# FINAL TRANSCRIPT

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## GMTN - Q1 2006 GANDER MOUNTAIN CO Earnings Conference Call

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## CONFERENCE CALL PARTICIPANTS

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## PRESENTATION

**Operator**

Good morning everyone and welcome to the Gander Mountain Company first quarter earnings release conference call. Today's call is being recorded. At this time, I would like to turn the conference over to our Director of Investor Relations, Ms. Shannon Burns. Please go ahead.

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**Shannon Burns** - *Gander Mountain Co. - Director of Investor Relations*

Thank you. Good morning. I'm Shannon Burns, Director of Investor Relations at Gander Mountain. Welcome to the Gander Mountain first quarter conference call. Joining us on our call today are Mark Baker, President and CEO of Gander Mountain, and Dennis Lindahl, Executive VP and CFO. Mark will discuss initiatives to drive sales, and Dennis will review our financial results. We will take your questions after that. And Rick Vazquez, EVP of Merchandising and Marketing, is here to help answer your questions.

We expect the call to last an hour. As a reminder, the question and answer session is available to all interested parties, although questions will be limited to investors and analysts. We also remind you that the media is attending the call in a listen-only mode. This conference call is being broadcast real time on the Internet at www.gandermountain.com. We will also offer an Internet replay of the call which will be available shortly after the call is completed and will remain on our website for approximately 90 days. The transcript of this call will be posted under archives in the Investor Relations section of our website.

Please remember that our discussion today may include forward-looking statements relating to our estimates and expectations that involve risks and uncertainties. Our actual results could differ materially from those projected in any forward-looking statement. Additional information concerning important factors that could cause our actual results to differ materially from these forward-looking statements are described in the risks and factors affecting current and future results section of our annual report on Form 10-K as filed with the Securities and Exchange Commission, as well as in our subsequent reports filed with the SEC.

These reports are available at the Investor Relations section of our website at www.gandermountain.com, and at the SEC's website www.sec.gov. We caution you that forward-looking statements reflect our current views with respect to future events and speak only as of the time they are made, and we undertake no obligation to update them in light of new information or future events.

Before turning the call over to Mark, I would like to update you briefly on certain pending legal matters. Regarding the consolidated securities class action litigation as reported in our recently filed 2005 Form 10-K, on March 31, 2006, the plaintiffs filed a voluntary dismissal of their appeal thus terminating the case. Regarding the companion derivative case, as previously reported, the District Court granted our motion to dismiss this case. The time period for plaintiffs to appeal that ruling has not yet expired. We do not expect this case to have any material impact on our financial condition or results of operations. Beyond these facts, we will not comment on pending legal matters.

I'll now turn the call over to Mark.

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**Mark Baker** - *Gander Mountain Co. - Chief Executive Officer, President*

Thanks, Shannon. Good morning and welcome to Gander Mountain's first quarter call. I'd like to welcome our shareholders, analysts, and all other participants. As you know, Gander Mountain is the nation's largest retail network of stores for hunting, fishing, camping, marine, and outdoor lifestyle products and services with 99 stores in 18 states.

Today, I'm going to comment on trends in the first quarter and give you a view of some of the steps we are taking to drive comp store sales for the rest of the year.

As an overview, I would like to make some general comments on the quarter. While sales were obviously disappointing, we again demonstrated that we can effectively manage this business as we improved initial product gross margins and leveraged store operating expenses, distribution center costs and G&A expenses. With a firm grasp on controllable expenses, we believe we can make a significant amount of money in this business as we grow sales.

Sales growth in the quarter was below our plan. We see several reasons for the softness in sales for this quarter.

Some of the lost sales were driven by last year's promotions that we decided not to offer this year. We reduced our spending in advertising and promotion by almost 40% in the first quarter, redistributing those dollars to the second half of the year, when more of our customers are shopping for the products and services we sell.

We are sharpening the focus of our everyday low-price strategy. While this may have a negative impact on the sales over the short term, we believe we must provide our customers with value every day. We believe some of our customers who may be accustomed to waiting for our sale will adjust over time to the everyday low-price positioning that we have. In addition to continuing our commitment to our customers, we will not be beaten on our price through our low price guarantee, whereby we will match any lower price on any product any time.

As you recall, our comparable store sales results continue to be negatively impacted by approximately 2 percentage points by competition and cannibalization.

I would like to update you on some of our initiatives to build sales through the remainder of this year.

