

# FINAL TRANSCRIPT

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## **GMTN - Q3 2006 GANDER MOUNTAIN CO Earnings Conference Call**

Event Date/Time: Nov. 15. 2006 / 9:00AM ET

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## CORPORATE PARTICIPANTS

**Shannon Burns**

*Gander Mountain Company - Director of Investor Relations*

**Mark Baker**

*Gander Mountain Company - President and CEO*

**Rick Vazquez**

*Gander Mountain Company - Executive Vice President of Merchandising and Marketing*

**Dennis Lindahl**

*Gander Mountain Company - Executive VP and Chief Financial Officer*

## CONFERENCE CALL PARTICIPANTS

**Jeff Sonnek**

*FBR - Analyst*

**Rick Nelson**

*Stephens Investment Bank - Analyst*

**Bob Simonson**

*William Blair - Analyst*

**Nancy Hoch**

*JP Morgan - Analyst*

**Mitch Kaiser**

*Piper Jaffray - Analyst*

**Steve Denault**

*Northland Securities - Analyst*

## PRESENTATION

**Operator**

Good morning, everyone, and welcome to the Gander Mountain Company Third Quarter Earnings Release Conference call. This call is being recorded. At this time, I would like to turn the call over to our Director of Investor Relations, Shannon Burns. Please go ahead, ma'am.

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**Shannon Burns** - *Gander Mountain Company - Director of Investor Relations*

Thank you. Good morning and thank you for joining us. I'm Shannon Burns, Director of Investor Relations at Gander Mountain. Welcome to the Gander Mountain third quarter conference call. Joining us on our call today are Mark Baker, President and CEO of Gander Mountain, Rick Vazquez, Executive Vice President of Merchandising and Marketing, and Dennis Lindahl, Executive VP and Chief Financial Officer.

Mark will discuss business trends. Rick will review our progress on initiatives that we have in place to drive sales and margin. And Dennis will review our financial results. We'll take your questions after that. We expect the call to last an hour. As a reminder, the question and answer period 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.

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This conference call is being broadcast real time on the Internet at [www.gandermountain.com](http://www.gandermountain.com). We will also offer an internet replay of the call, which will be available shortly after the call is concluded 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](http://www.gandermountain.com) and at the SEC's website at [www.sec.gov](http://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.

Now, I'll turn the call over to Mark.

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**Mark Baker** - *Gander Mountain Company - President and CEO*

Good morning, and welcome to Gander Mountain's third quarter call. I'd like to welcome our shareholders, analysts and all other participants. It is nice to have all good news to talk about today. We've just had the best third quarter in our history, thanks to the hard work and enthusiasm of our associates.

Sales growth in the quarter exceeded our expectations. Comparable store sales jumped 7.4%, leading to a 15% increase in total sales. This gain was driven by our successful sales initiatives. Rick will have more detail later in the call, but I want to give you the headlines:

We achieved these results because we had the right products in the right stores, at the right time, in the right quantities. By setting the merchandise for the all important hunting season early, we were able to show our great assortments of new products to our customers while they were planning their hunting activities.

Because of our commitment to offering newness and innovation throughout our product assortment, there were a lot of exciting new products for our customers to have and to enjoy the season.

With better in-stock levels of the right products in our stores, our customers found the merchandise they wanted to buy waiting for them in our stores when they were ready to buy.

We are also seeing a benefit of our merchandising initiatives and changes, such as improved signage, better cross-merchandising, making it easy for our customers to find items to buy in our stores.

Our customers are realizing the value of our Every Day Low Price strategy, knowing that they can buy any time and will always get our lowest price. In addition to the Hot Buys, our merchandise -- our merchants have negotiated, and these key items drove incremental sales.

And, since we have included weather as a factor when we do not have the sales meeting our expectations, we do have to credit this normal fall season.

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As you look at the 7.4% comp store increase, keep in mind that our comparable store sales results continue to be negatively impacted by approximately 1 to 2 points by competition and cannibalization.

On \$32 million of incremental sales, we were able to earn an additional \$11.8 million of operating profit, carrying 30% of this increase of sales down to the bottom line. While we showed impressive growth in comp store sales, we also achieved impressive expansion in our gross margin, from 25.5%, 200 basis points higher than in the third quarter of 2005. We did not buy the comp store sales, improved by lowering our prices or by being more promotional. We continue to effectively manage our expenses and maximize the leverage we benefited, as a result of these increased comp store sales. I am very proud of the results that we achieved in this quarter.

During the third quarter, we continued to expand the nation's largest retail network of stores for hunting, fishing, camping, marine and outdoor lifestyle products and services. We opened five new stores in the third quarter; Lake Mary, Florida, Charleston, West Virginia, Knoxville, Tennessee, Huntsville, Alabama and Winchester, Virginia -- bringing us to 105 stores in 22 states. These were all exceptionally successful openings. And sales at all of these stores continue to be very strong. These results reinforced our confidence in our retail strategy to concentrate our new stores in second and third-tier markets, where we introduce a vastly expanded assortment of products and services to those underserved customers.

