

FINAL TRANSCRIPT

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GMTN - Q3 2007 GANDER MOUNTAIN CO Earnings Conference Call

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Dec. 06. 2007 / 5:00PM, GMTN - Q3 2007 GANDER MOUNTAIN CO Earnings Conference Call

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PRESENTATION

Operator

Good day, and welcome to the Gander Mountain Company third quarter earnings release conference call. This call is being recorded. At this time, I would like to turn the call over to Mr. Bob Burton. Please go ahead, sir.

Bob Vold - Gander Mountain Co. - CFO

Thank you, Christine. Good afternoon, and thank all of you for joining us. Welcome to the Gander Mountain third quarter 2007 conference call. I'm Bob Burton of IR Squared. Joining us on our call are Mark Baker, President and CEO, Rick Vazquez, Executive Vice-President of Merchandising and Marketing and Bob Vold, Senior Vice President and Chief Financial Officer. We understand that a backlog at PR Newswire delayed the crossing of our earnings release until a few moments ago, and we apologize for that unintentional delay. The full release is available both on the wires at this point and on our website at www.gandermountain.com under Investor Relations. On the call today Mark will discuss business trends, Bob will review 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 offer an internet replay which will be available shortly after the call is concluded and will remain on our website for approximately ninety days. The transcript will be posted under archives in the Investor Relations section of our website.

Dec. 06. 2007 / 5:00PM, GMTN - Q3 2007 GANDER MOUNTAIN CO Earnings Conference Call

Please remember that our discussion today may include forward-looking statements relating to our estimates and expectations that involve risks and uncertainties. Our actual results could differ materially from those projected in any forward-looking statement. Additional information concerning important factors that could cause our actual results to differ materially from these forward-looking statements are described in the risks and factors affecting current and future results section of our annual report on Form 10-K as filed with the Securities and Exchange Commission as well as in our subsequent reports filed with the SEC. These reports are available at the Investor Relations section of our website at gandermountain.com and at the SEC's website at sec.gov. We caution that you 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 non-GAAP measures including EBITDA discussed during this call is available at the Investor Relations page at gander.mountain.com. Now I will turn the call over to Mark Baker.

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

Hello and good afternoon. Welcome to Gander Mountain's third quarter call. Once again I will apologize that there was a delay in getting you these numbers. It was our best effort.

But this is a banner day for Gander Mountain. I am extremely pleased and very excited to announce Gander Mountain's acquisition of Overton's. Turning to the day's earlier announcement, Gander Mountain has acquired Overton's, Inc., a leading Internet and catalog marketer of specialty water sports, marine accessories, marine electronics, apparel and footwear. Overton's offers a strong trusted brand name and distributes over 15 million catalogs annually. Headquartered in Greenville, North Carolina, Overton's operations include a fulfillment center, a call center, offering available capacity to support Gander Mountain's Internet and catalog marketing opportunities. With 2006 revenues in excess of \$90 million and EBITDA of approximately \$8 million, we expect this transaction to be accretive to Gander Mountain's earnings for fiscal 2008. This acquisition enables Gander Mountain to greatly accelerate our strategy to be an integrated multi-channel retailer featuring Internet, catalog and retail stores. Overton's provides an excellent management team, a proven platform and infrastructure and a natural seasonal compliment with the majority of its sales in the first half of the year, and the capacity to handle substantial additional volumes minimal incremental investment. This is an important step forward 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.

Overton's will continue to operate with the Overton's brand as a wholly owned subsidiary of Gander Mountain. As will be indicated in our 8-K filing, Overton's is restricted from selling hunting and related products until March of '09 pursuant to a non-compete agreement. However between Gander Mountain and Overton's capability and resources, we will be able to feature a full compliment of Internet and catalog offerings in the coming seasons.

Now let me turn the quarterly results. This was not the quarter we anticipated reporting to you. At negative 8.4% comps sales were well below expectations for the quarter and the earnings reflect that shortfall. Coming off four consecutive quarters of positive comps with a solid 4.2 in the second quarter and with similar positive performance in August, we were then disappointed to see sales weaken significantly since early September. A number of factors weighed on our performance including warm, dry weather across the country. It also appears that consumers were generally being affected by everything from the housing market to credit concerns and rising fuel. These factors created difficult conditions for most retailers in the quarter and our third quarter performance demonstrates that Gander Mountain was also affected. Sales softness was present in all geographical areas including the South, which had been strong year-to-date. In the upper Midwest, where we have a concentration of stores, we experienced the warmest fall season in more than a century.

During the quarter we opened nine new stores including two replacement stores. As has been true all year, we invested our new growth in Southern stores in Tennessee, Texas, Florida, Mississippi, Virginia, and Kentucky, with the single exception of Evansville, Indiana this fall. Average ticket increased 3% to \$63.33, while comparable store transaction counts declined. Rick will talk more about the moving of the average ticket in our pricing structure a bit later. From an operational viewpoint we are encouraged by several items including; we're confident in our in-stock performance and our ability to flow goods this season.

Dec. 06. 2007 / 5:00PM, GMTN - Q3 2007 GANDER MOUNTAIN CO Earnings Conference Call

We score our stores by utilizing customer service index, and we continue to show solid results in this quarter. Soft sales are somewhat offset by strong margin initiatives, resuming a trend of increasing initial margin in six of the past seven quarters. Overall margin gains reflect new merchandising initiatives, remodels, increased own brand product presentations. We also incurred \$1.2 million severance cost as we focused on cost control in the G&A area. We will review all expense centers and markets for additional cost reductions. Bob will expand on the cost control efforts in his comments.

