking at our fourth quarter results, we incurred a net loss for the three month period ending February 3rd, 2008 of \$17 million or 19 cents per share, compared with the net income of \$15.9 million or 17 cents per share for the same period a year ago.

Consolidated net sales in the fourth quarter decreased 5.7 percent to 355 – I'm sorry, 345.5 million from 366.6 million in the fourth quarter of 2006.

Net sales from the retail segment which includes our premium retail stores, outlet stores and day spa test concept locations were essentially flattened the fourth quarter at 226.3 million, compared with 224.3 million in the fourth quarter of 2006. Retail segment net sales represented 66 percent of the company's total net sales in the fourth quarter, compared with 61 percent in the fourth quarter of 2006.

The company opened 12 retail stores during the quarter for a total of 306 premium retail stores in operation at the end of the period, compared with 239 premium retail stores at the end of last year. Comparable store sales decreased 19.2 percent for the fiscal fourth quarter, compared with a 2.3 percent increase in the prior year period. Comp store traffic was down in the mid-single digit range, while our conversion rate was up at approximately 80 basis points.

Direct segment net sales decreased 16.2 million to 119.3 million in the quarter from 142.3 million in the fourth quarter of 2006. Direct segment net sales represented approximately 34 percent of the company's total net sales in the quarter, compared with nearly 39 percent in the fourth quarter of 2006.

Gross profit for the fiscal 2007 fourth quarter was 103.7 million or 30 percent of net sales, compared with 149.8 million or 40.9 percent of net sales for the fiscal 2006 fourth quarter. The decrease in gross profit rate was primarily due in increase promotions related to clearance activity and \$7.9 million right down related to age and slow moving inventory as the company positions itself for inventory levels in the current environment.

Selling, general and administrative expenses for the fourth quarter were 133.9 million or 38.7 percent of net sales, compared with 125.8 million or 34.3 percent of net sales for the fourth quarter of 2006. This 440 basis point increase in SG&A as represented in net sales was primarily driven by the decrease in comparable stores sales accompanied by the cost associated with our retail expansion.

We incurred a loss from operations for the fourth quarter of 30.1 million. This compares to income from operations of 24 million the fourth quarter of 2006. Briefly reviewing our full year results, net sales were up approximately 9 percent in the year to 1.15 billion versus 1.05 billion last year. The company reported a net loss for the year of 2.5 million or 3 cents per basic and diluted share, compared with net income of 55.4 million or 59 cents per diluted share in 2006.

Once again, the effectiveness of our triple channel business model allowed us to end the quarter with premium retail inventory including retail inventory at the distribution center down 9.3 percent per square foot compared with that of the prior period.

Total inventory increased 13 million or 10.3 percent to 140 million at the end of the fourth quarter from 127 million at the end of the fourth quarter 2006. This increase was primarily attributable to the addition of 66 premium retail stores since the end of last fiscal year, and a 33.2 percent retail square footage growth.

At the end of the fiscal year, the company continues to have no borrowings on its bank facility and a cash position of 62.5 million compared with 148.7 million at the end of the fourth quarter of last year. The reduction in our cash position reflects the acceleration and payment for approximately 36.4 million in inventory purchases to take advantage of prompt pay discount offered by our vendors.

In addition, the cash balance represents – represents approximately 25 million in common stock repurchase activities during the year. The company's working capital is 115.8 million at the end of the fiscal year down from approximately 173.3 million at the end of last year.

Looking at capital expending for the year, cap ex totaled 121.3 million with capital expenditures related to new store construction work approximately 65 percent of total cap ex. Depreciation and amortization was approximately 52.5 million.

In summary, we will continue to focus on our cost saving initiatives. We will aggressively manage our inventory levels and we will prudently manage our cash position.

With that, I'd like to turn the call over to Georgia for an overview of the merchandise.

Georgia Shonk-Simmons: Thank you, Tim. Good afternoon everyone. As Dan mentioned our fall and holiday merchandise suffered from a lack of newness and exciting differentiating features. Similar to the last couple of quarters, we are part of what I call the circle of sameness among ourselves and our peers. And as a result our product became less relevant with our core

customers as we were not offering her the exciting, compelling unique product she expects from us.

Our number one priority is to intensely focus on our merchandise by delivering what she wants. We are confident we have the knowledge, experience of the people to do so. Our vision for the brand is to use our heritage as a competitive advantage. Our customers are mostly connected with the essence of the west and our goal is to enable her to express this and feel the connection through her clothing and accessories.

A Coldwater Creek woman appreciates the sense of adventure, opportunity and natural beauty the west offers her. And it's reflected in her desire for clothing that is eclectic and unique while always being comfortable and casual the same time.

We are reclaiming our heritage which is rooted in the west by ensuring that we remain consistent with our merchandise and deliver the Coldwater Creek brand vision in combination with current fashion trend. This will position the brand to successfully differentiate ourselves from others.

Our marketing research that Dan alluded to earlier truly supports this vision and allows us to get back on the brand wagon and move forward with confidence. What our customers have told us is that her experience and expectations of us are not about age but about attitude and role fashion plays in her life.

Our goal is for the overall brand vision to uniquely resonate with each woman who shops with us. We have begun and will continue to incorporate this more detailed research into our products and by doing so we will reconnect our merchandise with the brand that she loves.