The third quarter also marked our entry into the huge Florida market. We look forward to extending our presence in this underserved market. The opening of this prototype store, with 180 boats in stock, as well as an expanded assortment of fishing and marine products, is a step in adapting our strategy to invest in more of those categories in order to be more regionally relevant, as we expand in southern markets. We need to gain the dominance in these fishing and marine and boat categories that we enjoy in hunting.

Our success in the recent quarter was not a surprise. I view it as natural continuation of our work over the past years. We have been pursuing a number of product and marketing initiatives, improving our margins, getting ready for our peak hunting and holiday seasons. While we cut back on advertising in the first half of the year, we were preparing a very effective campaign for the back half, when more of our customers are shopping for the products and services we provide today. As a result of that groundwork, everything is working well now, in fact, even a little better than we expected.

Before I turn the call over to Rick, I want to reemphasize our key objectives: build upon the Gander Mountain brand and significantly expand our network of retail stores in order to capture additional market share; offer our customers the best combination of a broad assortment of regionally relevant products, services, convenience and a value in the outdoor lifestyle sector; and improve our profitability by increasing sales and leveraging our increased scale to improve margins and enhance productivity, and by controlling expenses.

We are confident in our ability to grow our business and increase our profitability.

Rick?

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**Rick Vazquez** - Gander Mountain Company - Executive Vice President of Merchandising and Marketing

Thank you, Mark. And good morning, everyone, and yes we are very pleased with our comp performance of 7.4%, and margin expansion of 200 basis points. We feel that this success is due to the good execution of many of the initiatives outlined in previous calls.

During the quarter, every major merchandising category had positive comp sales, with hunting and firearms outperforming the company average, and apparel and footwear having the highest increase in comp sales. From a metrics standpoint, we also saw growth in our average ticket for the company of almost 5% as a result of our cross-merchandising efforts. And finally, our

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fall marketing campaign was a home run, driving comp transactions by more than 4%. Last quarter, we outlined eight initiatives to drive sales and margin. I am please to announce that all are performing favorably.

Here are a few of the highlights.

Number one, we continue to be the leader in firearms and ammunition. I talked on the second-quarter call about merchandising some product categories by use, instead of by brand, which has been prevalent in this business. A significant example is ammunition. It is now organized by use, making it much easier for our customers to find the best products to meet their needs. The change is designed to make it simple for both the novice and the expert to find the right ammunition for every use. It will also help move the customers up to higher price points. Customer response to this different merchandising has been very, very positive. We believe that our ongoing efforts to make shopping simpler for our hunting customer will help us capture additional share.

Before I leave the firearms category, I would like to comment that our strong sales and margin in ammunition could have been even better in the third quarter, except for industry-wide product shortages, and the situation continues in the current quarter. This problem stems in part from the amount of our vendors' capacity dedicated to military ammunition this year. We want to thank our key suppliers for working closely with us.

Second, we drove sales through innovation, delivering new and exciting products to our customers. We continued to add exciting products this fall in many categories, including our new high-tech Guide Series bows, new field wear and new outerwear programs, all of which performed exceptionally well in the quarter.

Third, we are merchandising solutions, not just products. With improved in-store merchandising, signage, product adjacencies and cross-merchandising, we make it easier for customers to find everything they need to enjoy their next outdoor adventure in whatever category they are shopping.

As an example, this fall we pulled all the products a duck hunter needs -- from waders to socks to decoys to blinds, in the waterfowl hunting set, making it easy for our customers to purchase everything in one place. These attractive, complete sets, focused on the upcoming seasons, generated excitement and drove purchases. By understanding what activity, our customer is buying for, we the sell solution, not just the product. We build the average ticket and increase customer satisfaction.

Fourth, as we discussed on the August call, we set more seasonal products in the stores earlier this year. Working with both our vendors and our supply chain team, we brought more inventory of the hunting merchandise to our stores at an earlier date than we did last year to let our customers see our full selection as they put together their wish lists in anticipation of the upcoming seasons. With the improvements in our supply chain, we saw a smooth flow of product to our stores. This strategy was very successful. We drove strong sales gains in items like hunting equipment and tree stands and larger-ticket purchases.

Fifth, while we stay on strategy to support branded products, we continue to build on the success of Guide Series. Our expanded assortment of Guide Series field wear, incorporating trademarked scent-lock and wind-proofing technology, helped drive impressive sales gains in those categories as our customers realized the quality and value of the Guide Series products. Our new line of Guide Series technical outerwear, with the high performance characteristics of our field wear but in fabrics and colors for everyday wear, also registered strong sales. Insulated systems, which are key items that can help layering, according to weather, were strong assortments for us this fall. Our expanded owned-brand line of men's and women's work wear, a category dominated by national brands, has been successful. So has the extension of our high-performance GSX line for women and youth. We are offering twice as many GSX items this year as we did last fall, and sales are up over 250%.