While the environment has improved as the weather turned colder recently, our comps remain negative for the fourth quarter. Overall, the outlook for the year is that we will approach but not reach our goal of a billion dollars revenue. In light of the weak retail environment Gander Mountain will deliver positive EBITDA performance but will not be profitable this fiscal year.

In looking forward we will manage our business to the current economic environment. We expect that during the coming year new store openings will be limited to five to six on the year and capital expenditures will be less than \$25 million on a combined basis. That concludes my comments on the quarter.

Before closing let me sum up Overton's acquisition. The strategic step will greatly accelerate our strategy to be an integrated multi-channel retailer between Internet, and catalog and retail operations; offer substantially growth opportunities, build brand awareness and provide strong leverage for our retail network and strengthen our long-term competitive position. Bob will walk through the purchase details with you in a moment but I also want to point out this transaction not only takes the continuing support of our bank group but also the strong support of our leading shareholders, the Pratt and Erickson families, who helped finance this transaction by purchasing an additional \$24 million in common stock at a premium to the market. We're very excited about the strategic opportunity presented by Overton's acquisition. We look forward to discussing the progress in future calls.

We are committed to our customers, our supplier partners and to our dedicated associates who provide great service every day. Bob.

Bob Vold - Gander Mountain Co. - CFO

Thanks, Mark. First I will summarize our results and then I'll go into more detail on the financials and wrap one a discussion of the Overton's transaction.

For the quarter Gander Mountain reported 5.3% sales growth and a comparable store sales decline of 8.4%. The net loss for quarter three of fiscal 2007 was \$5.1 million, this compared to net income of \$2 million last year. Last year's quarter three net income included a \$1.4 million gain on an insurance settlement. As Mark indicated the comparable store sales decrease which was the primary factor behind our reporting a loss for the quarter was systemwide, affecting all regions of our 23 state geographic area. In our view this reflects both the underlying economic conditions as well as warm weather conditions in specific markets particularly in September and October. As a result of the disappointing results in quarter three and results to date in quarter four, I would like to update you on our outlook in three areas. First, as Mark said, we will approach but not reach a billion dollars of revenues for the year; second we expect that while quarter four will be profitable and EBITDA positive for the year Gander Mountain will not reach profitability for the full fiscal year; last, as a result of the shortfall in profitability for the year we currently expect our bank debt at fiscal year end will be higher than the prior year and our previous expectations.

Now let me review the third quarter. Total square footage year-over-year increased 14% to 6.2 million square feet. There were nine new stores added for the quarter of which two were replacement stores. The average square footage per store increased approximately 3.9% to 53,800 square feet for the third quarter compared to the same quarter last year. Our comp store base at the end of the quarter was 95 stores. As I said, sales increased in the quarter 5.3% on an 8.4% comp decrease. On the year-to-date basis sales increased 11.5% with a comparable store sales decrease of 1.9%. In the quarter, gross margin increased 150 basis points to 27% of sales, as compared to 25.5% last year. This increase resulted from a number of factors. As Rick will discuss more in a moment, initial margin improved approximately 260 basis points as we benefited from a general improvement in overall pricing structure, reduced clearance activity, and increased penetration of our own brands from 10.9% to 13% for the quarter.

Dec. 06. 2007 / 5:00PM, GMTN - Q3 2007 GANDER MOUNTAIN CO Earnings Conference Call

Mix added slight negative impact on initial margin in the quarter as a result of increased power sports penetration and decreased apparel penetration. Increase in initial margin was partially offset by de-leverage in store occupancy costs. On a year-to-date basis gross margin dollars increased from \$134 million to \$155.5 million while gross margin rate improved from 22.9% to 23.9% primarily as a result of increases in initial margin rates.

Turning to expenses in the quarter, store operating expenses increased 19.8% to \$53.4 million, driven by new store growth over the last year. As a percent of sales, store operating expenses increased from 18.1% in quarter three of 2006 to 20.6% in the comparable quarter this year as a result of the decrease in comparable store sales. Pre opening expense increased to \$3.2 million in the quarter as compared to \$1.8 million last year, primarily as a result of opening nine stores this quarter as compared to five stores in the comparable quarter last year. The third quarter G&A expenses increased 25% to \$13.1 million. As a percent of sales, G&A increased 80 basis points to 5.1% due to an increase of approximately 40 basis points of severance costs in the quarter with the remainder due to de-leverage as a result of the decreased comp sales. Net interest expense was \$5.5 million for the quarter unchanged from the comparable quarter last year. Comparisons of earnings 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. Loss per share for the third quarter fiscal 2007 was \$0.25 per share compared to earnings per share of \$0.14 in the comparable period. The weighted average diluted shares for the quarter were 20.4 million shares compared to 14.3 million shares in the comparable period last year. At the time of our August 2007 amendment and restatement of our credit facility we increased the size of the revolver from \$275 million to \$345 million, extended the maturity date by three years. As of today and after the completion of the Overton's transaction we have approximately \$55 million of availability under our credit facility. At the end of the quarter, we had borrowings on our credit facility of \$308 million and shareholders equity of \$163 million. Capital expenditures were \$23.1 million for the quarter versus \$13.9 million for the comparable quarter last year, primarily for new store openings and upgrades to existing stores. We expect cash for capital expenditures for fiscal 2007 to approximate \$44 to \$45 million.