We are strengthening our assortment of firearms, a category that is key to our business. In addition, we believe that we are well-positioned to benefit from Wal-Mart's partial withdrawal from this business. We are aggressively pursuing the business that Wal-Mart is abandoning and capitalizing on our superior gunsmith services available at all of our stores. Our goal is to be number one in the firearms business.

Innovation always drives sales. We are working with all of our vendors as well as our owned-brand manufacturers to deliver new and exciting products to our customers. Our goal is to have a significant penetration of new products seasonally in every category. As an example, 40% of sales related to the turkey hunting season this year were in new product categories. In fishing, 25 to 30% of the products we're offering are new this year, including redesigned Guide Series rods, our best-selling fishing rods.

In addition to adding innovative products, we are cross-merchandising our products more effectively through improved in-store merchandising, signage, and product adjacencies. We have proven this builds the average ticket in our stores. Working closely with our vendors, we are setting more seasonal products in stores earlier this year. This enables our customers to buy in anticipation of coming activities. In addition, we will maintain a broader assortment of seasonal products year round to accommodate our customers who travel to participate in various activities outside the local seasons.

We continue to add to our popular owned-brand product line. We are introducing Guide Series bows and other hunting equipment, as well as extending our assortment of Guide Series technical outerwear and field wear. In addition, we have announced a premium owned-brand product line, the Three Forks Ranch Edition, which will be available in stores this fall.

We will continue to grow our specialty service businesses, gunsmith, archery, and power equipment throughout our retail store network. Our service businesses build customer loyalty and drive incremental product sales.

We continue to grow our power equipment business -- ATVs, utility vehicles, boats, and Stihl power products and accessories -- by enhancing assortments and increasing the number of stores offering these products. We are expanding our test of boat sales and rentals. We entered into a partnership with a leading boat retailer, which is providing training and support for our associates selling boats. This year we'll offer a larger fall assortment of boats for the waterfowl hunting season as well.

We are building partnerships to broaden distribution of our products and to offer new product categories to our customers. We have partnered with one of the nation's largest retailers of SCUBA and snorkeling equipment to expand our water sports assortment and to test selling SCUBA products in four of our stores, including our new store opening this fall in Lake Mary, Florida. In addition, we have formed a partnership with Camping World to sell Guide Series products through its Web site and catalogue.

Before I turn this call over to Dennis, I want to reemphasize some key points.

• We are committed to our strategy.

• We believe that the outdoor lifestyle retail sector is underserved at retail and provides a tremendous opportunity for growth.

• We are confident that our stores offer the best combination of assortment, service and value of any of the major competitors in this space. Our base of nearly 100 stores provides the customers with the most convenient outdoor lifestyle experience in the business.

• We firmly believe that we can bring this business to a very attractive level of profitability.

And now, I will turn the call over to Dennis Lindahl, our CFO, who will go into more details about the financials. Dennis?

**Dennis Lindahl** - *Gander Mountain Co. - Chief Financial Officer*

Thanks, Mark, and good morning to everyone.

In the first quarter, revenue increased 15.0% from the first quarter of fiscal 2005 as a result of new store growth, while comparable store sales declined 10.4%. No stores entered the comp store base. As a reminder, our comp store base is 78 stores and includes 28 of our large format stores.

The operating loss for the quarter increased to $19 million in the first quarter from $18.4 million last year after excluding the one-time gain from the MBNA settlement in the year-ago period. We reported a pretax loss of $23 million in this first quarter.

Turning to store productivity metrics for the first quarter, total square footage at the end of the first quarter increased 23.0% from last year to 5.1 million square feet. The average square footage per store was 51,000 at the end of the quarter, compared with 46,000 at last year's quarter end. Our average store size will continue to increase as we expect most new stores to be in the 60 to 65,000 square-foot range. However, we will occasionally open larger or smaller stores as we size our new stores appropriately for each market or take advantage of opportunities to use recycled real estate.

Our average customer ticket increased 5.5% from $49.54 to $52.27 for the quarter, while the average ticket at our comp stores was $50.66 compared to $49.68 for the first quarter of fiscal 2005. The average ticket at our larger stores was nearly $10 higher than at our smaller stores, with our power shop, ATVs, boats, et cetera, accounting for only 50% of the higher average ticket at the large stores. In other words, the greater selection at our larger stores drives additional sales.

Sales per square foot was $172 for the last 12 months, compared to $197 for the prior 12-month period, as a result of the decline in comparable store sales and the impact of lower sales per square foot in our newer stores.