Approximately nine months ago, starting with the summer collection in 2007, we begun delivering some products that drove our brand when we should have been letting our brand drive our

products. This continued through the holiday season. As soon as we recognized this we took corrective action to the design, development and merchandising process and the associated implementation needed at the store level. Given the lead time necessary for these changes, it will take some time before you will see the impact from these initiatives.

That said we have learned the great deal over the past several quarters and have found several products that do resonate well with our core customer. With our merchandising team intact and with our recent learning we are committed to delivering our brand promise.

Our summer collection will hit the stores in early April and will reflect some initial improvements with the complete brand vision fully incorporated in our fall collection and even more refinement continuing through holiday. We are building off of some successes from our holiday collection and such as our new innovation in fabrics and jeans silhouette and adapting them for the summer collections all the while remaining true to our brand vision. For the summer, you will see bright and colorful cropped pants, tops and flip flaps highlighting our original casual comfortable styles. We have put together looks with more novelty detail and unique prints that we believe will resonate with her.

To allow us to achieve and maintain the consistency throughout our collections, we have reduced our SKU counts by at least 20 percent as Dan discussed earlier. We will focus on buying key items and more depth without losing the eclectic nature of the brand. As part of the strategy, we have made a decision not to move forward with the spirit test collection. We achieve significant learning from the collection which was featured in approximately 50 stores. It was a higher price point line, more sophisticated point of view rather than pursuing it potentially distracting initiative at this time, we will incorporate those learning namely from the detailed jackets and pants and incorporate them into the core collections of the Coldwater Creek brand at better price point.

I'm extremely confident that we'll be able to deliver the merchandise that she expects for Coldwater Creek. We believe this will restore our customer's emotional connection with the brand and recapture the sense of adventure and magic that she experiences when shopping with us. I look forward to updating you in the future about our product and merchandising progress and with that I'd like to turn the call back over to Dan. Dan?

Daniel Griesemer: Thank you, Georgia. I will now provide guidance for 2008. Net sales for the full year and fiscal 2008 are expected to be in the range of 1.05 billion to 1.13 billion. Regards to our earnings per share guidance diluted earnings per share for the full year and fiscal 2008 are expected to be in the range by 20 cent loss to break-even. Diluted earnings per share for the first quarter expected to be in the range of a 17 cent to 14 cent loss, for the second quarter a 9 cent to 3 cent loss, for the third quarter a 2 cent to 7 cent profit, and for the fourth quarter a 4 cent to 10 cent profit.

Capital expenditures for the full year fiscal 2008 are expected to be approximately \$90 million primarily associated with the company's retail store expansion and store related expenditures and to a lesser extent investments in information technology and other corporate related capital expenditures. As previously discussed, the company plans to open a total of approximately 50 stores for the full year fiscal 2008.

In closing, we are extremely optimistic about the future of our business and the product improvements we are making. We have a strong well established brand, a large market opportunity and a very little customer base. Although, there is much work to be done to refine our products and customer experience, we are completely committed to making the necessary changes. We have an enthusiastic and experienced management team and 13,000 empowered employees dedicated to our long-term success. And by keeping our brand vision at the forefront of our mind and focusing on our products to customer experience, I know that we can restore

greatness to the Coldwater Creek brand. And we look forward to continuing to actively communicate and report positive changes to you throughout the coming year.

This concludes our prepared remarks and now, I'd like to turn the call over to the operator for your questions.

Operator: Thank you and if you do have a question, please press star one on your touch-tone telephone.

Also if you are using a speakerphone, please make sure your mute button is turned off to allow your signal to reach our equipment. Once again, it is star one for question.

And first, we'll go to Michelle Tan with UBS.

Michelle Tan: Great, thanks. I just had a question on the cash flow plan for the year. I guess, you know, considering there's 90 million of cap ex that you're talking about and a lower operating plan this year versus last year. Did 50 million or so in operating cash last year, you know, help us understand how this is going to play out through the year what your peak seasonal borrowing looks like when that comes and when you expected to generate cash flow for the year?

Tim Martin: Yes, I'll be happy to take that question for you. I think the first component of it is taking a look at the ending balance in cash for fiscal 2007, that number is depressed by approximately \$37 million of prompt pay discount. So that as we move through working capital we start to turn itself around.

Michelle Tan: Is that not showing up in the working capital though because your working capital is down a lot for this year, right?

Tim Martin: It's actually a reduction of cash and an inventory amounts.

Michelle Tan: OK.

Tim Martin: So if he – it's a reduction of AP and an increase of inventory and reduction of cash.

Michelle Tan: OK.

Tim Martin: So that's how that works. The gross number that Dan reference in cap ex is gross of the tenant allowance that actually also goes to working capital and is shown in our operating cash flow, so that is a gross number when you look at that, you need to factor that into your models. And then the other components to consider as you look at our cash flow forecast is as we're adding stores over the last few years and fairly recent growth in fixed asset. The incremental depreciation on the year over year basis is a fairly large growth and so modeling that out will help you get to basically the number that Dan represents for cash.

Michelle Tan: And then out of your existing cash balance do you have any exposure to any of these auction rate securities or anything that we should be concerned about in terms of being able to access I guess?

Tim Martin: We do not have any auction rate security investments.

Michelle Tan: OK. Great. Thank you.