Looking forward we are making the following adjustments to our business model. Our store growth plans in fiscal 2008 will include five to six total new stores of which five will be Spring openings. Included in these are two to three relocations. This is a marked reduction in store opening frequency. We expect cap-ex for fiscal 2008 to be in the range of \$24 to \$25 million. We are committed to improving operating results before resuming faster level of store expansion. As we integrate the Overton's acquisition our focus going forward will be improvement in business fundamentals, product gross margins, store profitability and management of inventory. We are committed to making the necessary adjustments to support operations in line with the current retail environment. Accordingly in third quarter we reduced G&A headcount by 40 positions. We will take a cautious approach to planning for business in 2008. We are currently in the 2008 budget planning process. We are committed to delivering a profitable business structure and model in 2008.

Now let me outline the financial aspect of the transaction we announced earlier today. As you know, Gander Mountain announced it has completed all of the acquisition of outstanding equities of Overton's holding company. As a result of this transaction Overton's became a wholly owned subsidiary of Gander Mountain. Total purchase price of the acquisition was approximately \$70 million which included the repayment of Overton's existing long-term indebtedness at closing. The purchase price was funded by three actions--first, Gander Mountain entered into amended basic agreement to add an additional \$40 million term loan to the company's security facility. The term loan will have a four-year maturity with interest only payments in year one, mandatory semi annual payments in years two and three and mandatory quarterly principal payments in year four that will fully amortize the loan. The amended bank agreement limits capital expenditures and replaces former covenants for minimum operating cash flow and EBITDA with a minimum excess availability reserve covenant. Second, Gander Mountain entered into stock purchase agreements with GRATCO LLC, an affiliate of David Pratt, the Company's Chairman, and with Holiday Stationstores, an affiliate of Ron Erickson, the Company's Vice Chairman and Gerald Erickson, the Director of the Company. Under the agreements GRATCO purchased approximately 3.1 million shares, and Holiday purchased approximately 1 million shares for an aggregate of 4.1 million shares of the Company's common stock at per share purchase price of \$5.90, and an aggregate purchase price of approximately \$24 million. This is a very significant investment of equity capital at above current market valuations. Third, Gander Mountain made up the remaining amount, approximately \$6 million, from its existing revolving credit agreement. The purchase price of approximately \$70 million represents a multiple of between eight and nine times EBITDA. In their comments,

Dec. 06. 2007 / 5:00PM, GMTN - Q3 2007 GANDER MOUNTAIN CO Earnings Conference Call

Mark and Rick are focusing on the business reasons why this is an exciting opportunity for Gander Mountain and I share those sentiments. This is a very strategic transaction that provides large new opportunities to Gander Mountain. We expect this acquisition to be accretive to earnings in fiscal 2008. Overton's lower cost structure should improve gross margin and leverage existing overhead. Overton's is a uniquely counter cyclical business to our own and their stronger financial performance in the first half of the calendar year will provide balance to Gander Mountain's current seasonal sales and earnings pattern. Over the long term, as we are able to offer more Gander Mountain product on-line, this business will help us manage store level inventory to improve turns. We are all very excited about this transaction.

Now I'll turn the call over to Rick.

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

Thank you, Bob.

From the merchandising perspective we had had a challenging quarter. As Mark indicated we entered this quarter with second quarter sales momentum carrying over into August and then saw a sharp deterioration during September and October. Warm weather in the North explains part of this trend but our business was also soft across the South, indicating a broader economic trend. Overall merchandising trends were weak in firearms, camping, and apparel. Growth in power sports reflected our new entrance into the boat market earlier in the year. In the hunting area, equipment and ammunition sales were positive but were weighed down by poor performance in firearms and gun safes. Fishing and marine product were stronger than the company's performance as warm weather extended the fishing and boating season across the board. The rod and reel combinations did well this fall and we expect this trend to continue in 2008. Cooking accessories, grills, smokers and seasonings continued to perform well as it has all year. The camping side of the business, tents and sleeping bags and paddle sports, were soft, consistent with year-to-date performance. Selected areas like fleece and women's and children's footwear were solid in the quarter but warm weather held back important sales of camo and outer wear traditionally a strong area for Gander Mountain in the fall.

For the quarter apparel penetration declined 1.3% year-over-year. While sales volume on the quarter was disappointing, margin improvement initiatives provided solid support for a strong margin performance. Own brand penetration increased to from 10.9% to 13.1% on the quarter led by gains in hunting and apparel and contributing about 115 basis points in initial margin expansion. We continue to be focused on delivering improving initial margins. In addition to increased own brand we're emphasizing better and best products and price points in our stores which is showing up in areas like average apparel retails, the combos in the fishing area I mentioned before, and our Gander Gunsmith Certified Program. Inventory ended at \$475 million, increase of 19% from the third quarter of '06 reflecting additional stores and the receipt of expanded power sports products. Our inventory per square foot and open stores excluding in-transit and pre-opening inventory was \$76.06 versus \$72.81, which is up 5% from prior year. Excluding power sports, stores' inventory per square foot is down 2.5%. Average inventory per store was \$4.1 million versus \$3.8 million, reflecting growth in power sports. Clearance levels are down year-over-year, which is an important aspect as we enter the fourth quarter. On an annualized basis, inventory turnover slipped to 1.7% from 1.6% which continues to be an area of opportunity for us. On a trailing 12-month basis, sales were \$173 versus \$170, a slight improvement as a result of higher sales per square foot in our larger format stores. This is the third consecutive quarter of improvement in this metric. Today 76% of our square footage is in the 2003 and larger big box stores. Our average customer ticket increased 3% to \$63.33 for the quarter. This reflects increasing number of larger stores in our mix where the average ticket is more than \$12 higher.