Gross margin. Our initial product margin increased approximately 120 basis points in the quarter. This improvement was due to product margin gains in virtually all of our major product categories. Mix was a slight negative factor as hunting and power shop increased their share of total sales in the quarter.

Despite the improvement in initial margin, gross margin was 17.3% in the recent quarter, compared to 18.7% in the first quarter of 2005. A major factor in this decline was the deleveraging of store occupancy costs on lower comparable store sales and lower sales per square foot at our newer less mature stores. Store occupancy negatively impacted margin by approximately 160 basis points. Other factors offsetting the improvement in initial product margin included reduced new store discounts as a result of opening new stores with less inventory and a continuation in the trend toward higher freight costs as fuel prices rise.

We are continuing to improve the efficiency and effectiveness of our supply chain. Costs in the distribution center decreased in the quarter as a percent of sales, as we received less new store product and delivered more inventory directly to the stores. Our supply chain initiatives involve every step in the flow of the products from our vendors to the stores. In addition to focusing the internal resources, associates, processes and technology, we have engaged the expertise of vendors and other third parties to cost effectively get the right product to the right stores at the right time for our customers.

Turning to expenses. Store operating expenses declined by 110 basis points from 24.1% to 23.0% of sales. As Mark discussed earlier on this call, we made a conscious decision to reduce advertising and branding expenditures in the first quarter, preferring to allocate those dollars to the back half of the year when our customers are shopping much more frequently. In addition, we had a modest gain in store labor productivity. The benefit of these reductions was offset in part by de-leveraging of most other expenses as a result of lower than expected sales.

General and administrative expenses for the quarter decreased 20 basis points.

Pre-opening expenses in the first quarter of 2006 were $765,000 compared to $2.8 million in the first quarter of 2005, as we are opening only three stores this spring compared to 10 in the spring of 2005. We also have continued to make significant strides in reducing pre-opening labor costs per store by streamlining the procedures.

The pre-opening labor costs for the two stores opened so far this year are 15.0% below the average for stores opened last fall. Net interest expense was $4 million for the first quarter of this year versus $1.7 million in the comparable quarter last year as borrowings on our credit facility increased to $201 million at the end of the period, up from $141 million at the end of the first quarter of 2005, and we received $20 million in funding from the placement of convertible debt in August of 2005. In addition, our weighted average interest rate increased by approximately 260 basis points.

No income taxes were recorded in either year as the realization of the loss was uncertain for financial reporting purposes.

The loss per share for the first quarter was $1.61 per share on a basic calculation compared to a loss per share of $1.23 in the prior year. Because the company reported a loss for the quarter, there is no fully diluted calculation. The weighted average number of shares for the 2006 quarter was 14.3 million.

On the balance sheet Inventory per square foot in open stores at the end of the first quarter was $65, down 10% from $72 per square foot the prior year's first quarter. This improvement reflects the success of our initiatives to reduce inventory at all of our stores and our more effective targeting of inventory in recently opened stores. We continue to be confident in the quality of our inventory.

Capital expenditures were $3.7 million in the fiscal 2006 quarter, down from $13.7 million in the first quarter of fiscal 2005, because we are opening three stores this spring compared to 10 last spring. Capital expenditures include the new store openings as well as costs associated with store remodels.

Financing. At the end of the first quarter, the company had approximately $24 million of availability under its credit facility and as of last Friday, had approximately $22 million of availability. Effective May 25, 2006, the company and its lenders amended certain of the covenants of the credit facility. The company is in compliance with the covenants of the amended agreement.

This facility, together with operating cash flow, will provide the company flexibility to fund its growth in 2006 -- eight new stores with total capital expenditures expected to be approximately $25 to $30 million.

Now that we have gone through the numbers, I want to give you my view of the quarter on an operating basis. The operating loss for the quarter increased to $19 million in the first quarter from $18.4 million after excluding the one-time payment from the MBNA settlement in the year ago period. The positive impact of lower pre-opening costs is offset to an extent by lower vendor support related to store openings.

In our seasonally slower first quarter, many of our stores lose money. While we are disappointed in our comp store sales decline, our per-store operating performance was in line with the first quarter of 2005.

Looking forward, we continue to be focused on the long-term growth of this company. This growth will not come in smooth quarterly increments, but it will continue driven by the initiatives we have in place to drive sales and improve profitability. We will continue to report back to you on how we are progressing with those initiatives and you will see their impact on our financial results over time.