As our customers indicate, their acceptance and their preference for Guide Series brand, we continue to expand our assortments in hardlines. In hunting, our new Guide Series bows and water fowl blinds incorporate new technology and have sold very well as customers recognize their technical advantages and value. We will continue to expand our assortments of Guide Series hardline products with superior performance characteristics and great value.

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In the third quarter, our penetration of owned-brand products was almost 300 basis points higher than in the third quarter of 2005. This higher penetration was a significant factor in the overall improvement in initial margin we realized this quarter. We are committed to staying on strategy with our focus on, one, regionalization, which brings the right product assortment and is locally relevant; two, our services such as gunsmith, archery tech, ATV and boat repair, among others -- they are true competitive advantage of our 105 locations in 22 states; and, third, our commitment to customer service.

We provide information throughout the store from our associates, in-store signage and merchandising that helps our customers make the best choices for their outdoor lifestyle. We will continue to build on these initiatives in the fourth quarter. We are now putting improved signage in the ammunition department. We will be reorganizing the firearms display, by use, to make it easier for all our customers to find the perfect firearm within the full range of our assortment. And that new arrangement will be accompanied by new signage.

In the spring, customers will see new signage in the fishing and marine departments, similar to the signage we introduced this fall for firearms and ammunition. This will make it easier for the novice, as well as experts, to find the right rod, reel, tackle and lures for whatever kind of fishing they have in mind. We have just introduced a new selling center for auto navigation that underlines our commitment to these products and enables us to take advantage of our customers' appetite for new electronics. This is just a sampling of the initiatives we have in place to drive sales and enhance profitability. We are very pleased with the results we have seen to date from these efforts. And we will continue to pursue and enhance these initiatives, as well as look for additional opportunities to accelerate our growth. Our 6,600 associates have done an outstanding job during the key hunting season. Our success has energized our entire Gander Mountain team to continue to exceed expectations through the peak holiday season.

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

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**Dennis Lindahl** - Gander Mountain Company - Executive VP and Chief Financial Officer

Thanks, Rick, and good morning, everyone. I hope you've seen the press release we issued this morning. It reviews a number of financial metrics, and I will not repeat most of those on this call.

With a 7.4% increase in comparable store sales, a 200-basis-point improvement in gross margin, and a 190-basis-point improvement in store operating expenses, this was a good quarter.

We attribute the improvement in financial results to a number of factors.

Initial product margin improved approximately 200 basis points, as we benefited from the advantages of scale and increased the penetration of our owned brands from 8% to 11% for the quarter. Lower clearance inventory and better management of clearance merchandise and pricing also benefited margins. We closed two small stores in the third quarter of 2005, replacing one with a large-format store. The lease had expired on one store this -- the one in Bloomington that was only ten miles from our large-format store. The liquidation sales, when we closed those stores, had a negative impact on margin last year. Mix was not a significant factor in the improvement in initial margin in the 2006 quarter.

Gross margin also benefited from lower distribution costs in the quarter, the results of investments we made in our distribution and supply chain processes last year. Factors that negatively impacted gross margin include reduced new-store vendor discounts as we opened fewer stores in this quarter than the third quarter of 2005, and higher freight rates also impacted margin negatively.

Store occupancy expense was unchanged as a percent of sales, as real estate and personal property taxes offset the leverage of higher comp store sales.

We leveraged store labor, utilities and supplies costs, primarily as a result of higher sales per store.

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Advertising and marketing expenditures in dollar terms were similar to the third quarter a year ago. However, these expenses declined as a percent of sales compared to the third quarter of 2005.

As more of our customers sign up for our co-branded MasterCard, we are beginning to realize the cost savings that result from the lower fee compared to other credit cards. I would like to review some additional metrics for the third quarter.

Four stores entered the comp store base in the quarter. Our Binghamton, New York, store, which was flooded in June of 2006, was temporarily removed from the comp store base and returned to it in November. Thus, our comp store base at the end of the third quarter was 87 stores and includes 37 of our large-format stores. Total square footage at the end of the third quarter increased 9% from last year to 5.5 million square feet.

The average square footage per store was 52,000 square feet at the end the quarter, compared with 50,000 in last year's quarter. We anticipate that most of our new stores will be in the 60,000 to 65,000 square-foot range with outdoor selling space. However, we will occasionally open larger or smaller stores as we size our new stores appropriately for each market and take advantage of opportunities to use recycled real estate.

Our average customer ticket increased 4.7% from \$58.55 to \$61.32 for the quarter, while the average ticket at our comp stores was \$60.28, up from \$58.49 for the third quarter of fiscal 2005. Some of this improvement is due to the increasing proportion of large-box stores in our total mix. The average ticket at our larger stores was over \$12 higher than at our smaller stores, driven by the greater selection at our larger stores. Our Power Shop -- ATVs and boats -- accounts for just over one-third of the higher average ticket at the large stores.

Sales per square foot was \$170 for the latest 12 months, compared to \$183 for the prior 12-month period, as a result of the decline in comparable store sales in the preceding three quarters and the impact of lower sales per square foot in some of our less mature new stores.

The weighted average number of shares for the 2006 quarter was 14.3 million.

