

# FINAL TRANSCRIPT

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## **GMTN - Q1 2007 GANDER MOUNTAIN CO Earnings Conference Call**

**Event Date/Time: May. 22. 2007 / 9:00AM ET**

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## CORPORATE PARTICIPANTS

**Bob Burton**

*IR Squared*

**Mark Baker**

*Gander Mountain - CEO, President*

**Bob Vold**

*Gander Mountain - CFO*

**Rick Vazquez**

*Gander Mountain - EVP, Merchandising and Marketing*

## CONFERENCE CALL PARTICIPANTS

**Mitch Kaiser**

*Piper Jaffray & Co. - Analyst*

**Jeff Sonnek**

*Friedman, Billings, Ramsey Group, Inc. - Analyst*

**Bob Simonson**

*William Blair & Co. - Analyst*

**Paul Swinand**

*Stephens, Inc. - Analyst*

**Nancy Hoch**

*JPMorgan Chase & Co. - Analyst*

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**Reed Anderson**

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## PRESENTATION

**Operator**

Good morning, everyone and welcome to the Gander Mountain Company first quarter earnings release conference call. This call is being recorded.

At this time I would like to turn the call over to Mr. Bob Burton, please go ahead, sir.

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**Bob Burton** - *IR Squared*

Thank you, good morning, and thank everyone for joining us. Welcome to the Gander Mountain first quarter 2007 conference call. I'm Bob Burton of IR Squared. 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 Bob Vold Senior Vice President and Chief Financial Officer. Mark will discuss business trends, Bob will review our financial results, and Rick will review our merchandise initiatives.

Mark will discuss business trends, Bob will review our financial results, and Rick will review our merchandise initiatives. We'll take your questions after that. We expect the call to last about 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. This conference call is being broadcast real time on the net at gandermountain.com and we will also offer an internet replay of the call shortly after it is concluded and will

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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 our estimates and expectations that involve risks and uncertainties. Our actual results could differ materially from those projected in any forward-looking statements. Additional information concerning important factors that could cause our actual results to differ materially from these forward looking statements are described in the risk factors section of our annual report on form 10-K as filed with the Securities & 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 [gandermountain.com](http://gandermountain.com) and at the SEC's website at [sec.gov](http://sec.gov).

We caution you that forward looking statements reflect our current views with respect to future vents as 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. Reconciliation and other information required to be disclosed about non-GAAP measures discussed during this call are available on the Investor Relations's page at [gandermountain.com](http://gandermountain.com). Now I'll turn the call over to Mark.

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**Mark Baker** - Gander Mountain - CEO, President

Good morning, and welcome to Gander Mountain's first quarter call. We just completed a solid quarter with record sales in the very first year of the year-over-year improvement in the first quarter operating results. Thanks to the hard work and enthusiasm of our associates we have started a strong 2007. As Gander Mountain has grown the first quarter has remained the toughest period for us. Because of our concentration of Northern stores we have historically reported an operating loss for the seasonally small first quarter. In 2007 our first quarter performance improved despite operating additional stores and square footage.

Put another way, operating losses per square foot improved by 10%. In the seasonal business of Gander Mountain this is an important inflection point for us. We were encouraged by several items in this quarter. First, we saw a very good comp performance in our Southern stores, which supported the positive comp number for the quarter. With 20 of our 105 stores in Southern markets, their performance continues to affirm our growth plans in that region. These stores now represent enough of our mix to begin to move the needle on our overall performance.

This year we will invest all of our new-store growth in the 10 Southern stores and replace 3 Northern stores. Second, we have made a significant investment in our Tracker Marine program, which drove strong sales gains in the stores where we began to roll out a full assortment. We'll also add a smaller selection of market-specific product in all stores, and expect to see these trends continue to improve in the second quarter. Third, our improving merchandising initiatives have lead to a six-quarter trend in expanding initial margins.

Rick will talk more of this in a moment but it is a central part of delivering stronger financial results over the past quarter. We have expanded the network of our retail stores and built the Gander Mountain brand by continuing to work on some of the key objectives. We opened one new store in the quarter in Eden Prairie, Minnesota. This is a replacement store for our Minnetonka, Minnesota store. More importantly it is a high-impact store, featuring upgrades in environmental, signage, and merchandising that Rick will discuss later. We were pleased with its opening and initial performance. I have just come from our company's best spring opening yet in St. Augustine, Florida.

This is our second store in the huge Florida market. Because of openings like this we are confident that the Gander Mountain retail concept works across different geographies due to our attention to the local customer in assortment and services. In addition to St. Augustine, we plan to open two stores during the second quarter in Texas and North Carolina. As announced yesterday we'll open a total of 13 stores for the year including our first store in Mississippi. These 13 store openings will be great for our customers and our shareholders. We have a single-store economic model that provides four wall contributions in more than 90% of our stores on an annual basis.

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As another data point for the first quarter, 30% more stores made a four wall contribution in the first quarter than last year. We still have substantial opportunity to take advantage of better performance in managing, improving our margin and growing our productivity. I view the gains we are making as a natural continuation of our work over the past years. The first quarter has added to my anticipation for fiscal 2007. Gander Mountain is on track to become a profitable billion dollar company. Over the remainder of the year, we will continue to diversify our geographic base and build on consistent execution in merchandising to maximize profitability.

Due to the strength of our store operations, we anticipate accomplishing our new store growth plans and upgrades without increasing our bank debt at year end. We are committed to our customers, supply partners and dedicated associates to provide great service every day. Bob?