Just to review, our key initiatives include programs to--

• increase sales by providing the right assortment of exciting new products for our customers,

• improve product margin and streamline our supply chain,

• reduce inventory per store and

• control corporate expenses.

You saw evidence of some success of those initiatives in the first quarter despite soft sales. We believe that we can continue to increase sales and improve margins as we move toward those goals.

A quick comment on the results we have seen in May: negative comps of 4% with no erosion of initial product margin and a 40% to 50% reduction in marketing and advertising expenditures.

And now we'll be happy to take your questions.

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## QUESTIONS AND ANSWERS

**Operator**

Thank you.

[OPERATOR INSTRUCTIONS]

And we'll go first to Bob Simonson with William Blair.

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**Bob Simonson** - *William Blair & Company - Analyst*

Good morning. Dennis, you gave an estimate for CapEx for this year. Do you have a depreciation estimate?

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**Dennis Lindahl** - *Gander Mountain Co. - Chief Financial Officer*

I think that was - I think we talked about between $20 and $25 million.

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**Bob Simonson** - *William Blair & Company - Analyst*

Okay. And if we assume that you put up the same number of stores next year as this year, would the depreciation and the CapEx change - [all up] the depreciation would go up, but how about the CapEx number, anything [inaudible] for next year?

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**Dennis Lindahl** - *Gander Mountain Co. - Chief Financial Officer*

I don't really have anything for next year, Bob, but you know, we've seen some increases in the cost of construction and in equipment costs, but nothing significant. If we open the same number of stores, I wouldn't expect much more than a 5% or 10% or 15% kind of an increase, but that's just, you know, without knowing what's going to happen to steel and other prices between now and next year.

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**Bob Simonson** - *William Blair & Company - Analyst*

And what's the dollar value of the tax loss carry forward now?

**Dennis Lindahl** - *Gander Mountain Co. - Chief Financial Officer*

It's -- through this quarter would be in the $40 to $50 million range.

**Bob Simonson** - *William Blair & Company - Analyst*

Okay. And do you have or can you give us an estimate for interest expense for the full year?

**Dennis Lindahl** - *Gander Mountain Co. - Chief Financial Officer*

We haven't in the past given that, Bob. I don't - I think it will increase by quarter slightly, but not significantly from the first quarter because we should have a decrease in borrowings as we get into the fourth quarter. It won't be significantly higher, but it will be somewhat higher than in the first quarter on a quarterly basis.

**Bob Simonson** - *William Blair & Company - Analyst*

Okay. And is this Camping World agreement kind of a back door, a legal method of starting a direct sales operation? And are there other opportunities like this?

**Mark Baker** - *Gander Mountain Co. - Chief Executive Officer, President*

Bob, we call it a back door. We think that this arrangement with Camping World is a really unique opportunity. We'll even see a couple of real estate developments where we'll be building side by side with a customer base that, in many cases, enjoys the outdoors and in some ways, different ways but in similar ways that our customer does.

So we think there is a co-branding alliance there that allows us to reach a different customer segment for both of us by the way. And you know, at the end of the day, we've had, as you know, great acceptance with the Guide Series products and the brand itself is what was the call to action if you will.

We have positioned Guide Series as a national brand and now the Camping World customers will be able to reach that directly on either the catalogue or the Web. So it's another way for us to build on our brand. And yes, it does help get that stuff out in marketplaces that we don't currently have stores.

**Bob Simonson** - *William Blair & Company - Analyst*

And are there other opportunities like this?

**Mark Baker** - *Gander Mountain Co. - Chief Executive Officer, President*

We will look at other opportunities like that as they make sense, certainly. If we get traction on this type of activity, that's another way for us to expand our brand.

**Bob Simonson** - *William Blair & Company - Analyst*

And can you talk a little bit about the Three Forks Ranch agreement and what that might mean to mix or stores or potential?

**Mark Baker** - *Gander Mountain Co. - Chief Executive Officer, President*

The Three Forks thing is a very exciting product development opportunity for us. I think our merchants are working really hard with the suppliers to try and identify what is the best–in-class category, and be associated with what is probably one of the best-in-class ranches where people can enjoy either hunting or fishing in the country.