Our approach to the fourth quarter is balanced. While we are committed to the EDLP strategy we are using promotions such as buy-one get-one in selected areas with much success. We will continue to work towards a clean inventory approach to the coming fiscal year and lower levels of clearance inventory going into the quarter are supporting that effort. Finally, picking up on Mark's comments regarding the Overton's acquisition, I am thrilled to be a multi-channel retailer. The integration will be an important work area for our merchants and stores over the coming year. As we said Overton's will continue to operate as a wholly owned subsidiary. We will go to market on-line under three brands, Overton's, Consumers Marine and Gander Mountain.

Dec. 06. 2007 / 5:00PM, GMTN - Q3 2007 GANDER MOUNTAIN CO Earnings Conference Call

With the acquisition of Overton's Gander Mountain expects to attain national reach for each of our brands, be able to offer broad and specialized catalogs, convenience of 24/7 web site for product sales, realize higher margins direct product sales, substantially increase the distribution of Overton's catalog in part by distributing catalogs to customers in our retail stores, and offering Overton's own brand product in Gander Mountain stores. With this significant investment we will each be working towards building full on-line product lines and service offerings over the coming quarters. In addition to these benefits we also have the ability to introduce and test new products. It's really cool to be able to offer products to all 50 states of the Union. We look forward to making this significant part of our business over next several years. And now I will turn the call over to the operator as we are ready for questions.

Operator

Thank you.

QUESTIONS AND ANSWERS**Operator**

(OPERATOR INSTRUCTIONS) We'll pause for a moment to give everyone an opportunity to signal. And we'll take our first question from Steve Denault with Northland Securities.

Steve Denault - *Northland Securities Inc. - Analyst*

In regards to the firearms category, how bad was it in the quarter, and what do you think is driving that?

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

Steve, the firearms business is always been one of Gander Mountains strengths. We've had quarter over quarter over quarter of growth the last several years, continued growth in the firearms business. We continue to believe that we're the largest firearms dealer in the nation with the biggest services in gunsmithing and all that. The challenge I think in this particular season relates to discretionary purchases where in many cases we're still selling a number of units, in some cases at lower price points, in some cases we just didn't get the transactions in the thousands, \$1500 ranges where we had wanted them to be. Obviously we rolled out the Gander Gunsmith Certified Program, and we continue to have great success in signing up new customers and getting people to belong to Gander Gun Club and we've seen big following being built on that but we were disappointed with firearms. You could look also to optics and electronics and see the very similar kinds of shortfalls in sales.

Steve Denault - *Northland Securities Inc. - Analyst*

Okay. What interest rate should we assume for the \$40 million term loan?

Bob Vold - *Gander Mountain Co. - CFO*

Steve, There's some grid pricing based on the level of outstanding debt that's higher than our traditional pricing of 150. It's in the 300 plus range from an individual standpoint. That will be detailed more in the 8-K that will be filed in the next couple days.

Dec. 06. 2007 / 5:00PM, GMTN - Q3 2007 GANDER MOUNTAIN CO Earnings Conference Call

Steve Denault - Northland Securities Inc. - Analyst

What did the EBITDA level, the revenue level look for that Overton's business?

Bob Vold - Gander Mountain Co. - CFO

Overton's this last fiscal year, last trailing 12 months, revenues were approximately \$90 million, gross margin in the 43% range, EBITDA margin in the 8% to 9% range, and pre-tax in the 3 to 4% range.

Steve Denault - Northland Securities Inc. - Analyst

Okay. That's trailing 12 months as opposed to 2006.

Bob Vold - Gander Mountain Co. - CFO

Correct.

Steve Denault - Northland Securities Inc. - Analyst

Okay. Any update on the ASV Scout? How's that program coming along?

Mark Baker - Gander Mountain Co. - CEO, President

We sold a couple units but I think it falls in line with a lot of the discretionary items. I think they've been delayed in terms of purchasing. We're still excited about what that can mean for power sport business in a number of stores.

Steve Denault - Northland Securities Inc. - Analyst

Thank you.

Operator

And our next question comes from Bob Simonson with William Blair.

Bob Simonson - William Blair and Company - Analyst

Yes, on the Overton's acquisition, are you going to show that, Bob, separately on revenues from that and profits from that, or is it going to get merged into one set of line items?

Bob Vold - Gander Mountain Co. - CFO

Bob, I would imagine as we move forward it will be a separate segment, and so, e-commerce and catalog operations will be separate. It will be combined with e-commerce activities that we have with Gander Mountain as well. But you will see retail stores probably separate from the Overton's and the catalog and Internet business that we have.

Dec. 06. 2007 / 5:00PM, GMTN - Q3 2007 GANDER MOUNTAIN CO Earnings Conference Call

Bob Simonson - *William Blair and Company - Analyst*

Would you show separate gross profit dollars off retail versus the catalog?

Bob Vold - *Gander Mountain Co. - CFO*

Most likely, again, Bob, I don't know that we'd go to that level of detail but certainly there will be detail about the business segments to the extent that we're required to do so.

Bob Simonson - *William Blair and Company - Analyst*

And has the transaction closed now?

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

The transaction closed earlier today.

Bob Simonson - *William Blair and Company - Analyst*

So there's a touch of it in your fourth quarter.

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

Effective today going forward there will be a small amount in their fourth quarter. I think it's important to remember, about 70% of Overton's business is in our first and second quarter, I mean as it relates to the boating season. We believe we have significant capability to improve not only the first half business but also the second half with additional products.

Bob Simonson - *William Blair and Company - Analyst*

Okay. The gross margin improvement, the bulk of that I guess was private label. Even though -- how much did the occupancy go up? I heard your reported gross margin because of the comp.

Bob Vold - *Gander Mountain Co. - CFO*

Approximately 75 basis points in the quarter. Again, I think the margin improvement is really a combination of three things. It's better pricing, improvements of pricing structure, reduced clearance, and it's the impact of the higher owned brand during the quarter as well.