Turning to the balance sheet --

The company reduced inventory per square foot at the end of the third quarter of fiscal 2006 to \$73, down 6.5% from \$78 per square foot at the end of the prior year's third quarter, primarily as a result of less inventory in our larger-store format.

Total capital expenditures in the third quarter of 2006 were \$15 million. For the year, capital expenditures are expected to be approximately 38 to \$40 million, including the replacement airplane, which was funded with long-term debt, and the reconstruction of the Binghamton store, which is being funded with insurance proceeds.

We currently have approximately \$35 million of availability under our credit facility. The company is in compliance with the covenants of the agreement.

We intend to fund our operations from the proceeds of our credit facility and operating cash flows. Capital expenditures for growth will be funded from these sources and, to the extent necessary, from other available capital sources.

In summary, in the first half of the year, we demonstrated that we can control expenses. This quarter, we proved that we can also drive comparable store sales without sacrificing margin, while continuing to manage expenses. Like I said before, we had a successful third quarter, and we anticipate that we will have a successful fourth quarter.

And now we would be happy to take your questions.

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## QUESTIONS AND ANSWERS

### Operator

Thank you, sir.

[OPERATOR INSTRUCTIONS]

And for our first question, we go to Jeff Sonnek with FBR.

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### Jeff Sonnek - FBR - Analyst

Thanks. Hey, congratulations on a great comp. It's good to see a positive number hit the tape.

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### Mark Baker - Gander Mountain Company - President and CEO

Thank you.

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### Jeff Sonnek - FBR - Analyst

Let me start by -- I just was kind of curious. Rick, you mentioned that this firearms reorganization. I thought it -- at first, you made it sound like that was part of kind of the third quarter. And then, you said that's going to be an initiative for the fourth quarter. Is that, in fact, in all the stores or is that just -- or just pieces of that?

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### Rick Vazquez - Gander Mountain Company - Executive Vice President of Merchandising and Marketing

Yes, the -- Jeff, good morning. The firearms reorganization -- the firearms department, for the third quarter, we took on ammunition. And we did that. We organized it in terms of the planning program at store level and getting it organized that way. The signage that goes with that is actually being rolled out now, as we speak. And then, as soon as we're done with, then we will be doing the same to the actual firearms, the long arms and guns, et cetera.

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### Jeff Sonnek - FBR - Analyst

Okay. And then, Mark, obviously weather was ideal this year. That's kind of been an issue over the past couple of years. Do you feel like some of these sales got pulled into the third quarter that, otherwise, you may have seen in the fourth quarter?

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### Mark Baker - Gander Mountain Company - President and CEO

Jeff, it -- it always remains to be seen exactly what the portfolio will be. But certainly, I would consider this to be a more normalized pattern. With that said, one of our long-term strategies has been this geographic diversity. And now, with 22 states and a number of markets -- Texas, Arkansas, Kansas, Tennessee, Florida, the Carolinas -- I think I would call those typical and seasonal. And some of those stores enter the comp. base. And they don't have the same kinds of -- reaction to the cold weather in the apparel that we have up here. But we were very pleased with those results as well.

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**Jeff Sonnek** - FBR - Analyst

Okay. And then, the private label business -- I mean, obviously it looks like you guys are working to fill out the hard line side of the business. Would you care to provide kind of a target of where you see that category over the long term, or discussing in some greater detail kind of what the potential is for the hard line piece of the private label business?

**Mark Baker** - Gander Mountain Company - President and CEO

Jeff, we don't break out the hard lines versus the soft lines on the Guide Series piece of it -- our own national brand called Guide Series. Clearly with the growth, as Dennis pointed out, from 11% to 13%, it's a commitment for us to make sure that we the right offers for those customers and provide, obviously, some margin improvement for us. Now, there is this very significant initiative that's been taking place over the years as we've grown our scale from a couple or \$3 million company, as we had up north here, and grow our volumes, to bring in the stuff directly in from the sources all over the world.

Rick has a team that he's assembled over the last year. He's been very successful. I don't know our container growth rate, but it's very significant in terms of the percentage that we're direct sourcing today. And that growth is -- we're at the very early stages of that growth.

**Jeff Sonnek** - FBR - Analyst

Is the margin differential between the hard lines and the apparel similar? Between a light branded product?

**Mark Baker** - Gander Mountain Company - President and CEO

I'm not sure I understand what you mean.

**Jeff Sonnek** - FBR - Analyst

So if you're going to sell a private label bow, is the incremental margin you make on selling a Guide Series bow versus a branded bow, similar to what you guys would see selling a -- outer wear, for example?

**Mark Baker** - Gander Mountain Company - President and CEO

The delta between the national brand and our brand will be similar in terms of the growth opportunities in the hard lines versus the soft lines as well. We have seen -- seen that occur.

**Jeff Sonnek** - FBR - Analyst

Great. Congratulations. Thank you.

**Mark Baker** - Gander Mountain Company - President and CEO

Thanks, Jeff.

**Rick Vazquez** - Gander Mountain Company - Executive Vice President of Merchandising and Marketing

Thanks.