Operator: And once again, it is star one for any question, moving on we'll go to Mark Montagna with CL King.

Mark Montagna: Hi, just a question about the prompt payment purchases that you made. Did you have any last year because at this year you have 36? Were there any opportunities last year at the same time period?

Tim Martin: No, we did not take advantage of any prompt pay discounts last year.

Mark Montagna: OK and what is your cadence for new store openings this year by quarter?

Tim Martin: We put it in the release but I'll review it really quickly for you.

Mark Montagna: Oh, I see it right here.

Tim Martin: OK, you got it.

Mark Montagna: OK.

Tim Martin: Great.

Mark Montagna: Yes, I got it. Sorry about that. Then can you also tell us what your – what was your dollar spend on national magazine in 2007 and the dollar spend on catalog and then the marketing spend on items for in-store signage?

Daniel Griesemer: Well, maybe we should take some of that detail off-line and we have approximately \$30 million spend in national advertising in '07 we'll be spending about 10 million this year. Catalog spend was about 78 million or so on 130 million in circ and it's going to be around 62 million.

Mark Montagna: OK, but the 30 million that you're talking about I thought is that for the national magazine ads?

Daniel Griesemer: The majority of that is national magazine ads.

Mark Montagna: OK. OK. All right, that's all I need then. Thanks.

Daniel Griesemer: OK, thanks.

Operator: And moving on our next question will come from Liz Pierce with Roth Capital Partners.

Liz Pierce: Good afternoon, just a couple of housekeeping questions and then a couple of product questions. Tim, what should we be looking for on the share count actually you brought back stock that is we're looking at this numbers for the first couple of quarters? Should we use like 90 million I guess what was the ending share count?

Tim Martin: Our ending share count in our released was 90 weighted average was waived at (90.954) for the quarter.

Liz Pierce: Right.

Tim Martin: Twelve months 92.8, I think given the current levels I don't expect a ton of option exercises and we do have a sizable portion of our option population that is underwater will not be (dilutive). What I would give you is sort of guidance and that is more of guidance on our share repurchase program. It is the where we will be proactive. We will also be managing that with the mindset of preserving cash and being very prudent with that use of cash throughout the year. So you can translate that to however, you'd like to on the share repurchase and model that in your model.

Liz Pierce: OK and then can you break out the sales for us between the catalog and Internet?

Tim Martin: For actual sales? I can if you give me one moment.

Liz Pierce: Maybe I can ask Georgia something.

Georgia Shonk-Simmons: Sure.

Liz Pierce: And in the meantime. Hi, Georgia.

Georgia Shonk-Simmons: Hi.

Liz Pierce: When you talk about the heritage being rooted in the west and I know for competitive reason you probably don't want to give us too much. But maybe for those of us that maybe, you know, don't have five plus year's of experience with Coldwater help me visualize, can you articulate what exactly that means?

Georgia Shonk-Simmons: Well, I think what it means is really we are known and have been seen in the eyes of our customers as the casual brand. And the casual brand with again, I think the emotions within the west which really means, you know, more natural fibers and ease, the comfort and we got away from that a bit. So, I think its not cowboys and Indians. It is, you know, really but it is about refocusing on far more on the casual side of our business.

Liz Pierce: OK. OK.

Georgia Shonk-Simmons: Is that helpful?

Liz Pierce: It does, yes, but opens up a window a kind of thought process on where you go. And I know you address this a little bit but in terms of your focus groups and what are your employees telling you about the product. Is it the same validation?

Georgia Shonk-Simmons: Yes, absolutely, we're getting the same validation all the way around. Now, it said we've had some even in a disappointing extraordinarily disappointing couple of seasons, we have gotten again complete consensus on where we need to move with again the customers total reinforcement. But we've always – we've also gotten some good takeaways we can build on.

Liz Pierce: OK, because I know I high percentage of your customers – your employees have been customers, right?

Georgia Shonk-Simmons: Oh, absolutely.

Liz Pierce: OK. All right, Dan, do you have those numbers or not? Yes, Tim whoever.

Daniel Griesemer: Yes, absolutely. For the quarter the Internet was approximately \$89 million in revenue.

Liz pierce: OK.

Daniel Griesemer: Catalog was approximately 31.

Liz Pierce: OK and what was the actual ending comp for the year. I didn't see that in the ...

Daniel Griesemer: We do not disclose anything other than quarterly comps.

Liz Pierce: OK. And then I think might – that's it for now. If I have one, I'll get back in. Thanks.

Daniel Griesemer: OK. Thank you.

Operator: And moving on we'll go to Marc Bettinger with Stanford.

Marc Bettinger: Hi, everyone. Tim, what are the comp assumptions for 2008?

Tim Martin: Sure. Basically in the first half of the year, we're expecting the same challenging comp environment that we're seeing right now with soft traffic and the challenging macro economic environment. As you start to transition towards the back half of the year and our new merchandising initiatives take effect in Q3, we'll see that trend improving. We expect to see that trend improving and we expect the end of the fourth quarter with a slight positive comp.

Marc Bettinger: The Q4 is slight positive?

Tim Martin: Yes.

Marc Bettinger: OK. And then so the first half should we look to down mid teens?

Tim Martin: Yes.