Bob Simonson - *William Blair and Company - Analyst*

Is that improved initial mark-on in pricing, is that principally in just a few areas or is it across the board?

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

I think, Bob, when we talk about pricing we talk about the conviction that we continue to have about every day price, and there have been segments in our business where we had more clearance activity or end of season clearance and some of the pricing

Dec. 06. 2007 / 5:00PM, GMTN - Q3 2007 GANDER MOUNTAIN CO Earnings Conference Call

structure there also is -- we have now become a retailer in 23 states. We do have different retailers in different parts of the country. We're finally starting to get an advantage of being in those more remote markets.

Bob Simonson - *William Blair and Company - Analyst*

Bob, your depreciation year to date and nine months I think I saw was \$20 million.

Bob Vold - *Gander Mountain Co. - CFO*

That's correct.

Bob Simonson - *William Blair and Company - Analyst*

An estimate for the year, for the full year?

Bob Vold - *Gander Mountain Co. - CFO*

Estimate of depreciation this year will be approximately \$26 million. On a combined basis going forward next year will be in the \$32 to \$33 million range from depreciation. I think we talked earlier about cap-ex as well. We'll be in the \$44 to \$45 million range. Next year on a combined basis with the reduction in the number of stores we'll be in the \$24 to \$25 million range.

Bob Simonson - *William Blair and Company - Analyst*

So even without looking at that time net income line, which for you is the pre-tax line that you bring over, you should be able to pay down some debt throughout next year.

Bob Vold - *Gander Mountain Co. - CFO*

That's correct.

Bob Simonson - *William Blair and Company - Analyst*

Is that right?

Bob Vold - *Gander Mountain Co. - CFO*

That's correct.

Bob Simonson - *William Blair and Company - Analyst*

And could you go through a little exercise? You had \$163 million of stockholders equity at the end of the quarter. You've got--at year end '07, you'll have \$24 million of new equity in there. Does Overton's add some equity to the equity account?

Dec. 06. 2007 / 5:00PM, GMTN - Q3 2007 GANDER MOUNTAIN CO Earnings Conference Call

Bob Vold - *Gander Mountain Co. - CFO*

No, in purchase accounting, we'll add the \$24 million to the quarter three number, plus the money that we make in quarter four.

Bob Simonson - *William Blair and Company - Analyst*

Okay. And how about debt? Did you say you retired the debt so there is no debt coming over from Overton's?

Bob Vold - *Gander Mountain Co. - CFO*

All the existing debt of Overton's was paid off as part of the \$70 million purchase price. The new debt relative to the Overton's is the \$40 million plus the \$6 million and change that we borrowed and put on the revolver. Again, our debt balance at the end of the quarter I think was \$308 million. Our debt today after the Overton's transaction was about \$338 million, including all the debt borrowed for Overton's.

Bob Simonson - *William Blair and Company - Analyst*

Okay. The way you were going through the inventories, not only the dollars, but per-square-foot basis, despite the comp store sales shortfall in the third quarter, are you comfortable with where they are? What did you say, they're up 5% on a per-square-foot basis, ex the water sports?

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

Actually, I think Rick would say it's down 2%. It's important to note.

Bob Simonson - *William Blair and Company - Analyst*

Down 2?

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

Down 2.5.

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

Our inventories, I made that point that a couple years ago we struggled somewhat with our DC and flowing of goods, and we have made tremendous progress in getting our DC and our replenishment and to date they have with the sales challenge we had, the lineup of managing our inventories, 2% less comparable basis, meaning without the power sports, which weren't in there last year. Very significant.

Bob Simonson - *William Blair and Company - Analyst*

And last one, you talked about cap-ex depreciation, number of stores. It's five or six stores net of two relocations so you're building seven or eight stores?

Dec. 06. 2007 / 5:00PM, GMTN - Q3 2007 GANDER MOUNTAIN CO Earnings Conference Call

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

No, five or six is the total number of new stores. We're committed to five, five in the spring. Again, the two or three, you know, are so the net will be two to three.

Bob Simonson - *William Blair and Company - Analyst*

Oh. So it's net two to three.

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

Correct.

Bob Simonson - *William Blair and Company - Analyst*

And do you have a guess-timate on the five stores for the pre opening expenses? Obviously they'll be down quite a bit.

Bob Vold - *Gander Mountain Co. - CFO*

Again, it will be very similar to the averages this year over last year. Part of this year's number includes some pre opening expenses relative to e-commerce. I think we're looking in the ranges of \$360 to \$375,000 per store. So I'd multiply that by five or six stores. Correct.

Bob Simonson - *William Blair and Company - Analyst*

Any expenses associated with the two relocations maybe that are out of the ordinary?

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

To the degree that we obviously absorb the lower margin for a period of time during those transitions as we close out that inventory but both of them are at the end their lease.

Bob Simonson - *William Blair and Company - Analyst*

So there's no write-offs or catch-ups or anything like that to shut them down. Very good. Thank you.

Operator

(OPERATOR INSTRUCTIONS) And we'll take our next question from Rick Nelson with Stephens.

Rick Nelson - *Stephens Inc. - Analyst*

Thank you. Good afternoon.

Dec. 06. 2007 / 5:00PM, GMTN - Q3 2007 GANDER MOUNTAIN CO Earnings Conference Call

Mark Baker - Gander Mountain Co. - CEO, President

Good afternoon, Rick.

Rick Nelson - Stephens Inc. - Analyst

Would you anticipate any integration charges with Overton's?

