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Select Comfort Corporation Q1 2008 Earnings Call Transcript

Question-and-Answer Session

Operator

Thank you very much. [Operator Instructions]. Our first question is from Budd Bugatch with Raymond James. Your line is open now.

Chad Bolen - Raymond James

Good afternoon, gentlemen. This is actually Chad Bolen filling in for Budd. Can you hear me okay?

Jim Raabe

We can.

Chad Bolen - Raymond James

A quick point of clarification, just in regards to the outlook, you talk about media spending returning to similar levels the last three quarters of '07. Are we talking absolute dollars or percentage of sales?

Bill McLaughlin

Absolute dollars.

Chad Bolen - Raymond James

Okay. And you did address the debt covenants earlier. I believe the minimum interest coverage specified by the agreement is now 1.75, and I think if I calculated it correctly, around 1.9 this quarter. Are you confident that you can stay in good stead with those ratios?

Bill McLaughlin

As we stated on the call, we are working closely with the banks. We're confident in the model and we're confident in the cash we will generate throughout the year. But we will be working with the banks to stay within -- in those -- within that agreement.

Chad Bolen - Raymond James

Okay. And in regards to the new marketing campaign with SHeDAISY, I believe on the last call you guys had talked about kind of integrating it on both the national and the local level. In some of our recent store walks, we haven't really seen that marketing message carried through at the store level

whether it's in point of display type merchandise or things like that. Do you have plans to do that at the store level? Or how should we think about that marketing campaign going forward?

Bill McLaughlin

Yeah. The campaign has been integrated at the national and the local level in terms of the media and the creative. And that for our first time our Broad Reach 30 second work and our Direct Response 1 and 2 minute work all are at the same creative. You will see it in store later in May. We wanted to let the campaign get up and run and it's planned to be represented in the store by the middle of the month of May.

Chad Bolen - Raymond James

Okay. And one last question and I'll defer to others. Your expectations for gross margin to improve by 2 percentage points by the end of the year seems a bit optimistic given that it's pretty dependent on an improvement in mix. And we saw that in the first quarter it looked like the average selling price was down despite of price increase and then introduction of a higher AUSP [average unit selling price] model in March. I guess what gives you confidence that in this environment you will see that improvement?

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