Marc Bettinger: OK. Also, Dan, the 50 to 60 million in savings that you referred to how much of that do you expect to be realized in 2008?

Daniel Griesemer: That is – that's all 2008.

Marc Bettinger: OK. So if I have it right I think even the low end equates to that 30 cents, 35 cents a share? And it does resonate, is that right?

Daniel Griesemer: I have to look at that.

Marc Bettinger: OK. Well, it's just tax effecting 50 million on 90 million shares.

Daniel Griesemer: Sure.

Marc Bettinger: So what I'm trying to figure out is if you have 30 cents of 35 cents in savings, you know if you just add it to 3 cents you had but you did in 2007, it should be up somewhere around 30 cents positive. So what am I missing of what's continuing to decline.

Tim Martin: One of the things that you'll miss is that the reference for the costing initiatives, some of those initiatives actually took place in 2007 and is a change on the run rate of the business that would have occurred in 2008. So just to give you some more guidance and cost structure, we're expecting SG&A for the year to be flat on an absolute dollar basis for 2007.

Marc Bettinger: OK. So SG&A is flat year-over-year.

Tim Martin: Yes.

Marc Bettinger: OK. And lastly was the direct sourcing for 2008 initially 70 percent?

Georgia Shonk-Simmons: Yes. We had made that payment that it was going to be 70 percent. But as we move the inventories down and as we refocus the product, we are being more conservative and so we're going to go to the 60 percent.

Marc Bettinger: OK. Great. Thank you very much and best of luck.

Male: Thank you.

Georgia Shonk-Simmons: Thank you.

Operator: And next we'll go to Richard Jaffe with Stifel Nicolaus.

Richard Jaffe: Thanks very much. I guess the question for Georgia, Georgia, we sort of been here before last Christmas that's Christmas '06, didn't work out well, we talked about some of the initiatives we put in place to get back to your identity. And we can talk about what went wrong this Christmas, what you've learned and how it's going to be different this time around? I understand of being on the expense side of the equation being managed better less inventory, more focused inventory but really in terms of product and product direction, how do you break this circle of sameness and what is encouraging you, I guess that was one of the comments in the press release that you are encouraged, if you can give us some specific about what is encouraging to you. That'd be great.

Georgia Shonk-Simmons: OK. I would say that we – if I look at – if I look at holiday of '07, I will say that some of the very successful things we've done in the past, we just – we did one too many times without a lot of newness. And the newness we added was dressy. And our customer doesn't see us as a dressy brand she sees us as the casual brand. So it doesn't mean that we won't have some exciting jackets and tops. And one of our big misses was in jackets. So I think again we have realigned how we're approaching our jackets. We've realigned how we look at this brand as being more casual and that will mean an entirely different look for holiday of '08 from anything we've done in the past and not really repeating any of the sameness.

Richard Jaffe: And the part that you find encouraging already?

Georgia Shonk-Simmons: Well, I think the part that's encouraging already is not to fall off the brand wagon as far as how our customer views us and what she wants from us. She doesn't want dressy holiday clothes from us. And that is become perfectly clear.

Richard Jaffe: So it's really ...

Georgia Shonk-Simmons: It's really – sorry ...

Richard Jaffe: ... listening to your customer more and optimism that you listen more carefully this time rather than specifics sales through the product or categories that are performing well.

Georgia Shonk-Simmons: It's both. It's a combination. So listening to our customers, you know, our pants initiative last fall was the one thing that in fact really worked for us. That if you think that our number one category, you know, really is jackets and that was really where our shortfall was we really missed it by being again not just now novel unique for just too, too dressy. So we have great (pants) learning that we can take forward and absolutely expand upon. And again, I think in our sweater business, I don't think we were novel on that. I don't think we were interesting enough. And I think that it's really just having a very intense focus not only on the product details but on where she wears, how she wears it, how it fits into her life and how it fits into the segmentation that we're doing for our marketing. And so I think we have a lot more intelligence than we've had in the past and I think that the clarification in getting back on the brand wagon with being her casual brands still driven by pants and jackets is a place we're moving to very – as quickly as we can.

Richard Jaffe: Great. Thank you very much.

Georgia Shonk-Simmons: You're welcome.

Operator: And next from Oppenheimer, we'll go to Roxanne Meyer.

Roxanne Meyer: Great. Good afternoon.

Georgia Shonk-Simmons: Good afternoon.

Roxanne Meyer: My first question is for Georgia. Thanks for providing us details on your vision for the brand. You know, you and Dan mentioned that customers from your research want fit quality, comfort and style and certainly it sounds like the style is being altered. I just wanted to see are there changes needing to be made along those other dimensions or are you currently happy with the fit obviously in the pants it sounds like you are but quality and comfort as well.

Georgia Shonk-Simmons: I think that as we go forward really putting a lot more details in everything to enhance the fit and turn in the garment inside and out and how well it looks will be actually doing better piece goods and we are exploding our fit initiative beyond pants, you know into all the other categories taking on jackets as we speak.

Roxanne Meyer: OK. Great. And will that also require a lot of changes to where you source your goods?

Georgia Shonk-Simmons: No. It really has to do with the specifications and the grading – on patterns.

Roxanne Meyer: OK and then just a question on inventories. You mentioned that they're going to be down 15 percent for the full year per square foot. Is that a constant across the quarters or will it vary by quarter?