Mark Baker - Gander Mountain Co. - CEO, President

No, Rick, the integration is probably a different word for this thing because we are going to continue to operate this as a wholly owned subsidiary. There's so much opportunity that we see to drive the business, so there won't be a sense of synergy savings cost, nor do we see a lot of integration costs, either. There will be some capital spent in the tune of a million or two through the course of the year to add some additional capacity there, and in our current website that Rick and his team have been developing for its launch this Spring, but those were all anticipated.

Rick Nelson - Stephens Inc. - Analyst

Okay, thank you. Can you talk about the seasonality of that EBITDA, the \$8 million. Am I to understand correctly, 70% of that comes in the first two quarters? In other words, \$5 or \$6 million, then two or three in the back half of the year?

Bob Vold - Gander Mountain Co. - CFO

Yes, Rick, when you line it up, in comparison to our quarters, about 71, 72% of the business is within our first six-month period. Again, the bigger period being the second quarter, and again, their EBITDA would track very much those percentages within the year period of time.

Rick Nelson - Stephens Inc. - Analyst

And is the business profitable in all four quarters?

Bob Vold - Gander Mountain Co. - CFO

You know, clearly for the first couple of quarters are their biggest quarter. The third quarter is close to a break-even level, and the fourth quarter is probably their smallest quarter overall from that standpoint, and they lose a little bit of money there.

Rick Nelson - Stephens Inc. - Analyst

Okay. Got it. If you reach your targets for EBITDA, the Company, you mentioned that is currently \$338 million, in inclusive of Overton's. Where do you see debt levels at the end of the year? Above those levels?

Bob Vold - Gander Mountain Co. - CFO

Rick, we really haven't provided specific guidance. We've limited the number of stores and continued to focus on our expansion in the e-commerce area and focus on store performance, and management of inventory. I would expect that number to decrease.

Dec. 06. 2007 / 5:00PM, GMTN - Q3 2007 GANDER MOUNTAIN CO Earnings Conference Call

Mark Baker - Gander Mountain Co. - CEO, President

Rick, to make sure we heard your question correct, you're talking about debt at the end 2007?

Rick Nelson - Stephens Inc. - Analyst

Yes.

Bob Vold - Gander Mountain Co. - CFO

Clearly at the end of 2007, Rick, we're in our busiest selling period. Again, we're at -- even without Overton's acquisition we're in a very high debt period right now based with the increased inventories. Those numbers decreased significantly in the next month period of time, and debt goes down correspondingly.

Rick Nelson - Stephens Inc. - Analyst

I see. So when you have bank debt, higher, you meant versus the third quarter?

Bob Vold - Gander Mountain Co. - CFO

Versus our previous expectations.

Rick Nelson - Stephens Inc. - Analyst

Oh.

Mark Baker - Gander Mountain Co. - CEO, President

To the degree that the sales and the margins won't be quite as what we anticipated when we said the debt would either stay the same or slightly decrease year-over-year, be a slight increase of debt compared to year-over-year, but will come down significantly and yet today Bob sits on more than \$55 million of availability, so we feel like we're in good shape.

Rick Nelson - Stephens Inc. - Analyst

Got you. And do you have marketing plans for Overton's here within the stores during the -- as soon as this fourth quarter?

Mark Baker - Gander Mountain Co. - CEO, President

I think Rick could tell you that could you go to the website today and we're clicking to Overton's site, Rick?

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

Right now as you look at the Gander Mountain website you can click right from our website over to the Overton's website and start shopping on that one. So the marketing of it has begun already.

Dec. 06. 2007 / 5:00PM, GMTN - Q3 2007 GANDER MOUNTAIN CO Earnings Conference Call

Rick Nelson - *Stephens Inc. - Analyst*

Thank you.

William Wallace - *FBR Capital Markets - Analyst*

And our next question comes from William Wallace with FBR Capital Markets. Hi, gentlemen. I'm on the line for Jeff Sonnek today. Couple questions regarding Overton's as well. First question is, how many SKUs are offered by Overton's, and how many of those overlap with SKUs you currently carry?

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

Hi William. This is Rick. Overton's is a full-line outdoor boating recreation water sports and marine area. Their SKU counts will vary throughout the year, based on their seasonality, but I think over the course of the year they have something north of 15,000 SKUs in those specific categories from those specific categories. An overlap standpoint is our marine assortments in the Gander Mountain stores are really not that big compared to theirs, so it's really a minimal overlap on handful of commodities, if you will.

William Wallace - *FBR Capital Markets - Analyst*

Do you expect to change the SKU assortment offerings at Overton's, reducing it or perhaps offering more of the SKUs they currently carry in the Gander Mountain stores?

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

I think, William, I'll let Rick finish it out but the opportunities here to take adjacent product such as fishing, which has not been widely distributed in an Overton's catalog, or outerwear, footwear, some lifestyle product, get them included in their pages of the web and catalog seem obvious to us and we'll go as fast as we can to support those product. We'll also see certainly that customers will be able to access, for instance, a number of more replacement propeller that they might need in Atlanta today that they would have otherwise been able to get at our retail stores. So the synergy and the opportunity to grow both of our businesses we think very significant.

William Wallace - *FBR Capital Markets - Analyst*

So, will you be able to use their infrastructure to turn on the gandermountain.com website and sell your SKUs, and are you planning on keeping the brands separate?

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

Yes, we see the three brands, as Rick mentioned, the smallest one being consumer marine electronics, which is a specialty higher end electronics for larger boats, Overton's, which has a long history of serving the water sports customer, marine accessories, and clearly the Gander Mountain brand, which goes back to 1960, as working together in harmony to attract different customers with different propositions of why they might visit that site. Clearly the harmony and marketing them as all Gander Mountain companies is a big advantage that we have from ten years ago, or 1996 the last time there was a Gander Mountain catalog. Every day customers recall and request getting catalogs from Gander Mountain. So we think we can play that big. Rick?