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**Bob Vold** - Gander Mountain - CFO

Thanks, Mark, and good morning. First I will summarize our results and then I will go in to more detail on the financials. For the quarter, Gander Mountain reported double-digit sales growth, gross profit expansion and improved performance. As Mark stated, since going public with additional store growth each year, this is the first time losses have been reduced in the first quarter. This improvement is evidenced by reduction in operating loss per square foot for the quarter. From \$3.79 per square foot year to \$3.43 per square foot this year, a 10% improvement.

While these trends are important in marking our progress, we are not satisfied with losses of this size and we will continue to emphasize opportunities for further improvement. Now let me review the quarter. Total square footage increased 8.5% from last year to 5.5 million square feet. There was one replacement store for the quarter. The average square footage per store increased 3% to 52,500 square feet for the first quarter. Through 2007 we expect this metric continue to increase as we expect new stores to average approximately 65,000 square feet plus additional outdoor selling space where we feature ATVs, boats and other products.

Our comp store base at the end of the quarter was 96 stores and included 47 of our large format stores. For the quarter, Gander Mountain delivered 13% sales growth to \$175.7 million including a 1% percent comparable store sales increase. In the first quarter gross profit expanded approximately 190 basis points to 19.3% in the fourth consecutive quarter of improvement. We also improved initial margin rates for the sixth quarter in a row due to a number of factors. Our every day low-price strategy and lower levels of clearance inventory continued to result in higher margins, in addition we saw improvements from buying leverage and regional retail pricing.

These gains were partially offset by changes in sales mix, reflecting increased penetration of Powersports and lower penetration of apparel. Other items affecting gross profit included increased co-branded credit card revenues, leverage in store occupancy costs, and higher fuel costs Turning to expenses in the quarter, store operating expenses increased 13% to \$40.6 million. As a percent of sales store operating expenses were flat. Included in store operating expenses in quarter 1 were \$800,000 related to the rollout of the Tracker Marine Group product line. The first quarter, G&A increased 22% to \$11.5 million. As a percent of sales G&A increased 50 basis points to 6.5% primarily due to investments in systems infrastructure and logistics and severance costs. Net interest expense was \$4 million for the quarter, unchanged from last year.

Overall the first quarter net loss was \$22.8 million, compared with \$23 million in the prior period. Comparisons of loss per diluted share year over year were affected by the company's issuance of equity capital in December 2006, which increased the number of weighted average shares outstanding year over year. Diluted loss per share for the 2007 quarter was \$1.14 per share compared with \$1.61 in the comparable period. The weighted average diluted shares for the quarter were 20.1 million shares compared with 14.3 million in the prior period.

We ended the quarter with bank debt of 224 million, shareholders equity of 176 million and over \$28 million of bank availability. From a cash flow standpoint capital expenditures were \$8.9 million for the quarter versus \$3.7 million last year primarily for

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new-store openings. We expect cash for capital expenditures for 2007 to be in the range of 40 to \$45 million. Net cash used in operating activities was \$47 million as opposed to \$22 million for a similar period reflecting increased inventories in new stores, earlier product sets and additional investments in our Powersports initiative. After the December equity transaction we have worked hard to improve vendor terms related to accounts payable and have increased accounts payable days outstanding by five days year-over-year. In summary, Gander Mountain made good improvements in quarter 1. We expect these trends to continue over the remainder of the year. Now I'll turn the call over to Rick.

**Rick Vazquez** - *Gander Mountain - EVP, Merchandising and Marketing*

Thank you, Bob, and good morning, everyone. Overall I was pleased with our first quarter performance. Comps were positive and margin improved reflecting earlier receipt of spring goods and lower levels of clearance activity both part of our effort to improve store-level execution. Picking up on Mark's initial comment regarding regional strength, our 20 stores in the South performed very well with solid positive comparable sales more than offsetting slow sales performances in the North. A number of merchandising trends continue from last year into the first quarter. We saw continued strength in firearms, fishing, marine products and accessories.

We also had strong performance in footwear categories like casual, women, and youth. Apparel was soft overall primarily due to lower levels of clearance inventory available for sales. This also affected owned brand penetration which declined from 9% to 8% year-over-year. Our rollout of an expanded boat program featuring Tracker Marine, Crestliner, Mercury and Yamaha got underway in mid-quarter. This category, with a terrific lineup of new products, delivered strong performance in boats and motors. We also anticipate that this category will ramp-up steadily over the current quarter as we enter the boat season across the North and the program expands fully to 34 stores.

Our marine business also remained strong in the first quarter across all stores due to earlier product receipt and better execution of regional assortments. Marine did benefit from a halo effect in the stores where the full boat assortment was available. While traditional camping categories like tents have declined in popularity across the industry for several quarters, we are reacting to this trend by shifting our sales mix to faster-growing categories, like Paddle Sports with kayaks and canoes, and outdoor cooking all of which had positive comps on the quarter. Inventory ended at \$393 million for the quarter, an increase of 18% from the first quarter of '06 reflecting additional stores and the receipt of expanded Powersports products. Average inventory per store was 3.4 million versus 3.1 million reflecting the earlier sets of product in the stores and growth in Powersports.

Clearance inventory remains below last year. Our inventory per square foot in open stores excluding in transit and preopening inventory, was \$63.80 versus \$60.17, which is up 6% from prior year. On an annualized basis inventory turnover improved slightly to 1.7 times, which continues to be a great opportunity for us. On a trailing 12-month basis, sales per square foot was \$174.76, versus \$172.53, an improvement of 1.3% as a result of comparable store sales and higher sales per square foot in new larger-format stores. Our average customer ticket increased 5.9% to \$55.35 for the quarter. This reflects the increasing number of larger stores in our mix, where the average ticket is more than \$12 higher as well as strong sales in Powersports.

