

FINAL TRANSCRIPT

Thomson StreetEventsSM

GMTN - Q2 2007 GANDER MOUNTAIN CO Earnings Conference Call

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

Aug. 22. 2007 / 9:00AM, GMTN - Q2 2007 GANDER MOUNTAIN CO Earnings Conference Call

CORPORATE PARTICIPANTS

Bob Burton

IR Squared - IR Contact

Mark Baker

Gander Mountain Co. - CEO, President

Bob Vold

Gander Mountain Co. - SVP, CFO, Treasurer

Rick Vazquez

Gander Mountain Co. - EVP, Merchandising and Marketing

CONFERENCE CALL PARTICIPANTS

Bob Simonson

William Blair & Co. - Analyst

Jeff Sonnek

Friedman, Billings, Ramsey - Analyst

Reed Anderson

D.A. Davidson & Co. - Analyst

Steve Denault

Northland SEC - Analyst

Rick Nelson

Stephens, Inc. - Analyst

Peter Keith

Piper Jaffray - Analyst

PRESENTATION

Operator

Good morning, everyone, and welcome to the Gander Mountain Company second 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.

Bob Burton - IR Squared - IR Contact

Good morning everyone, and thank you for joining us. Welcome to the Gander Mountain second quarter 2007 conference call. I am 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 reveal our financial results, and Rick will review our merchandise initiatives. We will 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 Internet at 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

Aug. 22. 2007 / 9:00AM, GMTN - Q2 2007 GANDER MOUNTAIN CO Earnings Conference Call

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 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 GanderMountain.com and at the SEC's website at 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. The reconciliation and other information required to be disclosed about the non-GAAP measures including EBITDA discussed during this call is available on the Investor Relations page at GanderMountain.com. Now I will turn the call over to Mark.

Mark Baker - Gander Mountain Co. - CEO, President

Good morning, and welcome to Gander Mountain second quarter call. Thanks to the hard work and enthusiasm of our associates we reported record sales and strong same-store gains particularly in our Southern stores and Eastern stores. Overall, we were encouraged by several items. First, we saw double-digit performance in our Southern stores; only 16 of these are currently in the comparable store base, and the performance of all 25 Southern stores continued to affirm our growth plans in that region.

We regard this as strong evidence that the Gander Mountain brand and store prototype is transportable from our home market in the Midwest across the entire country providing us with substantial growth opportunities to further expand the largest outdoor lifestyle retail channel.

Second, we saw sales and operating results from a significant investment in power sports and Tracker Marine programs, which rolled out during the quarter. In one season Gander Mountain has become one of the largest tracker distributors in the country, which is evidence of the strength of our retail store network.

Third, while sales were good, we were disappointed not to deliver an improvement in net income primarily due to the softness in our product margin rate. This is a result of the shift in our sales mix as we saw strong sales in lower margin power sports but negative comparable sales performance in apparel as we transitioned that area of our business. Rick will comment on the activities in our soft goods in a moment. As a result, our initial margin contracted after six quarters of expansion. We will focus closely on this and expect to return to margin growth in the third and fourth quarters of this year.

As previously announced, due to the favorable US district court decision in July, Gander Mountain intends to re-enter the direct marketing business with the full use of our brand and image. This is an important step in building a national retail operation that goes to market across all channels and brings new customers the opportunity to do business with Gander Mountain. eCommerce will restore Gander Mountain's historic direct marketing relationship with customers, offer substantial growth opportunities through eCommerce and catalogs, provide strong leverage for our retail network, and strengthen our long-term competitive position. While it will take several quarters to develop, I am very excited about the opportunity presented by eCommerce.

However, our priority will remain our retail network, which we have been in building by continuing to work on some key objectives. We opened three new stores in the quarter, St. Augustine, Florida; Fayetteville, North Carolina; College Station, Texas. We were pleased with their openings and initial performance. St. Augustine was our largest spring opening ever, and our 2007 stores continue to provide sales well in excess of \$200 per square foot. These openings are the latest in our strategy to geographically balance our brand. Their performance is evidence of the versatility of our Gander Mountain store prototype, strength of our economic model and underscores our ongoing geographic opportunity. Transaction count and average ticket in our class of 2004 and later stores also increased over the quarter, which I view as a broadbased indication that the customer is responding to our marketing merchandise initiatives as we continue to replace the older and smaller stores.

Aug. 22. 2007 / 9:00AM, GMTN - Q2 2007 GANDER MOUNTAIN CO Earnings Conference Call

We opened nine stores during the third quarter, closed two replacement stores and opened our first store in the state of Mississippi. This year we will invest all of our new growth in Southern stores with the exception of Evansville, Indiana and replace three Northern stores. We have discussed our large format remodeling activities, of which our Middletown, New York store was the prototype. We have recently completed the remodeling of our large store in Geneva, Illinois and recently re-grand opened that store with great results. We expect to see further reopenings so that all 16 target stores will be completed by mid-September.

We are pursuing merchandise initiatives that will build our business; in particular I am excited about the coming rollout of the Gander Gunsmith Certified program that Rick will discuss. We still have substantial opportunities to improve our margins, grow our productivity and manage our inventory. I view the progress we are making as a natural continuation of our work over the past years. The first half 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, build on consistent execution and merchandising to maximize profitability. Bob will comment in a moment on the extension of our bank agreement, we continue to be confident that, due to the strength of our store operations, we can accomplish our new store growth plans and upgrades without increasing our bank debt year-over-year. We are committed to our customers, our supplier partners and to our dedicated associates who provide that great service every day. Bob.