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**Operator**

And for our next question we go to Rick Nelson with Stephens Investment Bank.

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

Thank you, and good morning.

**Mark Baker** - *Gander Mountain Company - President and CEO*

Hi, Rick.

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

Mark, can I -- I realize you don't provide guidance. But at this point, given what you know, what do you expect on profits for the full year?

**Mark Baker** - *Gander Mountain Company - President and CEO*

Rick, yes, we've always anticipated and expected we'll make this business profitable. If you reflect back on the last couple of years, two of the last three years were profitable. And we expect to return to profitability.

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

Okay, thank you for that. Can you talk about the new store productivity that 60 -- 65,000 square foot stores, what type of sales per square foot you're getting there compared to the old format stores?

**Rick Vazquez** - *Gander Mountain Company - Executive Vice President of Merchandising and Marketing*

Rick, we really don't break out our new store performance or large-store performance from our other stores. Obviously, we probably don't see quite the same productivity in the large stores that we do in the small stores. But I don't think that we've ever broken out exactly our -- where we are on large-store performance versus small-store performance.

**Mark Baker** - *Gander Mountain Company - President and CEO*

Rick, the only thing I would finish with that is saying that it's clear that, obviously, these stores were able to drive comps. Because as a number of them entered the base in a very significant number of our store numbers -- now are in the -- those bigger stores now receive. We drove similar comps through all -- through all of our types of units.

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

Okay, thanks. To reduce vendor discounts, what sort of impact do you think that had on the gross margin in the quarter? What would be your expectation going forward?

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**Mark Baker** - Gander Mountain Company - President and CEO

Discounts -- I'm sorry?

**Rick Vazquez** - Gander Mountain Company - Executive Vice President of Merchandising and Marketing

The vendor discounts going forward, I would guess that when we cycle out through the fourth quarter after that, it'll be pretty flat. But there will be some -- some negative impact in the fourth quarter compared to a year ago, as it relates to margin.

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

Okay, thank you. And SG&A, we did not see leverage this quarter. Would you expect that would be the case again in the fourth quarter?

**Rick Vazquez** - Gander Mountain Company - Executive Vice President of Merchandising and Marketing

I would think that we will not see -- we would probably not see any significant leverage in the fourth quarter. But we might see some.

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

And the deleveraging, that's advertising expense in that number?

**Rick Vazquez** - Gander Mountain Company - Executive Vice President of Merchandising and Marketing

In G&A?

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

Yes.

**Rick Vazquez** - Gander Mountain Company - Executive Vice President of Merchandising and Marketing

Our marketing and advertising costs are in our store operating expenses. So that has nothing to do with the general and administrative costs.

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

Okay, thank you.

**Mark Baker** - Gander Mountain Company - President and CEO

Thanks, Rick.

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**Operator**

And for our next question, we go to Bob Simonson with William Blair.

**Bob Simonson** - *William Blair - Analyst*

Good morning, Dennis. Just a quick one -- where's -- do you have a number for the accumulated tax loss [carry-forward] that you still have?

**Dennis Lindahl** - *Gander Mountain Company - Executive VP and Chief Financial Officer*

From a book standpoint, it approximates \$40 million.

**Bob Simonson** - *William Blair - Analyst*

Okay. And, Mark, can you speak to the issue, you've got some significant competition. One store has lapped -- from some other big box folks in Minneapolis. Now, you have one in Milwaukee. You had wonderful comps in the quarter. Did that include those markets? Or, can you talk a little bit to the issue of the impact of competition?

**Mark Baker** - *Gander Mountain Company - President and CEO*

Well, yes, obviously, Bob, the competition is out there. And as much as competition, we categorize ourselves as we open some of our newer, bigger stores in markets where we've had some of our smaller stores, and continue to have that couple percent impact every time we report. I would say that that's been a continuation of the norm.

We're very proud of -- we have just lapped the competition opening in Minneapolis here and came through that feeling very good, as well as new competition in Milwaukee. Obviously, the store that's closer to it has been affected somewhat. But we have a great following in Wisconsin that is almost remarkable. Of course, the company started there in 1960, as all of you know. But it has an extraordinarily great group of associates.

We think we understand the Wisconsin market probably as well as anybody, having had that experience for over 45 years. And the customers have continued to respond to the Gander Mountain value. We're very proud of what the Wisconsin team -- has continued to grow that business.

**Dennis Lindahl** - *Gander Mountain Company - Executive VP and Chief Financial Officer*

Bob, this last quarter was a continuation that we've had in the past, whereby we see each quarter, and foresee it into the future -- a 1 or 2% kind of impact from cannibalization and competition. This quarter was no different than any other quarter that we've had in the last three, four, five quarters.

**Bob Simonson** - *William Blair - Analyst*

Very good. Would one of you want to speak to the issue of -- you obviously are in -- Mark, you talked to the issue of putting more stores outside of the northern markets, and they're more full-year markets. How many -- how much diversification, geographically, into the -- let's say the south, do you need before it's reasonable to expect profitability, certainly in the second quarter, but also in the first quarter?

