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RC2 Corporation, Inc. F1Q09 Earnings Call Transcript

Question-and-Answer Session

Operator

(Operators Instructions) Your first question comes from the line of Sean McGowan - Needham & Company.

Sean McGowan - Needham & Company

Hi guys. If I can, have for you a couple of questions. Pete can you get more specific about what the impact is on gross margin of the foreign currency moves. How much of that drop was related to foreign exchange?

Curtis Stoelting

It would be, I would say, approximately 100 basis points of it.

Sean McGowan - Needham & Company

Okay, thank you. Curt can you give us some idea of what are the low margin products in MIT that accounted for that mix shift within that category?

Curtis Stoelting

Well, as you know Sean, in our MIT business, it is a very broad product line which I think really helps us in times like these. We do a couple of significant new programs this year that are in the lower end of the spectrum in terms of gross margins but we like these products because they tend to be prenatal in their focus and they tend to be very successful and long lasting in the marketplace and those would be in our travel gear category where we continue to expand by bringing to you innovative product to market and in our infant and toddler care categories where we have expanded especially one program that comes to mind is our new safety-gate program on target.

So there, we are looking at a little higher ticket but lower margin items but products that really help build the brand and are very sustainable long term in the marketplace.

Sean McGowan - Needham & Company

Okay, thanks. And Pete, did you, I am now sure I heard you right, did you say that there would be a slight gross margin improvement in the second quarter or rather for the end of the year?

Peter Nicholson

Yes, as we look forward to say what is going to hit us second half, we do expect some on cost improvement. We are seeing some freight savings both on the freight-in and the freight-out side, and also we do expect to see some better mix with shift of play in the second half as that category has a bigger impact in our overall net sales percentage.

Curtis Stoelting

But Sean, I do not think Pete said and I certainly am not telling you to expect any dramatic changes in the second quarter. We see second half as being a time when we will start to see some margin improvement.

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