Bob Vold - Gander Mountain Co. - SVP, CFO, Treasurer

Thanks, Mark, good morning. First I will summarize the results, and then I will go into more detail in the financial statements. For the quarter Gander Mountain reported 18.6% sales growth and a comparable store sales increase of 4.2%. The net loss for quarter two of fiscal 2007 was \$9.7 million as compared to \$7.6 million last year. Two principal factors contributed to the increased loss; the first was a reduction in product gross margin. This reduction resulted primarily from a change in product mix due to an increase in power sports, including boats and motors and a reduction in our apparel business.

The second factor was the adoption of a new incentive compensation program during the quarter. This program, which went into effect for the quarter, was visible in both the store operating and G&A lines. This program focuses on sales and initial margin dollars on a monthly and quarterly basis, allowing our people to focus on what they control. The prior program was based on annual net income. We believe this program is creating alignment and enthusiasm across store managers, merchants and Base Camp associates.

Summing up the quarter, I share Mark's comment that while we are encouraged by improvement in several areas, we were not satisfied with sales and margin performance in apparel. We are working hard to improve consistency in our business and look forward to a successful third and fourth quarters.

Now let me review the second quarter. Total square footage year-over-year increased 12% to 5.7 million square feet. There were three new stores added for the quarter. The average square footage per store increased approximately 3% to 52,900 square feet for the second quarter. Through 2007 we expect this metric will continue to increase as new stores will average approximately 65,000 square feet before outdoor selling space. Our comp store base at the end of the quarter was 94 stores. As I said, sales increased 18.6% on a 4.2% comp increase. On a year-to-date basis sales increased 16% with comparable store sales increase of 2.7%. In the quarter gross margin decreased 35 basis points to 23.8% of sales as compared to 24.2% last year. This decrease resulted primarily from changes in our sales mix. On a year-to-date basis gross margins increased from 21.0% to 21.8% primarily as a result of increases in initial margin rates and leverage in store occupancy.

Turning to expenses in the quarter, store operating expenses increased 19.9% to \$43.7 million. As a percent of sales, store operating expenses increased from 20.0% in quarter two of 2006 to 20.2% in the comparable quarter this year. This 20 basis point change was primarily attributable to compensation paid under the Company's new incentive compensation plan. Included in store operating expenses were more than \$2 million in labor and expense related to the expansion of the power sports program, including the Tracker Marine group product line.

Aug. 22. 2007 / 9:00AM, GMTN - Q2 2007 GANDER MOUNTAIN CO Earnings Conference Call

For the second quarter, G&A expenses increased 21.8% to \$11.7 million. As a percent of sales, G&A increased 14 basis points to 5.4%, primarily due to the Company's new incentive compensation program. Preopening expense included normal costs in anticipation of increased store openings this fall and initial expenses related to the Company's early development of an eCommerce program.

Net interest expense was \$4.5 million for the quarter compared to \$4.8 million last year. As a result of these factors the second quarter net loss was \$9.7 million compared with \$7.6 million in the comparable quarter last year. Comparisons of loss per diluted share year-over-year are 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 second quarter was \$0.48 per share compared with the loss of \$0.53 per share in the comparable period. The weighted average diluted shares for the quarter were 20.3 million shares compared with 14.3 million in the comparable period last year.

As we announced last week, we have entered into an amended and restated credit facility with Banc of America and the participating banks. We are pleased to have increased the size of our revolving credit facility from \$275 million to \$345 million and have extended the maturity date by three years to June of 2012. Combined with improved operating performance, this new agreement gives us the ability to continue our plant expansion program. We have a great working relationship with Bank of America and the participating banks. They have shown great confidence in us and our business model by expanding the size of our credit line, and extending the term of our agreement.

We ended the quarter with bank debt of \$244 million and shareholders' equity of \$168 million. Capital expenditures were \$8.6 million for the quarter versus \$13.6 million for the comparable quarter last year. We expect total capital expenditures for fiscal 2007 to be in the range of \$40 million. Net cash used in operating activities for the first six months was \$68 million as opposed to \$32 million last year, reflecting increased inventories due to additional stores and new investments in our power sports initiative.

We have continued to work hard to improve vendor terms related to accounts payable and have increased accounts payable days outstanding by eight days year-over-year. In summary, we believe we can continue to improve gross margins and operating performance in quarter three and quarter four in fiscal 2007, which will provide a foundation for future profitable growth.

Now I'll turn the call over to Rick.

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

Thank you, Bob, and good morning, everyone. From the merchandising perspective we had a number of encouraging elements in the quarter. Comps were solidly positive, reflecting strong growth in our expanding boat and related businesses. As a number of merchandising trends continued into the second quarter we saw ongoing strength in firearms, archery, fishing, marine products and accessories. Owned brand penetration increased to 10.8%. The fishing category continues to grow with the addition of higher end rod and reel combinations as we make the selection and buying process easier for customers. We are continuing to develop the market specific assortments and seeing good response across all regions.

Turning to our highest profile summer merchandising initiative, the rollout of an expanded boat and motor program featuring Tracker Marine, Crestliner, Mercury and Yamaha hit full stride at 34 stores during the quarter. This was the largest product and brand expansion in our history and offers substantial growth opportunity in the years to come. This category is a natural investment for us given the Gander customers' passion for the outdoor recreation and our unique ability to sell and service the product. It helps balance our seasonal sales profile by supporting the first half.

Our stores delivered strong sales and margin performance and we anticipate continuing sales gains through the current quarter as we emphasize hunting boats across all of our geographic markets and recreational boats across the South. Marine accessories was also a strong growth category for Gander as we expanded our boating assortments and saw the halo effect in this category.