Both Mark and Bob have touched on Gander Mountain's need to reduce the historic seasonality in our business and noted our progress in this year. Over time we have the opportunity to significantly improve operating results in the first half as several trends emerge. I mentioned that we are seeing the benefits of geographic dispersion as we open stores in the South. I also want to point out that we recognize opportunities to improve performance in our cold-weather stores by shifting the mix to reduce clearance and emphasize categories that perform in spring like boats, marine and fishing.

Let me update you on our efforts in these areas thus far. First, we started implementing a regional merchandising structure last fall by adding three regionally located fishing buyers. This regional purchasing emphasis supported our efforts to merchandise by species in our fishing departments across the country. As an example we may add as many as 10,000 SKUs in a strong saltwater fishing market like Florida. Or edit SKUs out in an inland area without strong fishing base. In the first quarter fishing performed well for us with strong comps in all categories and particularly in combo reel and rod sets.

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We're expanding this regional approach by deploying two more buyers in the southern region to cover other categories such as hunting and apparel. Second, remerchandising our stores for the rollout of the Tracker Boats this spring. We did have a full Tracker and Crestliner boat assortment in numerous stores and have been rolling out selected items like jonboats and small outboard motors throughout the quarter. Our sales in this category reflect this large introduction of new product and promise further impact on sales and margin over the next quarter or two. However, we view this category principally as a long-term opportunity for Gander Mountain. Third, we are acting on initiatives to develop apparel and footwear assortments and reduce clearance year-round.

As an example, we have expanded footwear categories and product lines with great success in the first quarter. We continue to upgrade the apparel shopping environment in our stores towards the Middletown apparel set, which features carpeting, more wood tables, folding tables and mannequins. We're on track to upgrade 16 stores to this layout before the fall season. Our target continues to be 30 stores by year end including new stores. We will apply the layout disciplines we learned here to the remainder of our stores over time. As I mentioned a quarter ago, this regional approach is also supported by improved in-store merchandising to creating more user-friendly environment or solution-based merchandising.

We're taking the knowledge gained from assorting fishing by species and expanding it to other categories like optics in binoculars and scopes. Finally, we will drive our initiatives to improve sales volume by continuing to strengthen leadership categories like firearms and hunting equipment where we are taking market share. In our stores, we will focus extensively on improving the customer shopping experience through product adjacencies and signage, emphasis on our everyday low pricing. We're seeing that the EDLP approach is gaining traction by supporting more predictable sales levels, particularly in apparel. We continue to gain confidence that our customers endorse this approach.

We had a higher advertising spend in the first quarter, particularly in warmer weather markets. In advertising we have changed our campaigns to radio over print in order to reach a broader base of customers more effectively. We have seen customer response in selective markets in the South where we have piloted this program over the past year. We are satisfied with the overall impact on volumes so far. And now I will turn the call over to operator, as we are ready for questions.

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## QUESTIONS AND ANSWERS

### Operator

Thank you. (OPERATOR INSTRUCTIONS) We'll make our first question from Mitch Kaiser with Piper Jaffray.

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### Mitch Kaiser - Piper Jaffray & Co. - Analyst

Hoping you could comment Mark, you talked about four-wall contribution in 90% of stores being positive, does that imply then that there's roughly 10 stores that are not creating four-wall contribution. And if so, how should we be thinking about what you are going to do with those?

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### Mark Baker - Gander Mountain - CEO, President

Mitch your math is about right. Yes. Some of these stores are just marginally not profitable in the four-wall contribution basis. We will continue to look at ways to either increase the merchandising, drive sales, look at margin opportunities or expense controls to put those things over the top. None of them you should read are significantly unprofitable.

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**Mitch Kaiser** - Piper Jaffray & Co. - Analyst

I drive by your Eden Prairie store every night on the way home it does look very good. So just a comment there. The other thing in your prepared remarks you talked about \$1 billion in sales. I know you don't give guidance, but was that something you think you can achieve this year?

**Mark Baker** - Gander Mountain - CEO, President

You know, that is our expectation this year, obviously barring \$5 a gallon gasoline or something like that. We believe the company has the energy and the trajectory right now to be in the billion dollars range.

**Mitch Kaiser** - Piper Jaffray & Co. - Analyst

Okay. That sounds good. And you mentioned what I was going to ask about next. On gas prices we are seeing a pretty steady increase, could you talk about quarter, the first quarter trends and what you saw, and did you see any impact from gas prices related to and then any regional discussion that you might be able to provide as well?

**Mark Baker** - Gander Mountain - CEO, President

Relative prices from our perspective are always something we are conscious of. We have a lot of consumers that drive SUVs and pickup trucks as you might know and enjoy the outdoors and spend energy for fishing and using boats and motor homes and all of those kind of products. So we're always conscious of that. That said, we finished this quarter with 1% comp and first couple of weeks we've seen in May we continue to be comp positive so, from experiences of \$3-plus gallon gasoline, doesn't seem to be affecting us at the moment, but we're always conscious that it might affect the overall consumer. That's what we are aware of, but right now we're pretty comfortable.

**Mitch Kaiser** - Piper Jaffray & Co. - Analyst

Could you just give us an update of where you are at with systems. You mentioned regionalizing the SKUs assortment, you alluded to some pricing and things like that. Your systems allow you to do this at that point, correct?