It's a fabulous, fabulous outing, and the recognition of that brand in the outdoor customer and the positioning of what is frankly a high end brand. It was an opportunity for us to develop a product line that would take us into a different place that we hadn't been before. Now, we won't be distributing it in all 100 stores, but either through the Three Forks Website and/or in a limited number of stores, we'll have exposures to these products, which the lineup is - I don't know, Rick, do you? I don't how many skews it is, but it's a --

**Rick Vazquez** - *Gander Mountain Co. - EVP of Merchandising and Marketing*

Initially, it's a short lineup of products we're testing across shooting categories, hunting and fishing and yes, it's going to be relatively limited as we develop the products, but we can expect some pretty good growth out of it pretty quickly.

**Bob Simonson** - *William Blair & Company - Analyst*

Do they sell items like that on their own website already?

**Mark Baker** - *Gander Mountain Co. - Chief Executive Officer, President*

They have a - Three Forks has always had some apparel lines and some basic fly fishing gear and things like that, that they've had available through either their website or on the ranch itself. And this is a new direction for them as well.

**Bob Simonson** - *William Blair & Company - Analyst*

Is it - can I ask what size this could be?

**Mark Baker** - *Gander Mountain Co. - Chief Executive Officer, President*

You know, to size it in dollars right now is probably premature, but we will give you an update as we see it. And most of this product is not going to be available for sale until probably the September or around that period of time. So we'll give you an update as that stuff is accepted by the customers, but it's exciting.

**Bob Simonson** - *William Blair & Company - Analyst*

Is it possible that you would put the Guide Series on their website?

**Mark Baker** - *Gander Mountain Co. - Chief Executive Officer, President*

Well, it's always possible.

**Bob Simonson** - *William Blair & Company - Analyst*

Okay, thank you.

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**Operator**

We'll go next to Rick Nelson at Stephens Investment.

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**Rick Nelson** - *Stephens Investment - Analyst*

Thank you, and good morning.

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**Mark Baker** - *Gander Mountain Co. - Chief Executive Officer, President*

Good morning, Rick.

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**Rick Nelson** - *Stephens Investment - Analyst*

On the fourth quarter call, you laid out a bunch of programs to address comps. Which of those programs do you feel are working and which are not working?

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**Mark Baker** - *Gander Mountain Co. - Chief Executive Officer, President*

Rick, while Dennis is kind of thinking through some of the things that we may have said -- that we didn't cover. But I thought we've pretty much stayed on course with all of our initiatives to drive comparable store sales, which are, as we expand the bandwidth of the product, whether they be the snorkel opportunity and scuba opportunity or bandwidth in the boat and marine business, which we continue to drive opportunities for.

Again, you know, as we approach the seasons of those that are appropriate, we expect to see the gains coming at those points in time. We didn't purposely telegraph to the world that we were going to reduce marketing and advertising expenses to the levels we did in the first quarter.

But it was clear to us that we would be better off to communicate to our customers during the peak seasons of our businesses. So, we still look forward to [good] solid growth in our comparable store stores over time.

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**Rick Nelson** - *Stephens Investment - Analyst*

What sort of comp expectation would you have for the remainder of the year?

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**Mark Baker** - *Gander Mountain Co. - Chief Executive Officer, President*

Dennis?

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**Dennis Lindahl** - *Gander Mountain Co. - Chief Financial Officer*

I think in the past, we have not commented and given guidance on comps. We've said over time that we have to get this to comp. We haven't really said that it would be, you know, we've said that we've been challenged by 1 or 2 or 3% by competition in cannibalization, but Rick, we have never really given any guidance as to comps or sales or anything as it relates to 2006 and beyond. We have to get it to comp over time.

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**Rick Nelson** - *Stephens Investment - Analyst*

[Inaudible] in terms of sales per square foot, you mentioned you're at $172 now on a trailing basis. Can you operate profitably at that level?

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**Dennis Lindahl** - *Gander Mountain Co. - Chief Financial Officer*

I think that we can. We obviously are in some of our locations at advantageous rental rates. We continue to work on the margin side of it and we're obviously controlling our costs and trying to leverage those, so yes, at $170 to $175, we can be profitable. Obviously, we would like to increase that number rather significantly over the next couple of years.

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**Rick Nelson** - *Stephens Investment - Analyst*

Can you comment on sales, productivity or profitability in markets where you don't have big box competitors, markets like Little Rock I guess?