Aug. 22. 2007 / 9:00AM, GMTN - Q2 2007 GANDER MOUNTAIN CO Earnings Conference Call

In camping our general camping and outdoor cooking categories were positive against a soft overall performance for the quarter. Although sales trend were positive, our apparel business was soft in the quarter which led to lower gross margin performance. As I mentioned in our year-end call, we are transitioning this segment under the direction of Rick Rusch who has been with us since early this year. Over the next several quarters we will continue to evolve the way we approach this critical margin area. Let me give you three initiatives that are currently underway.

First, as we move into 2008 we will implement a more consistent approach to our assortment by identifying core products and flowing it year-round rather than in two very large deliveries as we have done in the past. Second, while core products will be balanced between owned and national brands, we will approach seasonal items on a five season basis that will allow us to better manage sourcing, smooth out distribution and keep our stores supplied with fresh product.

Third, we are implementing increased disciplines around the management of clearance activity. As a result of this approach, apparel clearance inventory today is 14% below last year, and we expect to be even further below last year as we move through the third quarter. As I said this is an ongoing evolution that will be more visible as we move into early 2008.

Inventory ended at \$419 million, an increase of 25% from the second quarter of '06, reflecting additional stores and the receipt of the expanded power sports product. Our inventory per square foot in open stores excluding in transit and preopening inventory was \$71.56 versus \$65.61, which is up 9% from the prior year. The average inventory per store was \$3.4 million versus \$3.1 million reflecting the growth in power sports, particularly in current seasonal items. Part of the reason for the inventory increase is our success in taking seasonal inventory earlier than our history practice. As an example, we took initial deliveries of tree stands in the second quarter and reported a comp of better than 100%, including the new Gander Mountain branded product.

On an annualized basis inventory turnover remains at 1.7 times, which continues to be an opportunity for us. On a trailing twelve-month basis sales per square foot were \$176.47 versus \$162.95, an improvement of 8.3% as a result of comparable store sales and higher sales per square foot in our larger format stores. This is the second consecutive quarter of improvement in this metric. Today 73% of our square footage is in our 2003 and larger big box stores. Our average customer ticket increased 8.3% to \$56.43 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 power sports. These trends are encouraging as we prepare a number of initiatives for the fall season.

First, we continue to identify items where earlier receipts and display of product can drive incremental sales. We are seeing these trends in items like tree stands, decoys and archery. Second, as we have successfully done in fishing, we expanded our implementation of a regional merchandising approach in the South by deploying additional regional buyers to cover hunting and apparel. As a result we have substantial upside potential this fall in hunting, field wear and seasonal footwear like hunting boots as our assortment reflects regionally specific items, weights and patterns.

Gander Mountain is the largest full-line firearms dealer in the country. Today we have the Gander Gunsmith Certified program that Mark mentioned earlier. We believe this program offers Gander customers service and value none of our competitors can match. It is backed up by our industry-leading 130 gunsmith program, one in every store, which is unique to Gander Mountain. This program will be fully rolled out by September. The Gander Gunsmith program covers both new and used firearms and provides an additional twelve-month warranty, free clean and check, \$29 trade-in certificate for Gander certified firearms and many more benefits.

Finally, picking up on Mark's comments regarding direct marketing, let me begin by saying that we have been focusing on this opportunity for some time. Our research around the recognition of the Gander Mountain brand is very very encouraging. Our customers want a Gander Mountain online store. We will follow a conservative, thoughtful approach for the launch of the transactional sight late this year or early next year delivering the same high quality outdoor experience as our stores. The customer experience is paramount to us.

Aug. 22. 2007 / 9:00AM, GMTN - Q2 2007 GANDER MOUNTAIN CO Earnings Conference Call

Our customer plans call for -- our current plans call for a presence of several thousand SKUs with seasonally relevant categories. We will handle fulfillment initially through the converted store here in Minnesota. We can reach out to an initial online audience through our national television presence and our radio campaigns, reaching potential new customers in every state, whether we have brick-and-mortar presence or not. As Mark indicated, our expectation is that this will grow to become a significant part of our business over time as we expand thoughtfully.

And now I will turn the call over to the operator as we are ready for questions.

QUESTIONS AND ANSWERS

Operator

(OPERATOR INSTRUCTIONS) Bob Simonson, William Blair.

Bob Simonson - William Blair & Co. - Analyst

-- the Tracker boats, is it possible -- you noted Mark and I think Bob did too that the operating margin reversed for the first time in a couple quarters -- is it possible to kind of subtract out the power sports revenues? What it did to the comp as well as what it did to the margins, and how did the stores -- how did the margins look excluding power sports? Is that a possibility?

Mark Baker - Gander Mountain Co. - CEO, President

I think I will have to repeat your question here because you got cut off maybe -- when I heard your question, can we separate a little bit directionally what happened to the sales on a comparable level and the margin on a comparable level without the Tracker boats in the 34, 35 stores, correct?

Bob Simonson - William Blair & Co. - Analyst

Right.

Mark Baker - Gander Mountain Co. - CEO, President

The comparable merchandise margins would have been positive without boats in there much like the six quarters in the past where we had margin expansion. It was probably the smallest margin expansion we've had on a comparable basis simply because of the apparel piece was from the sales side was a little tighter or disappointing. But the margin would have increased or would have increased in all the other categories, and the mix of positive there. As well as the company would've been positive comp even without the boats reminding you that the boats, the full line Tracker piece is still only in 34 stores so we would've been positive comp even without that.