**Mark Baker** - Gander Mountain - CEO, President

Yes, that's a good question for Rick. Yes, but we have systems and people placement for that right?

**Rick Vazquez** - Gander Mountain - EVP, Merchandising and Marketing

Yes, Hi Mitch. We have the capability with our system to have assortments all the way down to store level. Individualized for every store as well as at the retail pricing, so we do have that capability.

**Mitch Kaiser** - Piper Jaffray & Co. - Analyst

Okay. Where do you think you are in terms of regional pricing and regional merchandising. Is there still quite a bit of room to go on that front?

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**Mark Baker** - *Gander Mountain - CEO, President*

Mitch as we look to our customer there's always opportunity and that's one of the things that I think we do very well is we're nimble and the stores are very entrepreneurial in terms of understanding what their customers need and getting us the request for the items they need and making sure we're competitive everyday.

**Mitch Kaiser** - *Piper Jaffray & Co. - Analyst*

Okay.

**Bob Vold** - *Gander Mountain - CFO*

Mitch, this is a little different. Where Rick's team is now able to take markdowns in smaller markets instead of taking a general markdown, for instance in the state or clearing inventory. Some of these states have so many different seasons whether it's here right through Kentucky and some places in Alabama through February we can keep tree stands for instance at full price because there's still a lot of customers going into the category at that point. That's where the real opportunity comes from, assortment and pricing and margins.

**Mitch Kaiser** - *Piper Jaffray & Co. - Analyst*

Very good. Thank you.

**Operator**

We'll take our next question from Jeff Sonnek with FBR.

**Mark Baker** - *Gander Mountain - CEO, President*

Hello, Jeff.

**Jeff Sonnek** - *Friedman, Billings, Ramsey Group, Inc. - Analyst*

Just going back to this kind of four-wall conversation briefly. I think historically the 65,000 square foot box is doing something like \$14 million in year one. Is the four-wall prototype the same as it was historically or can you give us a sense of how this Southern market is materializing from top-line and then four-wall return?

**Mark Baker** - *Gander Mountain - CEO, President*

I think what we can look at, Jeff is the company is averaging around \$175 a square foot in current sales. And the new stores, in particular the class of 2006 tended to be a little bit better than that so higher sales per square footage obviously there's somewhat higher profitability. And you have to look at them as a form of average because some stores have a recycled structure and a rent structure that's a little different than the ones that are build-to-suit. But that's kind of what we look for on the whole our prototype and our model, if you will, remains somewhat the same.

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**Jeff Sonnek** - *Friedman, Billings, Ramsey Group, Inc. - Analyst*

Okay. So just when you said, I think it was last quarter, you said you did five of those new openings are the best in company or corporate history, rather, we can think of those as just marginally better than corporate average? Any type of magnitude would be very, very helpful.

**Mark Baker** - *Gander Mountain - CEO, President*

We think of the class of 2006 and before we comment too much on that, we want to see the complete cycle all of their 12-months of opening. We remain pretty confident that those were the best openings. As I mentioned a few minutes ago, our St. Augustine store which was also 65,000 square feet, was the best spring opening we've have ever had. We are very confident and excited about it. We want to make sure we have seen all of the results for the 12 months before we comment too much further and update our model.

**Jeff Sonnek** - *Friedman, Billings, Ramsey Group, Inc. - Analyst*

And then Rick, you did mention in your prepared remarks some of the initiatives you were working on as far as merchandising and individualizing some stores, but I think you had previously kind of talked about signage similar to what you guys rolled out in the ammunition and firearms category. Have any of those types of initiatives played through? And can you just comment

**Rick Vazquez** - *Gander Mountain - EVP, Merchandising and Marketing*

Yes, Jeff, we talked about that. We have piloted, some additional signing over in our Eden Prairie store in some other categories like optics and binoculars, scopes and that same signing as we have tweaked the Eden Prairie store we've incorporated into the St. Augustine store and that will be in all of the new stores going forward. Additionally we will probably start here over the second quarter rolling that back into the remainder of the stores.

**Jeff Sonnek** - *Friedman, Billings, Ramsey Group, Inc. - Analyst*

Okay. Just to be clear, how many stores do we have that in presently?

**Rick Vazquez** - *Gander Mountain - EVP, Merchandising and Marketing*

Right now, you have got it in four stores.

**Jeff Sonnek** - *Friedman, Billings, Ramsey Group, Inc. - Analyst*

Great. Thank you.

**Rick Vazquez** - *Gander Mountain - EVP, Merchandising and Marketing*

You're welcome.

**Operator**

Thank you we'll take our next question from Bob Simonson with William Blair.

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**Bob Simonson** - *William Blair & Co. - Analyst*

Good morning. Question on the Tracker boats. How many stores were they in at the end of the quarter and for the average for the quarter.

**Mark Baker** - *Gander Mountain - CEO, President*

It's kind of a bumpy average, but I think at the end of the quarter we just finished the 34th store maybe in the last day or two. Most of the rollout didn't start until recent to mid quarter. We didn't have probably about six weeks with less than half of that number.

**Bob Simonson** - *William Blair & Co. - Analyst*

Okay.

**Rick Vazquez** - *Gander Mountain - EVP, Merchandising and Marketing*

Midway through the quarter we had handful of stores and the 34 stores that we were rolling it out into probably the last of them got set within the last maybe a week or two from the end of the quarter. From a full weighted quarter it was not a lot.