Georgia Shonk-Simmons: No, actually if you think about what we have been saying, one of the issues we have is that we couldn't really change Q1 or the spring assortment and so we knew we were going to already be over-inventoried in spring. So you see it coming down throughout the year more so in the second half.

Roxanne Meyer: OK.

Georgia Shonk-Simmons: Yes, an average of 15 percent. And that will be on top of last year's average of 11 percent.

Roxanne Meyer: OK. Great. And then last, you know, certainly you're committed to opening stores where you've got the opportunity. I know it certainly early but do you have any indication as to what your store gross might look like for 2009?

Tim Martin: Well, we said that we're going to run at approximately 50 stores and again that's not a hard number. We're going to be managing it prudently and appropriately and if things change significantly we'll be back here with the change in that. But we like that rate. We think it takes advantage of the opportunity we have as a brand and doesn't put a strain on the finances of the company but is appropriate. So we're going to move forward with that for now.

Roxanne Meyer: OK. Great. Thank you very much and good luck.

Georgia Shonk-Simmons: Thank you.

Operator: And if you find that your question has been answered, you may remove yourself from the queue by pressing star two. Once again, star two to remove yourself. Moving on, our next question will come from Chris Kim with JP Morgan.

Chris Kim: Hi, thanks. Dan, I was wondering if you could talk about, I mean it looks like your budget for marketing spend and magazines is down substantially for '08.

Daniel Griesemer: Yes.

Chris Kim: You know, could you kind of talk about the relationship between, you know, the traffic driving component of the marketing, the coupons, the coupons associated with it and tie that kind of into brand loyalty and brand equity et cetera?

Daniel Griesemer: Sure. You know, we have as we've been driving the business through a market share strategy historically. We have continued to increase the amount of marketing spend and discounting activity in order to fuel that growth and essentially where we find ourselves with a macro economic environment that has changed significantly is that those efforts are actually backfiring and that the quality of customer that the significant discounting was retaining with really not sustainable.

We could not continue to sustain the rate of discounting that the brand has experienced particularly in the last year. So this is really about focusing our energies and efforts on our core customer and retaining the engagement of that core customer but remember the catalog is the primary driver of traffic to the brand and we are still going to mail over a hundred million catalogs and have a significant investment in that in order to remain very targeted and focused and driving traffic but do it in a more efficient way that's, you know prudent to reduce the overall level of discount in order to restore the regular price heritage but also reflect some, you know, cutbacks in SG&A given the overall climate.

Chris Kim: OK. And any chance that you guys would introduce a loyalty program outside of the credit cards with some of the savings this seems like a pretty big opportunity.

Daniel Griesemer: Yes. We launched in summer, late summer our one Creek loyalty program. It is an addition to the preferred credit card program we are looking in fact it's fairly new it's only really only been in existence for about seven months or so. We're continuing to look at that and see how to best utilize that program as well as the other things that we have targeted at our core

customer to ensure complete engagement and retention of our customers. So we have it and are looking for modifications to roll out to 2008.

Chris Kim: And for Georgia, we've been hearing a lot about some pressures on the cost side of the business and sourcing, what are you seeing there and how are you reacting to that?

Georgia Shonk-Simmons: I think overall we have been especially on our base product, we know that cost are going up and again especially in China and but on our base products we have been out there with owning our (gray) goods for a long time so we have taken this information which we've known quite a while ago and it is already embedded in the plan. So I think that we're very comfortable with where we're going and very comfortable in maintaining our IMUs.

Chris Kim: OK. Right. Thanks very much and best of luck.

Georgia Shonk-Simmons: Thank you.

Operator: And next from Wachovia, we'll go to Lyn Walther.

Lyn Walther: Hi, thanks, guys. A couple of questions. I understand that you're reducing the SKU count. Given that are you still confident that 6,000 square feet is the right size to store, are you considering for '09 maybe reducing that somewhat. Just want your thoughts there.

Daniel Griesemer: Sure. We still like the 6,000 square foot store size. We do see an opportunity to maybe be just slightly smaller than that but that is the appropriate size. You know, we've been testing various sizes of stores over the last five years and we zero in on – we've zeroed in on that one because we believe it provides us actually an advantage to the various aspects of our lifestyle to be able to arrange product in a way that's compelling. It gives her the breadth of both sizes and unique product offerings. And we feel good about that.

Lyn Walther: OK. And Dan you mentioned restoring right price selling, being more prudent with your promotions, can you give us a little bit more detail on how we should be what we'll be seeing. Any plans to move away from your big quarterly sales or how you're looking at that.

Daniel Griesemer: Yes. There's two components to that, you know, the disposition or sale activity we will continue to have our four major sale periods and our premium stores each year. We'll continue to have sales on our Web site and use our outlet Web site to clear residual inventory. We use our outlet stores and where appropriate our sale catalogs. That's one piece and we're as we remain committed to maintaining clean inventories as we have done even in this challenging business climate we're going to continue to do that appropriately going forward but you would see a significant reduction as we go through the year in the level of clearance activity as we get inventories in line with the overall business climate. That's one piece.