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**Mark Baker** - *Gander Mountain Co. - Chief Executive Officer, President*

We don't specifically comment on individual markets, but clearly, Rick, our strategy has been and will continue to be. We go to the second and third tier markets primarily. You saw in the announcement today. Whether it's Huntsville, Alabama, or Charleston, West Virginia, we find there to be a great outdoor activity in terms of the market and the customers that are there.

We think that we can serve that market and drop some significant bandwidth around that, and yes, we still are convinced that there's room for over 300 stores in the country. So we want to make sure we can do those markets as well as the other ones. But clearly, as you and everyone has seen, there has been probably 10 million square feet of additional retail added to this category in the last four or five years.

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**Rick Nelson** - *Stephens Investment - Analyst*

Any comments on Minneapolis with the new competitor coming in with an additional store?

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**Dennis Lindahl** - *Gander Mountain Co. - Chief Financial Officer*

Rick, as we look at their entry into the Twin Cities, obviously they believe with their reach of 100 to 200 miles, as we look out through the state of Minnesota and we've made a significant number of changes in our store complement in Minnesota by opening three or four new stores and closing or relocation three or four stores.

But over the state of Minnesota in this first quarter, our sales were pretty flat with the first quarter of year ago. We had, like I said, we had some changes in the marketplace with not only them, but with us, but on an overall basis, we were pretty flat in the Minnesota market this year compared to last year.

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**Mark Baker** - *Gander Mountain Co. - Chief Executive Officer, President*

As I said before, Rick, you know, we've increased our market share in Minnesota by nearly doubling that over the last four or five years, and Minnesota is an important market to us and we're very pleased with our ability to hold that market share and gain market share in certain parts of the state.

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**Rick Nelson** - *Stephens Investment - Analyst*

Okay, thank you very much.

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**Operator**

[OPERATOR INSTRUCIONS]

We'll go next to Jeff Sonnek at FBR.

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**Jeff Sonnek** - *FBR - Analyst*

Good morning.

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**Mark Baker** - *Gander Mountain Co. - Chief Executive Officer, President*

Good morning, Jeff.

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**Jeff Sonnek** - *FBR - Analyst*

Relative to your comp performance in the 1Q, was that relatively in line with kind of what you guys were thinking going into the first quarter, or was that above the low plan? Any color around that?

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**Rick Vazquez** - *Gander Mountain Co. - EVP of Merchandising and Marketing*

I think as we said, Jeff, we were disappointed in our sales and in our comp. It was not up to our expectations for the first quarter.

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**Mark Baker** - *Gander Mountain Co. - Chief Executive Officer, President*

Jeff, needless to say that we'd like to have more sales, but our primary emphasis that we consider the primary metric in going into the first quarter is to frankly kind of lose less. You know, as seasonally small as the first quarter is, the challenge that we've got to do is make sure we operate our expenses and our margins at the optimum levels, because it's really a quarter that's going to be a challenge for this kind of business for a number of years to come.

So comp store sales, while important, is a level of productivity and profitability measurement over time on each store is important, the primary emphasis I wanted to make sure this group was working on was to make sure that we could manage our losses to a minimal level in the first quarter. And we were marginally close to what we were hoping to do.

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**Jeff Sonnek** - *FBR - Analyst*

The reason I asked was just you commented on your shifting advertising out in the first half into the second half, and I'm wondering if that was kind of a knee jerk reaction to slowing comps and saying, you know, let's try something different or, that was kind of the plan of the 30,000 feet kind of going into the first quarter of this year.

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**Mark Baker** - *Gander Mountain Co. - Chief Executive Officer, President*

We had the plan all along -- Rick and I and the merchandising and marketing team, to move the advertising out of the front half where we can't drive enough incremental volume to make a difference versus the expense.

And certainly, as Rick and [Philip] follow up on this move through into this [inaudible] further conversion to EDLP [every day low price] and our customers adjusting to that, there is a little gap that occurs. And we know when we have the conviction that that's the right kind of place for us to be so that customers don't have to wait for a sale. Rick, you have any thoughts?

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**Rick Vazquez** - *Gander Mountain Co. - EVP of Merchandising and Marketing*

Yes. And that's exactly right, Mark. Jeff, the plan was all along to do the marketing the way we did it, knowing again, as Mark stated earlier, that we really do want to be very frequent and very strong during the periods that are most relevant to us and that's obviously in the second half of the year. So we did go into the year with that kind of a mindset, that kind of a plan.