**Bob Simonson** - *William Blair & Co. - Analyst*

And how many, do you have a schedule for how many at the end of the second quarter, third quarter, fourth quarter?

**Mark Baker** - *Gander Mountain - CEO, President*

The full Tracker Marine program along with the full boat assortment is designated for 34 stores at this time. So we have those. We have the additional opportunity of expanding the jonboats and loose motors to the remainder of the Gander Mountain stores. That will be all 105-plus stores. So that is where you will see another benefit in Powersports sales.

**Bob Vold** - *Gander Mountain - CFO*

There will also be, Bob, a few stores that have Crestliner and Yamaha boats that will be in addition to the 34 stores. But something less than 40 stores probably for full boat assortments

**Bob Simonson** - *William Blair & Co. - Analyst*

So the expenses associated with rolling this out, was that in CapEx or that went to the income statement?

**Mark Baker** - *Gander Mountain - CEO, President*

That full amount went to the income statement, whether it's labor, whether it's advertising, signage that type of thing, that's all in expenses.

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**Bob Vold** - Gander Mountain - CFO

Hiring and training some of the people before we started the selling program as well

**Mark Baker** - Gander Mountain - CEO, President

Training, et cetera.

**Bob Simonson** - William Blair & Co. - Analyst

So there's only marginal expense left for the rest of the year if any, associated with that?

**Mark Baker** - Gander Mountain - CEO, President

Correct.

**Bob Simonson** - William Blair & Co. - Analyst

Okay. On these Tracker sales if when put into an existing store, do those revenues go into the comp?

**Mark Baker** - Gander Mountain - CEO, President

It's a comp store then it's a comp sales, yes.

**Bob Simonson** - William Blair & Co. - Analyst

It is a comp sale. Okay. Any desire to say what the contribution was in the first quarter in revenues?

**Rick Vazquez** - Gander Mountain - EVP, Merchandising and Marketing

Thanks for the opportunity, Bob, but we'll take the opportunity to update you on boats.

**Mark Baker** - Gander Mountain - CEO, President

We're really excited about this new business and its product agency. Big part of the business is long term. It takes a couple of years to develop all of the traction in this thing. But we're pretty excited about it what it will be bring over the next couple of years. Individual breakout won't become significant enough but we'll break out Powersports for you.

**Bob Simonson** - William Blair & Co. - Analyst

Okay. Couple of questions for Bob. The 20.089 million shares, I guess it's 89,000 that came from dilution from options.

**Mark Baker** - Gander Mountain - CEO, President

We had 157,000 stock options exercised during the quarter.

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**Bob Simonson** - *William Blair & Co. - Analyst*

What was the average price that drew that or came up with the 20.089, and if it was \$14 what would your shares be like in the second quarter?

**Bob Vold** - *Gander Mountain - CFO*

Again, Bob, that's really not the dilutive effect, that's the weighted average impact of the shares that were the options that were excised during the quarter in the last period, take the dilutive impact into effect. Obviously as the price has increased and as to the extent we're profitable, there will be a larger dilutive effect as the result of impact on options on a go-forward basis.

**Bob Simonson** - *William Blair & Co. - Analyst*

Do you have a calculation for let's say \$14, what the shares for the full year would be?

**Bob Vold** - *Gander Mountain - CFO*

Again from a 13, \$14 range, it's probably close to 1 million, 1.1 million in that range number of shares. I think we talked earlier in the 9 to \$10 range, we talked about a 400,000 incremental impact. So it ramps up quite a bit.

**Bob Simonson** - *William Blair & Co. - Analyst*

So it looks like at this price it would be a little bit over 21 million shares for the full year, assuming you do indeed make profit, is that right?

**Mark Baker** - *Gander Mountain - CEO, President*

Yes.

**Bob Simonson** - *William Blair & Co. - Analyst*

Okay. Do you have a depreciation estimate for this year?

**Mark Baker** - *Gander Mountain - CEO, President*

I don't know that we have taken, we have given specific numbers all together. I think you can for the most part take the depreciation that's in the 10-Q and annualize that and increase it slightly for property additions during the quarter. Depreciation in the quarter one was \$6.2 million up from 5.5. A year ago.

**Bob Simonson** - *William Blair & Co. - Analyst*

Okay. And then, the last question is I and I think others have assumed on a non-GAAP basis to come up with earnings since you became public, we have assumed a 40% tax rate. When you have used up, which is a while, all of your tax loss carry forward, is that still the right number to lose?

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**Mark Baker** - Gander Mountain - CEO, President

I think the 40% is a reasonable estimate at this point in time, as to what the combined federal and state tax rate is.

**Bob Simonson** - William Blair & Co. - Analyst

Thank you.

**Mark Baker** - Gander Mountain - CEO, President

Thank you.

**Operator**

(OPERATOR INSTRUCTIONS) We'll take our next question from Paul Swinand from Stephens, Inc.

**Paul Swinand** - Stephens, Inc. - Analyst

Good morning, congratulations on improved results. Thanks, Paul for Rick Nelson who is out today. With respect to the Tracker Marine you say it is in all 34 stores. On your website it looks like I only see 27. Is it because it's not up on the website yet?

**Mark Baker** - Gander Mountain - CEO, President

That'll be my guess. We'll take a look at that. They should be all up by now. Some of the stores were coming up on the website a little bit later because of the final shipment of all of the product. But 34 stores have at least some Tracker.

**Paul Swinand** - Stephens, Inc. - Analyst

Okay. Since it looks like they skew more to the South and some of the stores are not in your comp base, can you give us how many of the 34 are not in the comp base. Looks like your new store productivity is actually a little bit better than we forecast. Is that what is going on there?