Bob Simonson - William Blair & Co. - Analyst

Very good. And regarding the entry back into the direct channel, can you estimate or give some guidance as to what the cost of ramping that up was in the second quarter, what it might be in the second half? And then it sounded, Rick, like you may not actually get any revenues to offset that until perhaps the first quarter.

Aug. 22. 2007 / 9:00AM, GMTN - Q2 2007 GANDER MOUNTAIN CO Earnings Conference Call

Bob Vold - *Gander Mountain Co. - SVP, CFO, Treasurer*

From a quarter two standpoint including the preoperating expenses it is close to \$300,000 related to our efforts for the second quarter as we started development work. Again I would expect similar amounts each quarter maybe for the latter part of this year. Again, we have not projected revenues. It will be very late either quarter four early next fiscal year before that ramps up.

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

So there is about something just short of \$1 million in expense to get back in? Is that correct?

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

That is a rough number, Bob, because we really don't know particularly depending on our launch date, how much we're going to spend when. But in the general area of \$600,000 to \$1 million is probably not incorrect.

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

Okay. And Rick, on the interest expense, I believe you have talked about wanting -- on the first quarter call -- wanting to be out of the line at the end of the year. Can you give some guidance on interest expense in the second half?

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

That question to Bob Vold since he is our CFO.

Bob Vold - *Gander Mountain Co. - SVP, CFO, Treasurer*

We've talked about from an overall debt standpoint, Bob, is that our debt level at the end of this fiscal year will essentially be the same as what it was at the beginning of the year which was 165 to \$170 million range from a bank debt standpoint. The only thing we really said from a guidance standpoint was interest expenses that we believe will be less than it was last fiscal year. Last year the number was slightly in excess of \$19 million for an interest expense standpoint. We would continue to expect that would be less than that for this fiscal year.

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

And on an absolute dollars it peaks here in this current third quarter and then goes down in the fourth seasonally. But can it be down in the third quarter versus a year ago?

Bob Vold - *Gander Mountain Co. - SVP, CFO, Treasurer*

If you look at our borrowings most of the impact will probably be in quarter four. Again, quarter three is like you said, the highest seasonally quarter from a standpoint when we really start generating cash at the end of the quarter three here. I mean in September, October and then through November and December as it becomes the biggest part of the year. So the buildup is really of debt is now through the middle to the end of the quarter, and then it starts ramping down as our business ramps up.

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

Is it possible to get a full year depreciation estimate?

Aug. 22. 2007 / 9:00AM, GMTN - Q2 2007 GANDER MOUNTAIN CO Earnings Conference Call

Bob Vold - *Gander Mountain Co. - SVP, CFO, Treasurer*

We're about 20% up I think from last year year-over-year, and it should be very similar for the full fiscal year as the buildup has been this year, quarter to quarter basis.

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

Thank you very much.

Operator

Jeff Sonnek, FBR.

Jeff Sonnek - *Friedman, Billings, Ramsey - Analyst*

Can we dig into this \$2 million associated with the power sports ramp? Is that like a \$2 million expense that just is there with the new employees, new sales staff supporting these 34, 35 stores?

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

Let me take a stab at that, Jeff, first, and then I will give a turn over to Bob and if Rick wants to follow-up. We are really excited about being in the boat business with a supplier that is going to allow us to have high teens, low 20s margins on a product. Clearly when you staff up and you put signage in the store, you run advertising, you hire and you train all in advance of selling the first boat, there is a considerable expense in getting into this business. That said, we were very successful in our mind in a category that we really entered by the middle of April. We still continue to see hundreds of thousands of dollars a week in boat sales even at this time of the year. And obviously our anticipation for next year as we go into the boat selling season from January through June is for significantly higher numbers next year than we've seen even just entering it. So there wasn't -- genuine startup costs. Bob, I don't know if you want to articulate --.

Bob Vold - *Gander Mountain Co. - SVP, CFO, Treasurer*

Yes, let me make it clear as well, from both an incremental margin and a bottom line standpoint, I mean power sports, which is primarily boats in the second quarter, contributed incremental margin and bottom line contribution. Albeit the margin rates as it relates to boats are lower than the remainder of the rest of our business. But certainly our bottom line performance as it relates to power sports and boats was right in line with our expectations as it relates to a startup business. As we grow into the next year and gain experience and maturity and scale we will continue to expect that that will increase as we move forward.

Jeff Sonnek - *Friedman, Billings, Ramsey - Analyst*

So is it fair to say that the majority of that \$2 million is in fact just the ramp up cost to position appropriately in that business? And then there is some kind of other run rate that you'll be able to leverage as sales ramp --?

Bob Vold - *Gander Mountain Co. - SVP, CFO, Treasurer*

There is certainly some ramp up cost, Jeff. I don't want to say it is the majority of it. I mean again, the reality is there were also certain costs that were offset by Tracker this first year from an initial standpoint. And again, a good part of that \$2 million is

Aug. 22. 2007 / 9:00AM, GMTN - Q2 2007 GANDER MOUNTAIN CO Earnings Conference Call

labor and benefits related to staffing the stores. Again, we wanted to specifically tell you what that amount is because it is a significant increase as it relates to the increase in overall store operating expenses.

Jeff Sonnek - *Friedman, Billings, Ramsey - Analyst*

And are those sales associates related to the boat program or power sports in general compensated any differently than this new revised incentive program?