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**Mark Baker** - *Gander Mountain Company - President and CEO*

Bob, nice try for a guidance. I appreciate that.

**Bob Simonson** - *William Blair - Analyst*

You're welcome.

**Mark Baker** - *Gander Mountain Company - President and CEO*

From a philosophical point of view, obviously, we see the opportunity for 300 plus stores in the U.S. And we already dominate, we believe, the Midwest and the Great Lakes area. We'll still have ample opportunities. But the biggest part of our opportunity we see as along the Northeast and Southeastern part of the United States, and the Southwest part of the United States. So obviously, we believe that those are very positive impacts on our -- more of full round -- year-around business. And we have now started to see some of those -- early stages of that result. But we're at a very early stage south of the Mason-Dixon Line. But we -- we're very proud of what we've accomplished there.

**Bob Simonson** - *William Blair - Analyst*

So not next year?

Rick, could you talk a little bit about the advertising? You have gone to everyday low pricing. How did you -- how do you use your advertising to draw people in on a promotional basis, or aren't you?

**Rick Vazquez** - *Gander Mountain Company - Executive Vice President of Merchandising and Marketing*

Bob, there's a couple of ways to do that that. Over the years, successful Every Day Low Price retailers have incorporated and that's -- number one, is a very clear communication of that confidence to the consumers, giving the consumers all of the enticement, if you will, that they need from the standpoint of assortment selection. And then, we still very aggressively go after special buys, or as we call them, Hot Buys, whereas, we pass on to the consumer whatever those savings may be on those specially negotiated deals.

The difference between that, and you might say, "Well, isn't that a sale, Rick?" Well, the difference with that is that we're not going to hold a special buy like that to a three day weekend event or to a week-long ad or two week-long ad. If we get a special buy on an item, we will give that savings onto the consumer for whatever the relevant season may be or some predetermined link of time that, in essence, establishes that price as the new price for some time. So --

**Bob Simonson** - *William Blair - Analyst*

Is that just in store, or is that externally advertised?

**Rick Vazquez** - *Gander Mountain Company - Executive Vice President of Merchandising and Marketing*

That's externally advertised as well. We do a lot of in store. But we also have it externally advertised. And if you look at our campaign this year, you would see those, you would see some items denoted as Hot Buys, which would denote those and --

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**Mark Baker** - *Gander Mountain Company - President and CEO*

I think -- to finish out what Rick has gone through, this is a very big what we call almost confirmation that we've actually crossed that line with our consumers. As you've seen, a lot of other retailers struggle to get the confidence it takes -- it's a long journey to get the confidence in price that -- you'll never have to wait purchase it, because you might as well wait for a three-day event or three-day sale. And it takes a lot of patience.

And unfortunately, it takes some challenging times to get through that. But I we were rewarded this quarter -- was recognition of that price confidence between the print advertising that Rick put together and the radio that goes out and reaches far into the -- into the countryside that reaffirms that you never -- you always can feel good about buying at Gander Mountain everyday. And I am very happy with what that result was this quarter.

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**Bob Simonson** - *William Blair - Analyst*

And then, on your private label, you've been ask about [earlier] -- did you say it went from 11 to 13, or 8 to 11 --?

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**Rick Vazquez** - *Gander Mountain Company - Executive Vice President of Merchandising and Marketing*

It went from 8 to 11 in this quarter.

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**Bob Simonson** - *William Blair - Analyst*

And what is it year to date?

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**Rick Vazquez** - *Gander Mountain Company - Executive Vice President of Merchandising and Marketing*

I believe it's around 10.

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**Bob Simonson** - *William Blair - Analyst*

Around 10? And to the other question that's been asked, do you have a goal for, or an expectation, an opportunity to get to a certain level in terms of percent of sales?

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**Mark Baker** - *Gander Mountain Company - President and CEO*

I think that -- more. The numbers --

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**Bob Simonson** - *William Blair - Analyst*

Can you quantify that?

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**Mark Baker** - *Gander Mountain Company - President and CEO*

The numbers that we continue to talk about, as we see opportunities in the high teens and the low 20s in the -- in the not too distance future. It's going to take some time. But we -- we've been very cautious about making sure that the project went for the customers are really the highest quality products we can build and buy. And we want to make sure that they delivered [on] our promise. But there is a big opportunity there.

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**Bob Simonson** - *William Blair - Analyst*

Okay. And the last one, do you have any thoughts yet as to preliminary new stores in '07, and what a CapEx number might be?

**Dennis Lindahl** - *Gander Mountain Company - Executive VP and Chief Financial Officer*

Bob, I think that, at this point in time, preliminary, we're looking at opening three locations in the first half of the year. And our capital expenditures would probably be in that range of 30 to \$35 million on a preliminary basis.

**Bob Simonson** - *William Blair - Analyst*

That's more than three stores, though.

**Dennis Lindahl** - *Gander Mountain Company - Executive VP and Chief Financial Officer*

That's three --

**Bob Simonson** - *William Blair - Analyst*

Or another big [client].