Dec. 06. 2007 / 5:00PM, GMTN - Q3 2007 GANDER MOUNTAIN CO Earnings Conference Call

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

Yes, as far as the different websites, as Mark mentioned, the opportunity that we have to expand on the assortments and add that as soon as possible is really where a big opportunity lies. The Gander Mountain site, we'll continue to do as we have discussed in the past, along the lines of the plans that we have talked previously to get those done sometime in the first half of this year. So that customers can go under the Gander Mountain website as well. If you click on gandermountain.com today you can quickly click on over to Overton's and start buying, and they're ready to ship before Christmas.

William Wallace - *FBR Capital Markets - Analyst*

Okay, and switching gears, real quick, wondering if could you speak to us a little bit about when and how you came to the decision to slow store growth.

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

I think, William, on that issue, there's a couple of things. Clearly the current economic environment out there is somewhat challenging from a consumer point. We think there are a lot of things and opportunities now that we have the largest retail network that we can go back and reinforce, execute and do a better job with the assets we currently have out there, then clearly with this transaction we want to make sure we don't stretch ourselves too thin on too many fronts while we get this thing working the way we want it to, driving store -- retail store traffic via the web and the catalog. So we have enough to do, and a little time to get some of the execution improved at store level will benefit us all.

William Wallace - *FBR Capital Markets - Analyst*

Okay. And my last question would be just if would you care to quantify the annual savings from your headcount reductions.

Bob Vold - *Gander Mountain Co. - CFO*

Again, 40 people, average salary and benefits is probably a little over 40 to 50,000, so then it's close to \$2 million from the 40 headcount.

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

Plus their travel and expenses.

William Wallace - *FBR Capital Markets - Analyst*

Thank you, gentlemen.

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

Thank you.

Operator

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

Dec. 06. 2007 / 5:00PM, GMTN - Q3 2007 GANDER MOUNTAIN CO Earnings Conference Call

Bob Simonson - *William Blair and Company - Analyst*

Yes, just for -- maybe I'm the only one who is not clear on this. Are you going to put any Overton's product in the stores, in your stores?

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

Yes, we anticipate that they've got some private labels, Gladiator; great brand for personal water flotation devices, some of those things will be expanded in our stores as we make room and time to get those things done. We don't have any absolute ideas how much space what kind of products those are today but we're going to work on it pretty fast over the coming weeks.

Bob Simonson - *William Blair and Company - Analyst*

And vice versa. Will you put -- or what can you put on their website, or is it just going to be a push from, if you want apparel or boots or something like that, it will just show a button and come on over to Gander Mountain, or will you have any guide series on the Overton site?

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

We will eventually do that, have guide series on the Overton site or Gander Mountain stuff on the Gander Mountain site. We're going to work to make sure that the full complement of all of our products by sometime this summer is available to all of our customers. So it will take us awhile to get it all figured out, but we will be available, all products to all customers in the coming season.

Bob Simonson - *William Blair and Company - Analyst*

Now, are you going to fulfill some of the Gander Mountain product from the Gander Mountain side?

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

Rick and the team have been working for months establishing and are pretty far down the path with having some of the Gander Mountain stuff on the website and the catalog that are going to be in advance of those seasons. We'll use our assets at Gander Mountain to ship some of those goods.

Bob Simonson - *William Blair and Company - Analyst*

When does the first Gander Mountain catalog go out?

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

That's a secret. It is expected that we will have some presence on the web as early as the spring, and go beyond that and have some type of catalogs in advance of the right seasons coming to summer.

Bob Simonson - *William Blair and Company - Analyst*

In '08, so you'll have something out there for the fall season?

Dec. 06. 2007 / 5:00PM, GMTN - Q3 2007 GANDER MOUNTAIN CO Earnings Conference Call

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

That's correct.

Bob Simonson - *William Blair and Company - Analyst*

Okay. Thank you.

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

You're welcome.

Operator

We'll take an additional follow-up question from William Wallace with FBR capital markets.

William Wallace - *FBR Capital Markets - Analyst*

Sorry, guys, I guess I lied when I said it was my last question. I did want to actually ask if you could discuss the private label penetration at Overton's?

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

At this point I don't have those numbers in front of me, William. We can look those up. They have a nice growth in their direct sourcing. They ever a number of brands, including Gladiator, and a number of other ones. They do a very nice job with, and we see our ability to help them source that stuff directly because of the scale of our business, they can grow that a lot.

William Wallace - *FBR Capital Markets - Analyst*

Okay. And you're not sure of what the penetration is, roughly?

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

No, not at this moment. We'll get back to you on it.

William Wallace - *FBR Capital Markets - Analyst*

Okay, fair enough. My real last question is, would it be fair to say that this deal prompted your decision to slow growth, or was the decision to slow growth already in the works? The reason I ask is, you know, you've already been able to slow it to five stores, and I imagine you were probably in the process of managing leases, and it's a longer term lease, so it would seem that perhaps this decision had been in the works for perhaps quite sometime.

Dec. 06. 2007 / 5:00PM, GMTN - Q3 2007 GANDER MOUNTAIN CO Earnings Conference Call

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

Actually I think I'm going to suggest to you this way. As we watch the season unfold we always look out six to nine months and try to understand how to manage our business to the best opportunity. We would probably have made the decision, likely made the decision even without the Overton's thing, to slow down growth in the current economic environment and focus on the assets that we have today. That said, the catalyst for it, making sure that we can manage our business and the finance business that we have and the opportunities became the Overton's deal.