And to the point of the EDLP pricing strategy, we've got to be very careful that we're - that we spend the money and the time talking to the customers and letting them know that our everyday price is the right price in the marketplace. They're not having to wait for a sale. We're not going to be right certain times of the year and then not be right the other parts of the year. So that's a tough message and a tough transition to go through, but that's been the strategy and we will stay on that one.

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**Jeff Sonnek** - *FBR - Analyst*

And was the shift in advertising, was that just lower overall impressions or was that a shift in mix of the different medias?

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**Rick Vazquez** - *Gander Mountain Co. - EVP of Merchandising and Marketing*

Yes, it was various, it was various. We did some shifts in the type of media distribution that we did last year and we did some shifts in the frequency, primarily in the frequency, but yes, it was a little bit of everything, and doing the maximum that we could have done with everything that we had.

And plus - and when I refer to shift in media, we took some markets that are primarily all radio and other markets that are print, so we were able to play with different types of media to reach those consumers as effectively as possible.

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**Jeff Sonnek** - *FBR - Analyst*

And then the final question, just you commented on a mixed shift in the quarter was a negative impact to margin, and you made a few comments after that, but I just - I missed it. Could you just go over that once more, please?

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**Mark Baker** - *Gander Mountain Co. - Chief Executive Officer, President*

Dennis is going to look through it. He's looking through it. The general explanation is we continue to be very oriented towards our hunting businesses and we have the best acceptance in all of our markets on the hunting business. And you know, frankly from the experience we have in apparel and what's happening in the apparel business and footwear business can affect mix. We also had a very strong power shop business this spring as well. Dennis?

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**Dennis Lindahl** - *Gander Mountain Co. - Chief Financial Officer*

I think the only comments I did make was mix was a slight negative factor as hunting and power shop increased their share of total sales in the quarter. I don't think I made any other comments about that after that.

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**Jeff Sonnek** - *FBR - Analyst*

So does that imply any markdown activity coming out of what was an unbearably warm January?

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**Dennis Lindahl** - *Gander Mountain Co. - Chief Financial Officer*

What that meant for hunting and the power shop obviously is that those two departments have slightly lower margins than our average, so to the extent that we sell more products in our hunting and power shop categories, our overall initial margin goes down.

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**Jeff Sonnek** - *FBR - Analyst*

Okay, thank you.

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**Operator**

Next, we'll go to Neal McConnell at Perennial Advisors.

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**Neal McConnell** - *Perennial Advisors - Analyst*

Good morning guys. I just wanted to get a little more color on the credit agreement. What covenant did you violate?

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**Dennis Lindahl** - *Gander Mountain Co. - Chief Financial Officer*

We never violated any covenants. We amended the EBITDA covenant down for the months of the April, May, June and July, but at no point in time were we in violation or out of compliance with our agreement.

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**Neal McConnell** - *Perennial Advisors - Analyst*

Okay.

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**Dennis Lindahl** - *Gander Mountain Co. - Chief Financial Officer*

The file -- a copy of it was filed this morning on an 8-K if you want to go look at the details, but basically, we were not out of compliance at any point in time. We just amended some of the EBITDA covenants that needed to be tested.

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**Neal McConnell** - *Perennial Advisors - Analyst*

Okay. And was there any - I mean, I can look it up, but was there any amendment to your change in rate?

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**Dennis Lindahl** - *Gander Mountain Co. - Chief Financial Officer*

There was a very small fee, but no change in any interest rates.

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**Neal McConnell** - *Perennial Advisors - Analyst*

Okay, great. Thank you.

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**Operator**

[OPERATOR INSTSRUCTIONS]

We'll go next to Mitch Kaiser at Piper Jaffray.

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**Mitch Kaiser** - *Piper Jaffray - Analyst*

Good morning, guys. I was curious if you could comment, you had said that cannibalization and competition may have cost you a couple of hundred basis points, but yet you said sales in Minnesota were relatively flat. Could you just comment on where you saw that cannibalization or competition rather?

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**Mark Baker** - *Gander Mountain Co. - Chief Executive Officer, President*

Mitch, to be clear about that, you know, even in Minnesota where Dennis mentioned that we have replaced stores and they have affected some of our comp stores, so we cannibalize ourselves in Minnesota in a number of ways which can affect that, when obviously a new competitor coming into the market has affected the market on some of our comparable stores. So you have a shift back and forth going on in a comp and cannibalization kind of level.

Generally around the country, we are satisfied saying that we're going to expect every year, year on year, 2% to 3% cannibalization and competition issues. In some markets, it will be seasonally higher and in some quarters, it will be less, but across the country, we're going to see that.