The second piece is the promotional activity over and above clearance or sale activity. That has been used historically to try to drive traffic or to create in-store promotions. And what you're going to see there with the significant reduction in the national magazine advertising. You're going to see a reduced amount of coupon that's associated with the \$25 off a hundred or more promotions that we've been running through national magazine advertising. But we will also see shorter more focused windows of promotions. It's not like we're going to not have promotional activity or discounts in our store. You know, we will be doing that in order to engage our customer and retain our core customer but the level need to be reduced to level that are more historical that are more reflective of the regular price heritage the brand has enjoyed for years and significantly reduced from '07 levels.

Lyn Walther: Can you remind us or give us what percentage of your sales have been done with some sort of coupon last year?

Daniel Griesemer: You know, we haven't – we haven't disclosed that in the fourth quarter information and it's not – here's what I can say. It's not something we're wanting to continue. We know the level of discounting either through promotional activities or clearance is not sustainable and so we're focused on restoring the regular price heritage to this great brand and so you can see a reduction from historical levels.

Lyn Walther: OK. And lastly, just give us an update on Spa. Thanks.

Daniel Griesemer: Sure. The Spa experience continues to be a very good one. We continue to get great comments from our customers that are experiencing it. We have nine opened today. We have no plans for any new spas to be opened. And we are looking to the middle of this year to determine whether this is an investable proposition where we would want to have more in the future or we're going to stick with the ones we have. So look for more communications. As we've indicated before, it's really the middle of '08 where we'd want to get the three that we opened at the back half of the year that reflected all the changes in programming and all that. But the experience is great. It's just whether it makes sense to invest in more of them.

Lyn Walther: Thanks. Good luck.

Daniel Griesemer: Thank you.

Operator: And next from Brean Murray, we'll go Eric Beder.

Eric Beder: Good afternoon.

Daniel Griesemer: Good afternoon.

Eric Beder: Could you talk a little bit about the potential productivity of – or so the newer stores are – is there any difference in productivity in some initial openings? And then what openings you have now? Or you will (look) at the comps from other areas of this business?

Daniel Griesemer: No. It's across the board store type and (store H).

Eric Beder: OK. I've noticed that you have at the store level done a number of things in terms of bottoms, could you talk a little bit about what the thought about that is? I think you kind of put them in to different classes and what the response has been to the customer to that?

Georgia Shonk-Simmons: Actually, our pants initiative has been the one highlight that we've seen especially in the back half of '07 and continuing into early spring and again part of that is fit, part of it is that it has everything else stretch and comfort and again a refocusing on denims. So that has been very positive. So we will expand innovations in pants as we go forward and add more to it as it's been really a highlight.

Eric Beder: Great. Good luck.

Georgia Shonk-Simmons: Thank you.

Operator: And moving on, our next question will come from Holly Guthrie with Janney Montgomery Scott.

Holly Guthrie: Great. Thank you. Actually if you could share with us what new comments came out from your customer focus groups this time period?

Daniel Griesemer: Sure. I'll take that. You know, it was really a reinforcement of a lot of things we already knew but it sure is great to hear it again directly from the customer and then infuse that throughout the organization to help in decision making. But it was really around the importance

that fit and quality and comfort and style play in her decision making what she comes to us for in terms of casual apparel and the importance that plays. The connection that she has with the brand and you know what she thinks with this are all very, very positive. But it's really just if there was nothing earth shattering, it was just a reinforcement and a confirmation of the things that we knew we needed to do to get the brand back on track.

Holly Guthrie: Any comments regarding her economic situation, her challenges, cost going up that may have impacted her spending?

Daniel Griesemer: You know that the Coldwater Creek customers spend a lot on apparel. She spends almost double the average of the demographic. We really see and saw that as you think about the customer not so much by age but by the role fashion apparel plays in her lifestyle you can see that spend go up considerably and you know what was on top off mind was the price of things but there needed to be a value, you know a price value equation in there. So she needed to make sure she was getting the quality and the look and feel and style that she wanted and then she's willing to pay for it.

Holly Guthrie: Was you know addressing her concern on with the price value, did that go into the decision to not go forward with the spirit lines? And then, follow up to that did that go into any decisions on how you're going to price the product this everyday pricing going forward.

Georgia Shonk-Simmons: I think – I think the real decision to not go forward was spirit really had everything to do with the fact that it wouldn't be prudent for us to take on a new line when the core business needs to be fixed. So that really was the issue. The second issue is I totally agree that the thing that we need to get back to in total is really a true price value relationship and the product. What is it really worth? What is it really worth to her today in this environment and what is it really worth to her based on the construction and the details that are in it. And so we will be very cautious on how we price everything that it really looks like what we are actually putting the

price points on. So we're actually going through a process of when and how we see products before it hits the floor to make sure we're happy with those relationships.

Holly Guthrie: OK. Great. Thank you. Good luck.

Georgia Shonk-Simmons: Thank you.

Operator: Next, we will go to Mark Cooper with Wells Capital.

Mark Cooper: Given the environment (difference) in terms of macro economic which actually didn't spend a lot of time on you, seem to point to your internal or your company's specific issue but why go out to (50) stores this year? Why not just protect the balance sheet fit it out? What's the downside of doing that?

Daniel Griesemer: OK. I'll take that. You know, we didn't spend time talking about the macro environment because we feel we've talked a lot about that over the last ...

Mark Cooper: It's a point well taken.