**Mark Baker** - Gander Mountain - CEO, President

Referring to your overall question here, we talked about the strength of the Southern stores. We kind of decided that 20 stores of our 105 stores today in the South only 13 are in the comp base, so it is relatively smaller. And as you might also know these boats and the full boat program only really fit in to the larger store. Most of that growth has been in the South. We also have some Crestliner and Brunswick and G-3 and Yamaha boats in many of those new stores as well. It's just not listed as part of that 34. But I think it would be fair to estimate this, we could estimate this and look it up more closely, but probably less than 2/3rds would be in comp store base.

**Paul Swinand** - Stephens, Inc. - Analyst

Okay. That's helpful, thank you. Of the jonboats and smaller boats, loose motors in all 100 stores, in 2Q is that all going to be incrementally new? Or what percentage of stores are going to have incrementally new Powersports? Aside from the Trackers program, what percentage of stores are going to have incrementally new Powersports business in 2Q?

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**Mark Baker** - Gander Mountain - CEO, President

Just to be clear and we can finish this out, a jonboat is typically a \$500, 12-foot to 14-foot kind of basic rowboat, if you will for shallow water pond fishing or we also see a big opportunity for the water fall hunting for the summer and fall and we're getting ready for that. The small outboards, primarily something Yamaha, less than 10 horsepower will be available in all stores.

**Rick Vazquez** - Gander Mountain - EVP, Merchandising and Marketing

That's correct.

**Paul Swinand** - Stephens, Inc. - Analyst

This is new for this year, though, or is that apples to apples from last year.

**Mark Baker** - Gander Mountain - CEO, President

We had 10 stores that had the program last year.

**Paul Swinand** - Stephens, Inc. - Analyst

Got it. Thank you. And you said you are still running \$12 better per ticket in your large-format stores, and I think you said you only had 47 large format in the comp base. Can you give us what percentage ticket base was up in the comp base.

**Rick Vazquez** - Gander Mountain - EVP, Merchandising and Marketing

Give us a second to look through that and we'll come back to you. But what percentage of the average ticket was up in the comp base, was that the question, Paul?

**Paul Swinand** - Stephens, Inc. - Analyst

Yes, was ticket up in the comp base.

**Rick Vazquez** - Gander Mountain - EVP, Merchandising and Marketing

Yes. The answer would be yes. To the degree I'll have to find out. Because obviously some of the boats, Powersports affected that.

**Paul Swinand** - Stephens, Inc. - Analyst

Okay. All right. Thank you very much.

**Mark Baker** - Gander Mountain - CEO, President

Thank you, Paul.

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**Operator**

We'll take our next question from Nancy Hoch with J.P. Morgan

**Nancy Hoch** - JPMorgan Chase & Co. - Analyst

Great. Thank you. It is a question on cash. Bob I think you mentioned you had 28 million left in available banklines on your revolver and historically your cash operations has been pretty weighted toward the first quarter and we would expect CapEx to see that growing over the next two quarters in your store base. Is there a point in this year that you are going to be a bit of a cash crunch or is there going to be some change in the seasonality of the cash flows this year?

**Bob Vold** - Gander Mountain - CFO

Two things, Nancy, under our revolving credit facility we still have \$50 million of total capacity. We're at about \$224 million or so of debt right now, and we have up to 275 million to go, and addition we have 28 on our existing facility today, and again, obviously the 275 is on the revolver component. We have borrowed right now \$20 million, which is part of the borrowings today from that standpoint.

We're in, from a seasonal standpoint our advance rates continue to increase as we get through the summer from that standpoint. They go up basically each and every month. We're in right now what I would consider to be the tighter period as we go in to June and July from that standpoint but we do not foresee any issues whatsoever in that regard. We also have available borrowing capacity if we still need that.

**Nancy Hoch** - JPMorgan Chase & Co. - Analyst

Okay. And then, excuse me, as far as the inventory growth. I think inventories are up about 18% in the quarter. Is that given a boat rollout, is that a number we should expect to see through the balance of the year?

**Bob Vold** - Gander Mountain - CFO

Nancy on the inventory growth there are a couple of issues that we need to clear. We had obviously the new boat rollout was 10 or so million in there. There's also \$10 million directly related to new stores, and we also as Rick mentioned and Bob, we brought in more inventory earlier for our season, its probably \$20 million in transit through our DCs and places like that to prepare, for what we consider to be a good 2007.

**Nancy Hoch** - JPMorgan Chase & Co. - Analyst

Great. That's helpful. I know you don't have the Middletown set in many stores, but can you comment at all on the apparel comps for the quarter? From the four stores or just the remodeled stores.

**Rick Vazquez** - Gander Mountain - EVP, Merchandising and Marketing

Nancy this is Rick. We don't break out the categories as far as what the sales are doing in each of the categories, but we're very encouraged by what we're seeing and the reception from the customers and the expanded and product lines, for example, one of those areas we really went after is the footwear category, and as I mentioned in the call, that was a real highlight in terms of its performance and acceptability by the consumer, so we are very encouraged by it.

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**Nancy Hoch** - JPMorgan Chase & Co. - Analyst

Great. Thank you.

**Operator**

We'll take our next question from Steve Denault with Northland Securities.

**Steve Denault** - Northland Securities - Analyst

Good morning. How significant were the severance costs in the quarter?

**Mark Baker** - Gander Mountain - CEO, President

Not a real significant number overall from that standpoint. Again, it was essentially one individual.