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**Dennis Lindahl** - *Gander Mountain Co. - Chief Financial Officer*

I just want to make sure, Mitch, that everyone does understand, when I say our sales are flat, obviously when I said we made changes in our marketplace by opening stores and closing stores, that was not a comment that our comps were flat during that period of time. That was as we were readjusting the marketplace, we had total sales that were flat.

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**Mitch Kaiser** - *Piper Jaffray - Analyst*

Okay, I understand. Thank you.

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**Operator**

And we'll take a follow-up from Bob Simonson at William Blair.

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**Bob Simonson** - *William Blair & Company - Analyst*

Yes. How much is left on a line to be taken down, Dennis?

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**Dennis Lindahl** - *Gander Mountain Co. - Chief Financial Officer*

I think that we had $201 million outstanding at the end of the quarter. Our line is $275 million plus $20 million on the term for $295 million, so there's still $90 some million dollars.

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**Bob Simonson** - *William Blair & Company - Analyst*

Okay. And perhaps Mark or Rick, it sounds like you're trying to - with the EDLP, you're trying to wean the customer off waiting for promotions. When you increase your advertising in the second half, does that take more of a generic type of advertising or does that become self-defeating if you start promoting again? What form does that take?

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**Mark Baker** - *Gander Mountain Co. - Chief Executive Officer, President*

Well, you know, good question, Bob, by the way. We believe this brand, and Rick mentioned that some of the radio and opportunities to build this brand and build bigger awareness of the confidence, the price confidence that the customers have and can have and will have in this EDLP thing. And moving further along that continuum, means that you have to be more true to it every day, and I think we have come just a ton of distance in terms of the price confidence our customers have.

And as we wean, is a great description, off of the Sunday flyers, the Thursday flyers, it does mean that we've got to be consistent about what that message is, which means you do get slightly smaller kinds of reactions from the customers because now it becomes more institutional. So we are moving in that general direction carefully.

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**Bob Simonson** - *William Blair & Company - Analyst*

Okay, thank you.

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**Operator**

And we have a follow-up from Mitch Kaiser at Piper Jaffray.

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**Mitch Kaiser** - *Piper Jaffray - Analyst*

I'm sorry. I was wondering, would you be willing to quantify the dollar amounts of advertising that was shifted out of the first quarter, and then when we might see that? Would that be third or fourth quarter I would assume?

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**Mark Baker** - *Gander Mountain Co. - Chief Executive Officer, President*

Well, Mitch, overall, the reduction that we have done in the front half, which as Dennis mentioned continues to be in that 40 to 50% range even through May here, we are not going to spend all of the savings if you will, through the course of the year. So Dennis, you want to give him the math?

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**Dennis Lindahl** - *Gander Mountain Co. - Chief Financial Officer*

Mitch, for the first quarter, it probably approximated $3 million.

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**Mitch Kaiser** - *Piper Jaffray - Analyst*

Okay, that sounds good. And then, I missed it, in May, you said product margins were low?

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**Dennis Lindahl** - *Gander Mountain Co. - Chief Financial Officer*

I said we had no deterioration or no erosion of initial product margin, not making a comment, just trying to imply that with our reduction in advertising and a 4% comp versus a 10% comp, it wasn't done through promotions and heavy discounting.

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**Mitch Kaiser** - *Piper Jaffray - Analyst*

Okay, sorry about that. Sounds good, thank you.

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**Operator**

[OPERATOR INSTRUCTIONS]

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**Mark Baker** - *Gander Mountain Co. - Chief Executive Officer, President*

Okay, thank you, Audra.

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**Operator**

You're welcome.

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**Mark Baker** - *Gander Mountain Co. - Chief Executive Officer, President*

I'd like to close with a few thoughts. We are excited to bring our brand to four new states this fall, Alabama, Florida, Tennessee, and West Virginia. The portability of our brand has been proven over the past three years by the success we have experienced in going from eight states to 22 states in the last three years.

We are committed to our customers, our supplier partners, and our dedicated associates, who provide great service every day. We are extremely gratified by our ability to recruit, retain, and promote the best associates because they are the real drivers of our success. We are working hard at all the sales initiatives I described earlier on this call, and believe me, we'll be successful in generating sales growth in the future.

Thank you for joining us today.

**Operator**

And that does conclude today's conference. Again, thank you for your participation.