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

The boat associates or any of the power sports associates are incentivized much like our other hourly associates on monthly results inside that store, which is matched up based on comparable store sales and budgets. I want to go back, Jeff, to your point about the productivity of a boat or a sales associate in that area. We expect significant leverage -- remember we've been doing this for three years trying to understand what the right model is, and we think we've arrived at the right model. And again it is only in 35 to 40 stores which will expand somewhat next year with the growth of stores, as well as some of the construction had to be done in some of these stores to get boat service bays installed, which were primarily set up originally for ATV's. But there is a lot of leverage we believe in the front half of our year as we go forward in '08 and '09 and beyond to sell a whole bunch more power sports, and particularly boats into the service, which is very profitable.

Jeff Sonnek - *Friedman, Billings, Ramsey - Analyst*

Great. I'll leave it there. Thanks.

Operator

Reed Anderson, D.A. Davidson.

Reed Anderson - *D.A. Davidson & Co. - Analyst*

A couple questions. Maybe I'll start with Rick, apparel obviously was soft for you. I'm just curious if you might provide a little color in terms of how your branded product performed relative to the Gander Mountain or your private-label brand within specifically apparel.

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

I think as we said we saw our increase penetration of our own brand increase to 10.8%, and it did grow within the apparel area. We also did have an increase in those categories, as well. I think the real change in our apparel mix is the sale of not only clearance product but really the availability of clearance inventory. For example, as I mentioned earlier, we have 14% less total inventory with a bigger company this year, we have 14% less clearance inventory at the end of the second quarter and apparel than we had last year. And the majority of the softness in the sales is really coming out of that part of the equation. I am still disappointed that we did not expand our margin in apparel as we should have, and that takes into account a multitude of different moving parts that does that. But the good news is that we are setting ourselves up for the transitions that we are doing in a good way with cleaner inventories.

Aug. 22. 2007 / 9:00AM, GMTN - Q2 2007 GANDER MOUNTAIN CO Earnings Conference Call

Reed Anderson - D.A. Davidson & Co. - Analyst

That makes sense. And on inventories I think you had given some color, as to why the growth was what it was in the second quarter. And as I look at it it still seemed a little bit on the aggressive side but what I am hearing from your comments is it sounds like you've got some things going on where you are taking in things on average a little bit earlier this year. So is this a year where inventory growth might be a little bit higher than we might normally expect, and then that will taper off next year, is that fair?

Rick Vazquez - Gander Mountain Co. - EVP, Merchandising and Marketing

Reed, yes, there is no doubt that our goal to get more inventory productivity in our turns is definitely something that we are focused on. But at the same time, what we are doing is I think of it more shifting the calendar than I am thinking of a year of buildup. For example, last year we talked about how we started to get more inventory in the fall hunting season earlier, and we had great success last fall with it. We did the same thing with fishing and marine products earlier this year. We had great success with that. And now we are doing it again with fall this year bringing in hunting equipment and archery, tree stands, et cetera earlier. And we are again experiencing great success. It is really more of a shift in our timing than a pure buildup.

Reed Anderson - D.A. Davidson & Co. - Analyst

That's helpful.

Mark Baker - Gander Mountain Co. - CEO, President

Reed, I also want to fill it out a little bit further is that we've got a great guy running our supply chain initiatives and looking at the productivity of our DC and how we are bringing those bigger bulkier products in. As you recall a couple years ago we tried to run too much through a narrow neck of a funnel and what they've done is gone back and got the additional terms from these suppliers and bring the stuff in earlier and strange enough it is selling. But it is also relieving a lot of the burden on the narrow neck of the funnel.

Reed Anderson - D.A. Davidson & Co. - Analyst

That is helpful and then Mark in your prepared remarks you talked a little bit about the program to remodel the larger stores, Middletown was one of them. I think you said there were 16 stores. When will that be done and can you just provide a little color on what specifically you are doing in those larger formats?

Mark Baker - Gander Mountain Co. - CEO, President

Good question. As you have experienced our latest prototype which is either Geneva or St. Augustine or some of these 2007 stores and some of the later 2006 stores -- we saw a dramatic pickup when we talked about sales in excess of \$200 a square foot on those models. We have gone back and adapted the Middletown store and most recently Geneva, Illinois. Some of those upgrades including better floor finishes, carpeting, new fixtures where we do see those kinds of customer merchandising experiences which drive a higher ticket, which drive comparable store sales. And so we have 16 stores that are in the final stages that will be all finished by the middle of September largely that have those upgrades that you saw when you were at the Eden Prairie store.

Reed Anderson - D.A. Davidson & Co. - Analyst

So it is really more on the aesthetic side or in the look as opposed to there is not a lot changing from a merchandise or allocation standpoint.

Aug. 22. 2007 / 9:00AM, GMTN - Q2 2007 GANDER MOUNTAIN CO Earnings Conference Call

Mark Baker - Gander Mountain Co. - CEO, President

It is not a lot more bandwidth of product, if you will, but it is presented in a sense that we feel more confident in our ability to sell upscale product.

Reed Anderson - D.A. Davidson & Co. - Analyst

Then Mark, would you venture a guess of how many stores, if you have 34 stores that have Tracker today or essentially, what does it look like next year at this time? Is it going to be 50, is it going to be more than that; what do you think?

Mark Baker - Gander Mountain Co. - CEO, President

Well, when I say 34 full-line stores, that is everything from pontoons to jon boats. Every store today -- we did finally finish that this summer. Every store today has jon boats, the little 12-foot flat boats or 14-foot flat boats. So every one of the 115 stores by year end will have that.

We will continue to add and all of our new stores going forward will have full boat merchandising, and where we can, we will make sense to get some of these bigger boxes converted to having full boats in all of our big-box stores, which will be roughly 60 of them by -- 70 of them by next spring will be in the boat business in a significant way.