**Steve Denault** - Northland Securities - Analyst

Okay. Is the new ASP Scout Alliance, it sounds like the initial rollout is for seven stores Are they in stores yet?

**Mark Baker** - Gander Mountain - CEO, President

Those are not Steve. We're really excited about them. The rubber track hunting vehicle that we think is going to be very unique and we're exclusive in that category. We're introducing it to a bunch of the riders in Colorado this week and it will be rolling out in stores in the next 30 days.

**Steve Denault** - Northland Securities - Analyst

What will be the ticket on that?

**Mark Baker** - Gander Mountain - CEO, President

It will range from about 25,000 to close to 40,000, depending on accessories.

**Steve Denault** - Northland Securities - Analyst

Okay. Will there be any financing, or will you buy those outright.

**Mark Baker** - Gander Mountain - CEO, President

We have terms we'll work through with the supplier and also more importantly to provide some type of loan base for customers to buy these on terms as well.

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**Steve Denault** - Northland Securities - Analyst

Okay so the intention would be to start out with seven stores and roll it out to 60 or so?

**Mark Baker** - Gander Mountain - CEO, President

I think we are going to wait for the consumer demand to tell us how many stores it will be in. We certainly are excited about the uniqueness of this product and the quality of the product that supplier puts together for us, and we'll just see what the consumer demand is for that but we're pretty excited about it early on.

**Steve Denault** - Northland Securities - Analyst

Just try to envision it, would this be a situation where one could find an individual sitting outside the store somewhere?

**Mark Baker** - Gander Mountain - CEO, President

Yes.

**Steve Denault** - Northland Securities - Analyst

Perfect. Thank you.

**Operator**

We'll take our next question from Reed Anderson with DA Davidson.

**Reed Anderson** - DA Davidson - Analyst

Good morning. Most of my questions have been answered. Rick, you talked about footwear somewhere, you felt like you did well. Just curious, what do you think your average price point is in footwear and is the success driven more by branded product or is it more on the private label side.

**Rick Vazquez** - Gander Mountain - EVP, Merchandising and Marketing

I would probably say that the success is really on the branded side.

**Reed Anderson** - DA Davidson - Analyst

Okay.

**Rick Vazquez** - Gander Mountain - EVP, Merchandising and Marketing

We don't have a very big presence of owned brand, and what we have been doing is not only looking at the brands that the consumers are asking for, but also expanding into categories that they wanted us to expand in to. So that's really where it is at. Our price range, Reed, it varies so much, you have got a mix from sandals that are probably in the 20 to \$40 range, all the way

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to hunting boots that are anywhere from 100 to \$200. There's quite a variety or diversity of price ranges in that category so it's pretty tough to pinpoint a number that would be relevant.

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**Reed Anderson** - *DA Davidson - Analyst*

Was it fair, to say though, that maybe your success, at least this quarter was more in the mid-price range, or would you feel it was higher than that?

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**Rick Vazquez** - *Gander Mountain - EVP, Merchandising and Marketing*

Yes it's primarily in the mid-price range and as we stated, in casual footwear women, youth, and some of the new things that we have brought in.

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**Reed Anderson** - *DA Davidson - Analyst*

Okay. Good. And then probably for Bob, you know, the G&A piece, if you strip out the technology cost and the severance, essentially, then, G&A should be flat on a year-over-year? Is that sort of safe from a modeling standpoint?

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**Bob Vold** - *Gander Mountain - CFO*

Yes, I think Reed the important thing to remember is some of these items stick out a little bit more on our seasonally smaller first quarter

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**Reed Anderson** - *DA Davidson - Analyst*

Sure.

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**Bob Vold** - *Gander Mountain - CFO*

We have talked about over time we expect leverage in G&A.

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**Reed Anderson** - *DA Davidson - Analyst*

Okay. Good, and then the Tracker Boat program, is that in all of the Southern stores, or is in only a select number of them.

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**Mark Baker** - *Gander Mountain - CEO, President*

It's in a select number of the Southern stores. Almost all of our Southern stores have some type of a boat program, though.

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**Reed Anderson** - *DA Davidson - Analyst*

Sure. Can you say how many have the Tracker program?

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**Mark Baker** - Gander Mountain - CEO, President

It would probably be about half.

**Reed Anderson** - DA Davidson - Analyst

Just to clarify something Rick said in his prepared comments. Did you say that basically essentially the comps were positive in the Southern stores, which there's 13 of those in the comp base and they offset essentially negative comps in your Northern stores, is that correct.

**Mark Baker** - Gander Mountain - CEO, President

Rick, let me take that for a second. What we really said is the Southern stores really were very, very strong in the quarter. Obviously 13 on a base of 9 and some comp stores had a very positive effect. But we didn't say anything about being necessarily negative in the North.

**Reed Anderson** - DA Davidson - Analyst

That's very helpful. Thank you. That's it for me.

**Operator**

(OPERATOR INSTRUCTIONS) We'll take a follow-up question from Bob Simonson with William Blair.

**Bob Simonson** - William Blair & Co. - Analyst

Yes. The private label was down in the first quarter. Do you have what was it for the full year of '06, and are you willing to give an estimate of where it might end up this year, Rick?

**Rick Vazquez** - Gander Mountain - EVP, Merchandising and Marketing

Yes, Bob, for the full year of '06, going back on my memory I think we ended last year on right between 11 and 12%, and that was an increase from prior year. This year we commented it was down from 9 to 8% and that is primarily because we had a lot less clearance inventory and apparel to sell this spring and a lot of that inventory would have primarily come out of own brand product so the essence of what drove that number down, I think is really from a good news. So you can expect there as we stated before that our initiative is to continue to grow, our penetration of owned brand year-over-year.