William Wallace - *FBR Capital Markets - Analyst*

That's a fair answer. Thank you, guys.

Operator

And we'll take our next question from Mitch Kaiser from Piper Jaffray.

Peter Keith - *Piper Jaffray - Analyst*

Hi, guys. Peter Keith calling for Mitch. Good afternoon to you. Wondering about some of the marketing discussion that you touched on briefly and how you think about that here in the current macro environment. It appears that traffic was down by a sizable amount which certainly weather would have factored into that but do you feel a need now or an opportunity where you could ratchet up some of your circulars or maybe a radio advertising in order to drive traffic to the stores?

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

That's a good question. I'll let Rick finish out. I'll give you my thoughts on advertising. We'll see what happens in the market, and you're in the neighborhood, here Peter, recognizing that we finally have the best weather pattern in the upper Midwest and across the North that we've had, with an ice fishing business that officially starts probably this weekend, and that cold weather patterns that seem to continue. That is probably more important than any type of advertising that we could do, because we know if you advertise when there isn't a season it doesn't do us a lot of good. We think we're going to see some natural traffic particularly once people can get to the stores and not get bottled up on the freeway.

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

That's what I would concur with. That's really the best form of marketing right now that's going on is just the natural traffic that comes with the good weather and the season that we have in front of us so a lot of our efforts are really focused around what we're doing in store and the execution in store and that will be -- that will work very well for us.

Peter Keith - *Piper Jaffray - Analyst*

Okay. Thank you for that. Certainly the weather here, at least in Minnesota, has been very cold and across the upper Midwest, I'm sure that's exciting to you. I know you also don't like to guide too specifically, but it would seem to me that apparel would probably do a little bit better this quarter than last quarter, and would you anticipate at least how things are trending right now that the mix shift in terms of your gross margin may actually be a benefit?

Dec. 06. 2007 / 5:00PM, GMTN - Q3 2007 GANDER MOUNTAIN CO Earnings Conference Call

Mark Baker - Gander Mountain Co. - CEO, President

Again, not giving guidance for the quarter, but this kind of weather, if it does continue, obviously influences consumer behavior. As a gift giving season, which is a big year, a big time of year for us, we still have more business ahead of us than we have behind us in the fourth quarter. So we are very excited about what we see but we're also cautious that some of the discretionary purchases are going to be a little bit challenging.

Peter Keith - Piper Jaffray - Analyst

Okay. That's fair. And another question, I don't know if you will be able to slice this out exactly, but just thinking about some of the current macro factors that are causing head winds for the consumer, are there any that you can pinpoint that are particularly troubling for your customer? Would it be gas, for example, or based on maybe some of the regional performances of your store? Would it be housing?

Mark Baker - Gander Mountain Co. - CEO, President

It's all of those certainly. The consumer confidence pretty well tracks what we see in terms of traffic and discretionary purposes, and it's been challenging. Clearly we have a big profile in SUV's and pickup truck owners, so gas, when it gets to that \$3, can always be a first sign of challenge for us. I think people get used to the, but initially it can be a bit challenging.

Peter Keith - Piper Jaffray - Analyst

Okay. One last question just on the Overton's and you talked about it being I guess slightly accretive for next year. Would that be as if you were just left it as a stand-alone company, or is that factoring in already some of the expected synergies?

Bob Vold - Gander Mountain Co. - CFO

It's a combination. I mean, again, they have a very stable business, and again, we have some modest growth opportunities. It's certainly a big opportunity as we go forward and get into our fall hunting season and move out farther.

Peter Keith - Piper Jaffray - Analyst

Okay. Great. Thanks a lot, guys, and good luck in Q4.

Mark Baker - Gander Mountain Co. - CEO, President

Thanks.

Valin Mezinev - Donald Smith and Company - Analyst

We'll take our next question from Valin Mezinev with Donald Smith & Company. What is the goodwill that you guys plan to put as a result of the acquisition?

Bob Vold - Gander Mountain Co. - CFO

It's -- again, we don't have an exact number but it's probably in the \$50 million range.

Dec. 06. 2007 / 5:00PM, GMTN - Q3 2007 GANDER MOUNTAIN CO Earnings Conference Call

Valin Mezinev - *Donald Smith and Company - Analyst*

Thanks.

Operator

And we'll take another follow-up question from Bob Simonson with William Blair.

Bob Simonson - *William Blair and Company - Analyst*

Just a quickie. Have you got contracts with the senior managers and the managers of Overton's?

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

Yes, we do, Bob. They're very excited, Bob, about being Gander Mountain. They've been part of a private equity group which manages businesses differently, I can tell you the management group, which we're headed off to tonight, to go welcome to the Gander Mountain Company and culture, are very excited about being a part of this growth opportunity.

Bob Simonson - *William Blair and Company - Analyst*

Very good. Thanks.

Operator

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

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

Thanks, Christine. Thanks everyone for attending this call. We are developing a scalable business with a stronger first half based on Southern stores, new products, the acquisition of Overton's. Acceleration of our catalog and e-commerce efforts as we grow toward our long term goals of being in excess of \$3 billion in revenue, 5 % to 6% operating margins and double-digit ROIC are all a part of our expectations. I want to thank all of our associates for handling over four million customer transactions this quarter. They are the real drivers of our success. Thanks for joining us today. Speak to you soon in a couple coming months. Thank you.

Operator

This does conclude today's conference. We thank you for your participation. You may now disconnect.

Dec. 06. 2007 / 5:00PM, GMTN - Q3 2007 GANDER MOUNTAIN CO Earnings Conference Call

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