Reed Anderson - D.A. Davidson & Co. - Analyst

That's helpful. Then last one for Bob. Just in terms of rate, Bob, if you look at your old credit line agreement, what was the rate on that and what is the rate on it currently under the new agreement based on kind of what your debt level is today?

Bob Vold - Gander Mountain Co. - SVP, CFO, Treasurer

Our rates are driven off of basically EBITDA calculations. Our rate has actually gone down in the last year probably 80 basis points quarter-over-quarter as a result of, in part, using the proceeds from last year's December equity transaction. Our rates are, from the bank standpoint on the revolver, in the low 7%. Again, the pricing is similar on a go-forward basis based on EBITDA.

Reed Anderson - D.A. Davidson & Co. - Analyst

Perfect. Thank you.

Operator

Steve Denault, Northland Securities.

Steve Denault - Northland SEC - Analyst

Good morning, everyone. The certified gun program, can you tell me a little bit more about that? It definitely appears to be a point of differentiation. Is it something the customer ultimately pays for?

Aug. 22. 2007 / 9:00AM, GMTN - Q2 2007 GANDER MOUNTAIN CO Earnings Conference Call

Mark Baker - Gander Mountain Co. - CEO, President

Let me start that, Steve, and I'll turn it over to Rick. It is really reconciling that Gander Mountain has probably -- not probably -- clearly by being the largest gun dealer in the full-line way in North America or probably in the world and employs more gunsmiths as we've already talked about than anybody, at least one in each store and a big central shop; and using that strength to differentiate ourselves. What a customer really wants is confidence and that Gander Mountain can take care of all of their things nationwide.

And if you pick up your gun in Alabama and you are on your way to South Dakota you can stop and get it fixed. That is a unique offer. And by making the membership to the Gander Mountain gun club, a very unique experience is something that I think can provide Gander Mountain with a distinction.

Rick Vazquez - Gander Mountain Co. - EVP, Merchandising and Marketing

What the customer ultimately is going to get is just as Mark said, just that confidence that when they are buying a gun from us the experience is not just the transaction of a gun. It is the fact that we stand behind it, we're going to increment the warranty that the manufacturer has, we are going to give other benefits to the consumer such as the gun cleaning, etc. And we think ultimately that customer really is looking for a relationship more than just an experience or more than just a transaction. And that is really what we can do, and we can do that like no one else can. So we are definitely going to add that to our value equation and we are definitely going to make that something that is a competitive advantage that we can use.

Steve Denault - Northland SEC - Analyst

And it includes a twelve-month warranty in excess of the typical manufacturers' warranty?

Rick Vazquez - Gander Mountain Co. - EVP, Merchandising and Marketing

This is correct.

Steve Denault - Northland SEC - Analyst

Which is how long typically?

Rick Vazquez - Gander Mountain Co. - EVP, Merchandising and Marketing

It varies with every manufacturer from -- it varies every manufacturer has got a different rule from none to three months to a year, to five and there are a couple out there that have a lifetime. But even with those that have a lifetime there is such additional benefits that we offer the customer that that becomes added value to them.

Mark Baker - Gander Mountain Co. - CEO, President

And we pay the shipping and handling, for instance, if they need to go back to a factory, so it's part of the Gander gun club.

Steve Denault - Northland SEC - Analyst

Okay, perfect. Any update on the ASV Scout vehicle? How is that trial going?

Aug. 22. 2007 / 9:00AM, GMTN - Q2 2007 GANDER MOUNTAIN CO Earnings Conference Call

Mark Baker - Gander Mountain Co. - CEO, President

It is very new to us, it is obviously an exclusive vehicle, call it \$30,000 price points, but I know we sold a couple of them. I don't know how many more than that but we've got them in, I think 8 or 9 stores?

Rick Vazquez - Gander Mountain Co. - EVP, Merchandising and Marketing

We do, and it is amazing every store that I have seen it at -- I've seen it now in about seven or eight stores, it is definitely a traffic stopper. People are coming in. They are looking at it. They are understanding it. They are taking it for test drives. And as you said, a couple have gone out the door. So I think it is going to be a good deal for us.

Steve Denault - Northland SEC - Analyst

Thank you.

Operator

(OPERATOR INSTRUCTIONS) Rick Nelson, Stevens.

Rick Nelson - Stephens, Inc. - Analyst

Mark you mentioned that Southern and Eastern stores are performing well. I am wondering why you think that is.

Mark Baker - Gander Mountain Co. - CEO, President

It's a good question, Rick. The Eastern stores that we've made some management changes out there that we believe improved our ability to execute out there and in Pennsylvania and New York, will be in Ohio particularly. Which were all markets which some people might think are more economically distressed, but we are seeing great results on stores that in many cases are four or five years old. I feel very good about some of the regional merchandising initiatives that we put in place to even more accurately address the needs and the desires of those customers there. I think much the same in the South; we are coming up on our 36-month anniversary of being in the South and we continue to get a lot better. I'd point out that our Midwest business wasn't down it was just flat. And those are our older more mature stores but the comps in these other stores are fantastic.

Rick Nelson - Stephens, Inc. - Analyst

I'm curious the rain we've had here in the Midwest, is that a positive or a negative for your business?

Mark Baker - Gander Mountain Co. - CEO, President

That's a good question. We play on the weather both sides and one of the things that is kind of interesting about our business being in the Midwest and this summer being very dry, we actually look forward to a Tuesday afternoon when it rains a lot and all the construction guys come running in to buy product. And we didn't have any of those this summer but we still had a great summer, so initially rain -- and we actually sell a lot of the product -- whether it is hip boots, waders, rain gear -- so we can benefit from those kind of things and at the end of the day it hasn't hurt our business at all.