Daniel Griesemer: And this is really the tone of this is to talk about what are we going to do, what's within our control. We cannot control the macro environments. We're going to focus on the things we can control and that's making sure we have an intense focus on our product and our customer experience.

Why continue to open stores? I think to simply put a freeze on store openings given what is a short-term macro environment or our own execution issues would be imprudent. We indicated and I indicated in my opening comments that we believe that opening new stores is the best place this company can use its cash. The overall economics are extremely advantageous. The

economic model is advantageous given our buildup cost and the contributions we get from landlords and tenant allowance and we have a demographic that we are continuing to target that is increasing in population. And there are still hundreds of locations throughout this country where we know we can have the store.

A lot of our competitors have stores and when we go head to head in the center with one of our – with our competitors we do more business than they do. So we believe there's still a significant amount of opportunity and we've reflected, you know a reduction going from 66 this past year and 65 in '06 down to approximately 50 and we maybe somewhere you know slightly below that but that's we think a prudent reflection of the overall environment.

Mark Cooper: Are you financially committed to opening the 50 stores?

Daniel Griesemer: No. No. We have I think there's approximately half that have fully executed leases.

Mark Cooper: OK.

Daniel Griesemer: And as I said we are not – we have no intentions of borrowing in order to fund that growth. And we believe that with that 50 number, we will still end the year with more cash on the books that we ended this year so I'm not concerned.

Mark Cooper: Dan, one last question, I think in one of the conferences that you attended recently you're asked about the – or the store contribution of the retail stores and they were all positive. My guess is in February that's not the case. Is that true or not?

Daniel Griesemer: Well, you mean for any one month or an annual basis?

Mark Cooper: On the fourth quarter and the question that I'm getting to is given sort of about your plan or your thinking coming into the year which understand you're a bit cautious and concern about that. Is there the level of contribution in the stores somebody asked a question earlier about top line performance. Is the contribution level are all different among store classes or anything like that in this last quarter?

Daniel Griesemer: Well, you know, lifestyles centers generally have a higher four-wall contribution simply because the economics from their preferred venue by our customer but there a lot of also extremely productive and efficient mall stores. So it is not a general rule it's the economics and the volume expectation when cost structure we put in there is reflective of what we think in the whole portfolio needs to perform at. We do not have any stores that are not positive in the four-wall contribution or even close so it's even with this volume level.

Mark Cooper: Even with the volume levels here that we saw against the composite down 19.

Daniel Griesemer: Correct.

Mark Cooper: OK.

Daniel Griesemer: Correct.

Mark Cooper: Thank you.

Operator: With Lehman Brothers, Jeff Black has our next question.

Jeff Black: Yes, hi, good afternoon, guys. I guess just to drill down on the question everyone seems to want to get answered is the new store, you know, this things used to cost 800,000 bucks to open, correct? And they're expected for each around 500 in sales per square foot on the third year of

operation. What are the stores you putting down this year, I mean did they still cost 800 and when are we going to see that 500 in sales per square foot. Because it would seem a, it is very difficult market to get any reads on, but b, what gives you the confidence to keep building this things with a model that I would argue is nowhere near proved out, guys?

Daniel Griesemer: Well, I think the store construction costs are still in that relative range. It obviously depends on the size of the box. We do still feel very strongly with the fact that all of our stores are cash flow positive and four-wall contribution positive, but we do think the model actually does work. And we are still seeing more attractive economics as we move forward to expansion and better and better locations.

We have a very good idea where our customer is and then attractive demographics and that's where we're locating these stores. So you know with all those factor, we actually tend to believe this is a very effective model and move forward. I think it's more along getting our margin rates and our margin and inventory levels at the right place and weathering the macro economic conditions.

Jeff Black: In terms of the store base itself either are there going to be any changes with where you're locating these stores? I mean I know you've been in, you know, lifestyles centers with pre-locations, mall et cetera – any just change in the mix of locations to look forward to?

Daniel Griesemer: I think you can see and expect an overall increase in lifestyle centers but there are still a lot of very compelling mall locations, the overall mix will be slightly in favor of lifestyle centers. But these are these and all of our stores have been have a four to five year proven track record that the model works. We're focused on things we need to do to get the business back on track and when that happens then these questions won't be there.

Jeff Black: And then finally, you know, and I do appreciate you're answering them. You've got a fairly spread out footprint of stores versus, you know, what we would argue with the traditional retail hub and spoke model, are there areas where you would consider pulling back areas that are performing differently than the overall base? And I guess the other side of the question, are there regions where you want to get a lot more importance and is that what we're doing with these new stores and the 50 stores is adding them to regions where you've already got better traction.

Daniel Griesemer: Well, I guess I would take issue with the assumption that the appropriate strategy is a hub and spoke. I think that puts operational efficiency over the long-term investment opportunity that these leases and these opportunities present. We are a national brand. We know that because we know where our customer lives and we have a 23-year heritage from the direct marketing side. We know where she lives. We know what she spends. We have a national market strategy and we are taking the most opportunistic and financially viable real estate locations in selecting those as the ones to go in regardless of the region or the particular area in the country.

If we strategize where the opportunities are and we have, we've scoped between 550 – 500 and 550 locations trade areas where we want to have stores. As an opportunity presents itself then we look at it on the merits of it as a deal among all other deals that we are entertaining at the same time without trying to say that we could maybe save on a district manager's salary by locating two more stores in a district. That's not – that's not what's driving it. It's long-term access to this brand to a national customer.