**Mark Baker** - Gander Mountain - CEO, President

Bob, I think it's also important Rick, we mentioned we made more gross margin dollars on our private label in the first quarter. It was really related to clearance dollars. And long term our goal is to see this get to high teens to low 20s part of our business as we get scaled to build our brand around a lot of product and stand that opportunity.

**Bob Simonson** - William Blair & Co. - Analyst

Did you say or am I putting words in your mouth, Mark, which I couldn't do anyway, that the decline or Rick the decline in the first quarter was the net effect, plus, minus or neutral on the gross margin in the first quarter?

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**Mark Baker** - Gander Mountain - CEO, President

Say it again, Bob, I'm sorry --

**Bob Simonson** - William Blair & Co. - Analyst

The decline in private label, normally I would have assumed it would have had a negative impact on your reported gross margin year-over-year, but if there was less clearance maybe that offset it.

**Mark Baker** - Gander Mountain - CEO, President

You are exactly right. We said we made more gross margin dollars in the private label this quarter than we did a year-ago quarter because of the lack of clearance activity.

**Bob Simonson** - William Blair & Co. - Analyst

Are you willing to give an estimate on where the private label might end up for the full year? Higher than 15? 15?

**Rick Vazquez** - Gander Mountain - EVP, Merchandising and Marketing

I think in that range. There's a lot of things that go on in private label that from time to time comes a little bumpy. We are really excited about the long term goals of this thing. It's going to be in the high teens and low 20s. We're on that trajectory every year. We're grown it year over year. But we're going to do it in a smart way, not just to bring in private label but bring a private label that is a great value for the consumer, that gives us a little extra margin. I need to go back and correct. I said we ended '06 at 15. I think if my memory serves me right. That was what I said for the fourth quarter lapse year. For the full year was between 11 and 12% for '06.

**Bob Simonson** - William Blair & Co. - Analyst

So am I thinking about this correctly that the private label effort this year, assuming things come out roughly the way you would like them to? That it would have a somewhat positive impact on your reported gross margin. It's in the column for a plus on gross margins comparison to '07 versus '06.

**Rick Vazquez** - Gander Mountain - EVP, Merchandising and Marketing

That is correct, Bob.

**Bob Simonson** - William Blair & Co. - Analyst

Okay. And Mark, could you give just an update on the competitive environment.

**Mark Baker** - Gander Mountain - CEO, President

Well, this business as we talked about in the past is one that there are competitive marketplaces that are going on. Chicago this year is going to be a market where a number of the entertainment destination stores are going to make their inroads. We believe, we have got a model now as we enter our 23rd state, and many of these being second and third-tier markets. A model that

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allows us to sustain our growth. At the end of the day it is still far less than 15% of the total available market that is done between the top 3 in this category.

So while there are occasionally little border skirmishes, and we have got to earn those customers and do whenever we can with our products, our services, our value to win them over, and we feel very good about our market positioning, and our net growth in the South, where we believe we have got a lot of net new markets. There's still a lot of market share out there for everybody.

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**Bob Simonson** - *William Blair & Co. - Analyst*

Thank you very much.

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**Operator**

Thank you. We'll take a follow-up question from Paul Swinand from Stephen's.

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**Paul Swinand** - *Stephens, Inc. - Analyst*

Hello, can you hear me.

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**Mark Baker** - *Gander Mountain - CEO, President*

Paul, go ahead.

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**Paul Swinand** - *Stephens, Inc. - Analyst*

Real quick a follow-up on Bob's follow-up. Since I know last first quarter you talked about private label in fishing and, particularly more on the hard goods side your rods. You said fishing was up, can we assume that even though there was a decline from the soft goods side, are the hard goods private label products still comping up?

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**Mark Baker** - *Gander Mountain - CEO, President*

Well, I think what the answer is there we have done a couple of things in combination rods and reels. We have been putting for instance a branded reel on a private label rod and putting a great value to the customer. We're not even sure how to count that actually. It has had a very significant growth in that area. And our hard lines branded and own brand items continue to grow significantly over time.

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**Paul Swinand** - *Stephens, Inc. - Analyst*

So in general, though, the hard line side is still growing as percent even in this quarter it grew as the percentage of private label and hard line still grew.

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**Mark Baker** - *Gander Mountain - CEO, President*

Modestly, but that is correct, yes.

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**Paul Swinand** - *Stephens, Inc. - Analyst*

Thank you.

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**Operator**

It appears there are no further questions at this time. Mr. Baker I'd like to turn the conference back to you for any additional or closing remarks.

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**Mark Baker** - *Gander Mountain - CEO, President*

Thanks Eddie, thanks everyone for attending this call. Overall our vision remains intact, we are developing a scalable business with a stronger first half based on Southern stores, new products in marines and boats. And regionally relevant assortments that will support our efforts to grow toward our long-term goal of over \$3 billion of revenue. 5 to 6% pre-tax margins, and double-digit ROIC. Gander Mountain will be the best outdoor lifestyle retailer as we grow toward a network of more than 300 stores.

I want to thank our associates for handling over 3.1 million customer transactions in the quarter. They are the real drivers of our success. Thanks for joining us today. We'll speak to you in a couple of months.

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**Operator**

That does conclude today's conference call. You may now disconnect.

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