Aug. 22. 2007 / 9:00AM, GMTN - Q2 2007 GANDER MOUNTAIN CO Earnings Conference Call

Rick Nelson - *Stephens, Inc. - Analyst*

And how is the gun business performing as we approach the key fall season? And when do you begin to anniversary Wal-Marts exit from that business?

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

Overall as we've been stating we are an industry leader in the firearms business, and we continue to distance ourselves in market share on that. And we do that through a number of different elements; first and foremost is our selection. The service in the stores, the gunsmiths and now with the addition of the Gander gunsmiths certified it is just going to accelerate that even more. As far as the Wal-Mart situation, we know that they've shut down -- I guess 1000 stores the year before and maybe another 800 or so this year. Not really sure how many in total they have out; but we are seeing those customers coming to us, as well. The one thing that we are being very careful is that we want to sell the customer the types of product they would have bought at a store like a Wal-Mart. But at the same time we want to give them the experience of being able to upsell from some of those opening price points. And we are seeing that success through the signing that we've done, to the way we've merchandised the firearms and again now through the rollout of our Gander gunsmith certified program.

Rick Nelson - *Stephens, Inc. - Analyst*

Thanks for that. Just want to follow-up to a rise in accounts payable from \$57 million last year and \$98 million this year. Can you talk about what is happening there?

Bob Vold - *Gander Mountain Co. - SVP, CFO, Treasurer*

A couple of factors, Rick. First of all, as inventory balances have increased for -- you know we have nine new stores this fall, some of them opening here August, very early September so certainly a buildup in inventory and accounts payable related to receipted inventory. As Rick talked we've brought inventory in earlier this year in certain categories, seeing success in doing that. Also again power sports will be a part of that. It is important to note that excluding power sports our inventory in open stores is still down about 2% year-over-year. So we are still managing inventories okay from that standpoint and really the last factor again, we've worked hard to improve terms as it relates to EP days and we went backwards for a period of time and certainly have seen some better results in the last year from that affect from getting better there, as well.

Rick Nelson - *Stephens, Inc. - Analyst*

Thanks a lot. Good luck.

Operator

Peter Keith, Piper Jaffray.

Peter Keith - *Piper Jaffray - Analyst*

Good morning, and thank you. I was wondering on the advertising I know there was a shift last year towards the back half of the year and I was wondering if you think advertising will be more comparable or should we expect any type of shifting around between quarters?

Aug. 22. 2007 / 9:00AM, GMTN - Q2 2007 GANDER MOUNTAIN CO Earnings Conference Call

Mark Baker - Gander Mountain Co. - CEO, President

I think I will turn it over to Rick real quick, we have largely changed our messaging from print, Sunday print to radio. And our national TV, our best outdoor TV channel show has been very well-received. We made a lot of our messages and today, and you've seen some of our comps and may I remind you this is our fourth quarter in a row of positive comps. And we have largely changed to a radio format over this last year and I am very happy with it and I plan to stay with it. Rick, do you have any more thoughts?

Rick Vazquez - Gander Mountain Co. - EVP, Merchandising and Marketing

Yes, Peter, and Mark, I echo what he says. We have been very encouraged, not only because it is continuing to drive sales, but also because we are convinced as we see the data coming in that our broader reach through that medium is really benefiting us. It also plays into our ability to offer customers everyday low price and not have to depend on the high load drug to be able to generate sales at certain times or certain weekends. And that has also been something that has been very favorably accepted by our customers. They can shop every day of the week and get the best deal we have to give them.

Peter Keith - Piper Jaffray - Analyst

Okay. That makes sense. So I guess it is shifting away from print towards radio, the dollar amounts are they relatively consistent on a year-over-year basis?

Rick Vazquez - Gander Mountain Co. - EVP, Merchandising and Marketing

They are consistent. The primary changes, new markets and grand openings. But everything else is very consistent.

Peter Keith - Piper Jaffray - Analyst

Okay, and then I wanted to circle back on that boat business again. As I think about some of the startup costs in the stores is it fair to say that as we enter more of the hunting season that there won't be any startup costs here in the back half of the year?

Mark Baker - Gander Mountain Co. - CEO, President

That's correct; the startup costs will be minor to anything flowing through, there are a few more stores that are actually being set, particularly some of the newer ones. Some of the other stores are very minor, as we go into the back half of the year we look to obviously sell a lot of boats and motors, jon boats particularly for some of the hunting areas. And our business in the South for recreational boats continues to be very strong. So what I really look forward to in the boat business is as we get into the next big selling season from January on, we're going to be prepared to take advantage of Gander Mountain's natural traffic that a lot of the mom-and-pop distributors don't have to be able to sell a lot more of the marine accessories because of the halo that boats create for our business. I can't tell you how really excited I am about the long-term prospect of being one of the very largest boat distributors in the country.

Peter Keith - Piper Jaffray - Analyst

Okay, the launch as we get into next year, I'm sure that the stores that already have the boats as you say should leverage, but you're going to upwards of 70 stores. And probably we should expect some launch expenses in the first two quarters similar to what we've seen this year. Is that correct?

Aug. 22. 2007 / 9:00AM, GMTN - Q2 2007 GANDER MOUNTAIN CO Earnings Conference Call

Mark Baker - Gander Mountain Co. - CEO, President

I don't think it will be anywhere near as much, but we haven't really guided to that at all. We will have to work on that, and we will give you more information as we put together exactly what the conversion expenses are in some of those stores as we look forward for next year. If there is significant change we will let you know.