**Dennis Lindahl** - *Gander Mountain Company - Executive VP and Chief Financial Officer*

We've got three stores in the spring. And we expect to open more stores in the fall, Bob.

**Bob Simonson** - *William Blair - Analyst*

How much to spend per store?

**Mark Baker** - *Gander Mountain Company - President and CEO*

Thank you, Bob.

**Bob Simonson** - *William Blair - Analyst*

Thank you, very much.

**Operator**

And for our next question, we go to Nancy Hoch with JP Morgan.

**Nancy Hoch** - *JP Morgan - Analyst*

Great. Thank you. Dennis, as you have to face tougher expense comparisons in the fourth quarter, can you talk about where there's additional opportunity for trimming?

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**Dennis Lindahl** - Gander Mountain Company - Executive VP and Chief Financial Officer

I didn't catch all of that question. Could you repeat it please?

**Nancy Hoch** - JP Morgan - Analyst

Sure. As you start to face tougher expense comparisons in the fourth quarter, can you talk about where there's additional opportunity for trimming moving forward?

**Dennis Lindahl** - Gander Mountain Company - Executive VP and Chief Financial Officer

I think that -- what we've talked about in the second quarter and what we would talk about this quarter is, we're at a point that we don't see significant changes in our expense structure. We continue to improve our expenses, but we -- but the leverage will come from additional sales, and the profitability should come from additional margin opportunities that we've got there. But we don't see that, as we go forward, any significant changes in our expenses structure, positively or negatively. That is not something where we can make significant changes at this point in time.

**Nancy Hoch** - JP Morgan - Analyst

Okay. And then, is there anything you can do to control your rent expense? I think the comp in the quarter was great, but I see a -- little concerning not to see some leverage on that line.

**Dennis Lindahl** - Gander Mountain Company - Executive VP and Chief Financial Officer

On the occupancy side?

**Nancy Hoch** - JP Morgan - Analyst

Occupancy, yes.

**Dennis Lindahl** - Gander Mountain Company - Executive VP and Chief Financial Officer

As we continue to open and -- open stores, some of the newer stores have a little bit higher occupancy rates. But in general, if you looked at our total occupancy, I think that we're comfortable where we are as we go forward.

**Nancy Hoch** - JP Morgan - Analyst

Okay. And then, can you give us any color on the apparel strength in the quarter? How much of that was outer wear versus casual wear?

**Mark Baker** - Gander Mountain Company - President and CEO

We don't break that out, Nancy, at this point. Obviously, we enjoyed growth on both sides.

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**Nancy Hoch** - JP Morgan - Analyst

Okay. Thank you.

**Operator**

And for our next question, we go to Mitch Kaiser with Piper Jaffray.

**Mitch Kaiser** - Piper Jaffray - Analyst

Good afternoon, guys, or morning in this quarter.

**Mark Baker** - Gander Mountain Company - President and CEO

Good morning.

**Mitch Kaiser** - Piper Jaffray - Analyst

I was wondering, on the vendor discounts, is it more a percentage the vendors are paying you or -- it being down, or is it more a reflection of inventory being down and buying being down relatively?

**Rick Vazquez** - Gander Mountain Company - Executive Vice President of Merchandising and Marketing

Mitch, the one that we're talking about here, it relates very specifically to new stores that are open, where they give us some additional assistance in opening our new stores. To the extent that we opened nine stores last year and only five stores this year in the quarter, obviously, from a dollar perspective, we didn't get the same number of dollars. As a percentage of sales, it would be even more significant.

**Mitch Kaiser** - Piper Jaffray - Analyst

Okay. And so --

**Rick Vazquez** - Gander Mountain Company - Executive Vice President of Merchandising and Marketing

The number of vendors continues to participate at a very healthy rate to help us grow and expand our business.

**Mitch Kaiser** - Piper Jaffray - Analyst

Okay. So we should assume vendor support in existing stores is not going down on a percentage?

**Rick Vazquez** - Gander Mountain Company - Executive Vice President of Merchandising and Marketing

That's right.

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**Mitch Kaiser** - Piper Jaffray - Analyst

Okay.

**Dennis Lindahl** - Gander Mountain Company - Executive VP and Chief Financial Officer

In reference to the comment related to just having just five openings instead of nine.

**Mitch Kaiser** - Piper Jaffray - Analyst

Okay. Okay. That's very helpful. And then, guys, I was wondering if you could comment on just how things trended throughout the quarter.

**Rick Vazquez** - Gander Mountain Company - Executive Vice President of Merchandising and Marketing

Well, Mitch, we haven't done a lot of communicating about month-by-month but, clearly, we didn't start our advertising and marketing campaigns until September. And obviously, the key hunting seasons were most relevant to see those. The customers grow from week to week, as we start in early September and move across the country, and north and south across the country as we get later in the season. So we saw that strength as every key hunting season opened up in all those key markets.

**Mitch Kaiser** - Piper Jaffray - Analyst

Okay. Then, I guess, is it a fair assumption, then, advertising's continued and the cold weather has continued, do you continue to expect nice trends?