Jeff Black: All right. Fair enough. Good luck, guys.

Daniel Griesemer: Thank you.

Operator: Crystal Kallik with DA Davidson has our next question.

Crystal Kallik: Good afternoon. Dan, I know often an area that you targeted so much in the past is the direct business and sometimes you guys see some pretty significant differences in the business trends in direct versus retail. Was that the case for Q4?

Daniel Griesemer: You know, we've seen generally dresses perform better in the direct business. We see pants generally perform better in the retail business. But no significant difference there, you know, was a cross kind of across the board.

Crystal Kallik: OK. OK. Tim, could you tell us you're thinking as far as what an ideal cash balance on the balance sheet you would want to have kind of on a quarter over basis?

Tim Martin: Well, it's a bit very, very complicated question to answer because of a number of different variables but you know, for us it's really about making sure we prudently managed the cash, the cash investment we fund the appropriate growth and manage working capital appropriately. And there is no point at which in 2008 I am uncomfortable with my cash flow forecast.

Crystal Kallik: OK, so I guess is it safe for us to assume that somewhere around where you ended Q4 would probably be a reasonable range of where you would maintain it throughout the year?

Tim Martin: I think I'm really not comfortable giving a specific cash balance at any point in time in the quarter because there's fluctuations based on inventory flows, store build out constructions in that front. But I think the simple answer is there is no point in time during fiscal 2008 that I feel we have a cash balance I am uncomfortable with.

Crystal Kallik: OK. OK, fair enough and I know either Tim or Georgia, in the past you've told us what kind of IMU benefit you got in the quarter from direct sourcing, could you give us especially for Q4?

Georgia Shonk-Simmons: Q4 was pretty much the same thing we've been talking about from an IMU perspective which certainly didn't happen in the margins. It was really in 150 to 200 basis points.

Crystal Kallik: OK. OK and so then pretty much the same amount for full year as well, right?

Georgia Shonk-Simmons: Correct.

Crystal Kallik: 200 basis points, OK. And then we would expect since you're going up another 10 cents as far as direct sourcing next year, a similar range slightly higher than that as far as ...

Georgia Shonk-Simmons: I think its – I think actually what you're going to see is that it will be slightly lower than that because one of the things we're really going to do with less promotional activity and with really, you know, final pricing items as we see them as being really looking (and this is) going to be a price-value relationship. I think what you'll see is that will be about flat or slightly higher based on the fact we want to make sure that we retails correctly for the price-value relationship.

Crystal Kallik: OK, so you passed beyond some of the benefits to the customers at this point.

Georgia Shonk-Simmons: Yes, absolutely.

Crystal Kallik: OK. OK, fair enough. And then just finally, Tim, do you have a Spa EPS impact for us for the year?

Tim Martin: For fiscal 2008, it will be a little bit less than 1 cent per quarter.

Crystal Kallik: OK and then where did it end up coming in for '07 on a total basis?

Tim Martin: Somewhere roughly in that 1 cent per quarter range.

Crystal Kallik: OK. Great.

Tim Martin: A little bit more in a couple of quarters a little bit less.

Crystal Kallik: Thank you very much.

Daniel Griesemer: OK, I think we got a time for one more question.

Operator: We will take that question from Liz Dunn with Thomas Weisel.

Liz Dunn: Well, great and under the wire. My questions are about the reduction in marketing. What's your estimation of how much that hits the comp? And remind me, I think you booked those coupons as marketing expense not as a reduction to sales or in gross margin.

I also want to get an understanding of when you talk about your four-wall profitability does that include that marketing expense. Because I think you're calling national marketing expense coupons that customers walk into the store with. So I just want to sort of flush that out and how much is it going to hit the comp? I mean is there a risk really that we're sitting here a year from now talking about an unforeseen hits to the comp because of the reduction in marketing?

Thanks.

(Tim Martin): Yes, sure. It's not unforeseen at all. We're very aware of the implications that these reductions are going to have on comp and comp traffic and we're building that into our overall plans. And it's been taken in to consideration as we communicated our guidance for the year. We do not book those as a marketing expense. We book them as actually as margin hit when the revenue is recorded at the sale or the time of redemption.

So we have a significant reduction but it is more efficient when we say we're going to do them for shorter windows of time period. We're going to do them when it's the most appropriate time throughout the year. And then the overall level needs to come down and we know we can track and see what kind of activity each campaign that we run creates. And we've taken that into consideration in building the entire year's plan and strategy. But it's really about restoring a sustainable level of growth in the regular price heritage to this brand.

Liz Dunn: OK. Great. Thanks.

(Tim Martin): Thank you. OK, I think that's it.

Daniel Griesemer: OK, listen I just wanted to thank everybody for joining in the call. We clearly know what we need to do. We've taken the aggressive actions and we're focusing intensely on our product and our customer experience. We're improving the product. We're improving our operating efficiencies and we're prudently managing our growth. And we're completely focused on returning to a sustainable growth and profitability. Thanks and we look forward to updating you throughout the coming year on this progress.

Operator: And thank you everyone that does conclude today's conference. We do thank you for your participation. On behalf of today's speakers, I would like to wish everyone a great day.

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