Peter Keith - Piper Jaffray - Analyst

One last question on the boat segment. Understanding that you're making some improvement on your inventory management and next year you will probably annualize bringing in inventory earlier so that should be flat year-over-year. But it appears that boats should put some pressure on your inventory or at least lower inventory turns to a certain degree as we get through next year. Is that correct? Would the boats in some way sort of mask other improvements that you're making in the store?

Mark Baker - Gander Mountain Co. - CEO, President

I don't think you'll see that. Boats, if we do it correctly, we will have a reasonable turnover opportunity. And again remind you that we typically have really long dating on boats than all the other power sports so from a financial turnover it was one thing. When the segment becomes significant enough we will ultimately break it out for you. But right now I wouldn't suggest for a second that boats are going to cause a drag on our inventory turnover.

Peter Keith - Piper Jaffray - Analyst

Thank you very much. That's helpful.

Operator

Bob Simonson, William Blair.

Bob Simonson - William Blair & Co. - Analyst

Hello again. The flyer that went out this season is drawing near their most recent one, it is kind of the same format as before you had the legal ruling. It's got some prices in there but it says call the 800 number to or visit the site to find a store to go get it. Is it possible that you could start to receive phone orders and implement the distribution to the customer prior to going on the Internet with an offering? Or when will you actually throw the switch on --.

Mark Baker - Gander Mountain Co. - CEO, President

I think what our position is going to be on that there will be no significant or measurable activity on the direct business in the near-term. We will comment later this fall about the exact launch date. I wouldn't model any amount of sales in the next quarter.

Bob Simonson - William Blair & Co. - Analyst

Does it come in two steps where you start taking from a catalog and then you start taking from the Internet or it is immaterial the difference?

Aug. 22. 2007 / 9:00AM, GMTN - Q2 2007 GANDER MOUNTAIN CO Earnings Conference Call

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

It is immaterial the difference at this point, and you know I think we know from looking at our Web traffic everyday that there are a lot of customers out there looking to us to transact with. So we are anxious to do that but more importantly we want to do it right.

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

Okay, and the final question, on your comments in the beginning you gave a certain level of confidence that you can revert to operating margin improvement in the second half of the year. I would assume that this second quarter was a bit of a disappointment to you.

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

That's a question, I assume, but yes.

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

The question is at the beginning, in the first quarter conference call you had an expectation for the second half of the year. Because of this second quarter results is your expectation for the second half any different?

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

No, we have a lot of confidence in the second half. We are embarrassed and disappointed particularly if you look at the apparel side of it. The boat business I am not making any apologies for and the expenses getting to -- we did that eyes wide open -- obviously with the Board's awareness of what it was going to cost us. We had approached that business with a great deal of enthusiasm. We were disappointed in the apparel side and what it did to us. The difference is, and Rick pointed out, the spring apparel is not related to fall apparel; particularly as we move into more of our technical field wear, warm weather wear, all those kind of things where we have been more relevant and significant in the past. And the rest of our business has continued to be very strong.

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

Okay, thank you very much.

Operator

I am pleased to turn the call back over to Mr. Baker for closing remarks.

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

Thanks, everyone, for attending this call. We are developing a scaled business with stronger first half based on Southern stores, new products in marine and boat and regionally relevant assortments. They will support our efforts to grow toward our long-term goals of a \$3 billion plus in revenue, 5 to 6% in operating double-digit ROIC, Gander Mountain will be the best outdoor lifestyle retailer as we grow toward a network of more than 300 stores.

Aug. 22. 2007 / 9:00AM, GMTN - Q2 2007 GANDER MOUNTAIN CO Earnings Conference Call

I want to thank our associates for handling over 3.8 million customer transactions in the last quarter. They are the real drivers of our success. Thanks for joining us today. We will speak to you soon in a couple of months.

Operator

That does conclude today's call. We thank you for your participation. Please have a good day, and you may now disconnect your lines.

DISCLAIMER

Thomson Financial reserves the right to make changes to documents, content, or other information on this web site without obligation to notify any person of such changes.

In the conference calls upon which Event Transcripts are based, companies may make projections or other forward-looking statements regarding a variety of items. Such forward-looking statements are based upon current expectations and involve risks and uncertainties. Actual results may differ materially from those stated in any forward-looking statement based on a number of important factors and risks, which are more specifically identified in the companies' most recent SEC filings. Although the companies may indicate and believe that the assumptions underlying the forward-looking statements are reasonable, any of the assumptions could prove inaccurate or incorrect and, therefore, there can be no assurance that the results contemplated in the forward-looking statements will be realized.

THE INFORMATION CONTAINED IN EVENT TRANSCRIPTS IS A TEXTUAL REPRESENTATION OF THE APPLICABLE COMPANY'S CONFERENCE CALL AND WHILE EFFORTS ARE MADE TO PROVIDE AN ACCURATE TRANSCRIPTION, THERE MAY BE MATERIAL ERRORS, OMISSIONS, OR INACCURACIES IN THE REPORTING OF THE SUBSTANCE OF THE CONFERENCE CALLS. IN NO WAY DOES THOMSON FINANCIAL OR THE APPLICABLE COMPANY ASSUME ANY RESPONSIBILITY FOR ANY INVESTMENT OR OTHER DECISIONS MADE BASED UPON THE INFORMATION PROVIDED ON THIS WEB SITE OR IN ANY EVENT TRANSCRIPT. USERS ARE ADVISED TO REVIEW THE APPLICABLE COMPANY'S CONFERENCE CALL ITSELF AND THE APPLICABLE COMPANY'S SEC FILINGS BEFORE MAKING ANY INVESTMENT OR OTHER DECISIONS.

©2007, Thomson Financial. All Rights Reserved.