**Rick Vazquez** - Gander Mountain Company - Executive Vice President of Merchandising and Marketing

That's what you said.

**Mitch Kaiser** - Piper Jaffray - Analyst

Well, I was trying to get you to say the same thing. Okay. That's very helpful. And then, just -- could you just clarify the insurance claim, then -- just what went on there? A little more clarity on that?

**Dennis Lindahl** - Gander Mountain Company - Executive VP and Chief Financial Officer

Just in general, our Binghamton, New York, store was flooded at the end of June. And obviously, we had -- we had activity as it related to the inventory -- redoing the lease-hold improvements, the equipment and the whole type of thing. And the insurance coverage was such that, with the replacement coverage and whatever, it ended up with us receiving proceeds in excess.

In some of the cases, where you have replacement coverage for equipment and leaseholds, you end up with more proceeds than you ended up on your net book value. And that's the gain there. We, obviously, reinvested all of those proceeds back into that store.

**Mitch Kaiser** - Piper Jaffray - Analyst

Okay. Thank you, very much.

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**Operator**

[OPERATOR INSTRUCTIONS]

We go next to Steve Denault with Northland Securities.

**Steve Denault** - *Northland Securities - Analyst*

Good morning, everyone, very nice quarter.

**Mark Baker** - *Gander Mountain Company - President and CEO*

Thanks, Steve.

**Steve Denault** - *Northland Securities - Analyst*

Can you remind us -- or what has the margin delta been approximating on the Guide Series versus national brands?

**Mark Baker** - *Gander Mountain Company - President and CEO*

We don't exactly look at it the way you might think, in a conventional ways. Because all different opportunities based on what kind of Guide Series product you have. Rick is pulling out a little bit more. But we look to make sure that it's priced at the right side of the market. And clearly, we don't have some of the same advertising and rebates and other pieces bloated into that. But it's somewhere in that -- 15 to 20 basis points -- or 15 to 20 points of margin, not basis points. 15 to 20 points of margin, Rick, I think that's what's you're saying it is?

**Rick Vazquez** - *Gander Mountain Company - Executive Vice President of Merchandising and Marketing*

Yes, that's about right, historically. But part of the equation, we're very well aware of when we do our own brand of what our total costs are all the way across. So, that's part of the equation as well, so --. But there is a big enough difference to where it's definitely worth the investments that we make in doing so.

**Steve Denault** - *Northland Securities - Analyst*

Okay. Now, you made a reference to a shortage in ammunition. What -- what's going on there?

**Rick Vazquez** - *Gander Mountain Company - Executive Vice President of Merchandising and Marketing*

I think it's just this year, with a lot of our ammunition vendors, also supplying the military and having those kinds of commitments. It has been very, very difficult. It's a daily commitment and a daily challenge between our merchandizing team, or inventory planning team and our suppliers to anticipate needs, where we have the needs and where those opportunities lie. Because all of the vendors are just running pretty hot in terms of their capacity.

And our comment was really -- very sincerely was to thank them for that. Because coming -- as you know, from my background, coming from a different industry, whenever there are shortages and whenever products go on allocation, not all retailers get

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treated well. And I've been very, very pleased and very impressed by the willingness and the attitude of our suppliers to work with us to make sure that we're staying in stock, and that our customers are getting product when they need it.

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**Steve Denault** - *Northland Securities - Analyst*

Do the consumers understand this? And if so, is there been forward buying?

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**Mark Baker** - *Gander Mountain Company - President and CEO*

Actually -- we've actually put signage in the stores, and explained, in some cases. In some cases, it's been material shortages of glass and metals and -- they've -- we've put signs in stores explaining that there are some temporary shortages in certain products. But we've -- again, Rick grew his business in dollars in that category pretty significantly in spite of some challenges on some specific units. And we're not all -- I mean, we have a lot of ammunition in our stores. But there are some specific small runs and calibers that have been more challenging to get.

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**Steve Denault** - *Northland Securities - Analyst*

Okay. Thank you.

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**Operator**

[OPERATOR INSTRUCTIONS]

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**Mark Baker** - *Gander Mountain Company - President and CEO*

There are no more questions.

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**Operator**

And with that, ladies and gentlemen, we have no further questions on our roster. Therefore, Mr. Baker, I'll turn the conference back over to you for any closing remarks.

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**Mark Baker** - *Gander Mountain Company - President and CEO*

Thank you, Rufus. I want to close with a few thoughts. In the third quarter, we demonstrated that we can drive significant comp store sales gains, and at the same time achieve higher margins. Our success in the third quarter is attributable to our building efforts in the first and second quarters. There is a lot going on at our company that will help us continue to increase our sales and improve our profitability.

We are committed to our customers, our supplier partners, and to our dedicated associates, who provide great service every day. I want to thank our associates for handling over 4 million customer transactions, a record number for the third-quarter. Our associates are the real drivers of our success. Thanks for joining us today.

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**Operator**

And, ladies and gentlemen, this does conclude the Gander Mountain Company third quarter release conference call. We do appreciate your participation. And you may disconnect at this time.

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