FINAL TRANSCRIPT

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PRESENTATION

Operator

Good morning, everyone, and welcome to the Gander Mountain Fourth Quarter Earnings Release Conference Call. This call is being recorded. At this time, I will turn the conference over to Mr. Bob Burton. Please go ahead, Sir.

Bob Burton - *IR Squared - Moderator*

Thank you. Good morning and thank you all for joining us. Welcome to the Gander Mountain Fourth Quarter 2007 Conference Call. I'm Bob Burton of IR Squared.

Joining us on our call today are Mark Baker, President and Chief Executive Officer 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, Rick will review our merchandise initiatives, and Bob will review our financial results. 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'll 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. A transcript of this call will be posted under Archives in the Investor Relations section of our website.

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

These reports are available at the Investor Relations section of our website at 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 non GAAP measures including adjusted EBITDA discussed during this call is available on the 8-K we filed today and at the Investor Relations page of gandermountain.com under the Financial Information tab.

Now I'll turn the call over to Mark.

Mark Baker - *Gander Mountain - President and CEO*

Good morning. Let me begin with a frank assessment of these results. The economic and business trends we identified in the third quarter continued into the fourth and produced results for the quarter and the year that were disappointing to all of us at Gander Mountain.

In the quarter that is traditionally the strength of our business, sales declined 2.8% to $318 million. Adjusted EBITDA was $23.8 million, a decline of 31%. Net income also fell 62% to $5.8 million. While these results are disappointing versus the fourth quarter of last year, Gander Mountain did earn $7 million before absorbing $1.2 million in seasonal losses at our Overton's acquisition.

Our comparable sales performance in the quarter of minus 11.9% was certainly due in part to the economic conditions that pressured consumer spending and affected nearly every retailer in the November to January period. Traditionally strong merchandise categories for Gander Mountain like firearms and hunting products were negative for the period as was apparel. Early in the season, cold weather categories did not perform to expectations.

But we also felt the impact of management decisions during the quarter. In particular, we made a deliberate decision to reduce our advertising spend out of a conviction that, given consumer confidence and its economic impact on discretionary spending, the incremental media investment would not produce a meaningful return in additional sales.

It is important to note that we are seeing a sequential improvement in sales performance thus far through the first quarter of fiscal 2008, with comparable sales running mid single digit negatives, but I will be back with the first quarter in a moment and 2008 expectations as well.

For the fourth quarter, sales were soft in all geographic areas including the South, which had been a strong performer throughout the first half of the year. From an operational viewpoint we remained encouraged by several items.

Soft sales were somewhat offset by initial margin gains of approximately 98 basis points, resuming a trend of increasing initial margin in seven of the past eight quarters. Overall, margin gains reflect general improvement in the pricing structure; improved clearance management; benefits of scale, and higher penetration of owned-brand merchandise.

We have positioned ourselves for an increased focus on execution and cost control. The $6.5 million charge for fiscal '07 reflects several items that will benefit our cost structure in fiscal '08, including the closing of two unprofitable stores at year-end, severance costs related to the restructuring of our corporate overhead in the fall and the adjustment to our service model of our PowerSports business.

We also score our stores by utilizing a customer service index and continue to show solid results in the quarter.

Having laid out the top and bottom lines for the quarter, I would expect shareholders to ask, "Mark, what is Gander Mountain doing to address these conditions going forward?" Let me tell you.

In November, we said that we would review all expense centers and markets for additional cost reductions and we would manage our business to the current economic environment.

Our management team has been diligently working on next steps to improve Gander Mountain performance over the coming year. It is important to gain more traction and produce stronger results for 2008. To that end, we have implemented the following disciplines.

We are putting intense focus on improving performance in existing stores. We closed two unprofitable stores the last day of the fourth quarter. We will open only five stores in the coming year, of which two are the replacements for three smaller older stores, and three new Southern stores in Florida and Virginia.

This new store count represents a substantial slowing in our incremental square footage and capital spending. Our Cap Ex for 2008 will be less than $25 million, compared with $47 million in 2007.

We have identified 25 stores where we have the greatest opportunity for improvement and we'll bring management and financial support to this Focus 25.

In addition to the Focus 25, we are implementing four major merchandise initiatives. Rick will expand on these in a moment but specifically they are, continue to grow the Gander Mountain Gunsmith Certified program, which includes the Gander Gun Owners Club; expand our field wear and everyday apparel, and denim workwear offerings; significantly increase the space allocation to our successful footwear business across all our stores and adjust the model in our PowerSports footprint in selected stores, even as we expect to grow this business over the coming year.

On the expense front, Bob will detail in a moment how cost-cutting actions taken last year will enable us to leverage SG&A by more than 100 basis points in the coming year.

We will also pursue the opportunity to leverage the platform and accelerate and expand our entry into the direct marketing arena through Overton's, which was acquired in December of last year. As an example, the Overton's May 250-page catalog will include 44 pages of Gander Mountain-branded products, including apparel, fishing, and camping items. Most exciting to us, of course, we will continue to expand through the launch of the Gander Mountain website and Gander Mountain catalogs later this year.

Given the seasonal pattern of their business, our expectation is that Gander Mountain will benefit from Overton's operations in the second quarter. Overall, Overton's enables Gander Mountain to greatly accelerate our strategy to be an integrated, multi-channel retailer featuring Internet, catalogs and retail stores. Overton's provides an excellent management team, a proven platform and an infrastructure in natural seasonal complement with the majority of its sales in the first half of the year, and the capacity to handle substantial additional volumes with minimal incremental investment.

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.

For Gander Mountain, our financial goals for fiscal 2008 include revenues over $1 billion, producing a profitable Company performance due to improved store economics and cost savings, with a cost structure that reflects a comparable sales plan that is slightly negative on the year; continued expansion of our initial margin, based on stronger sales performance in key margin categories of apparel and footwear; flat net store growth, but a continued shift to Southern markets; a drive to better manage costs and improve sales in stores that currently are not meeting expectations and profitable growth in the direct business.

Overall, we recognize that there is a lot to do but we feel good about the coming year. We continue to have the strong support of our majority shareholders, particularly evidenced by the recent support of our Overton's acquisition. We are committed to our customers, our supplier partners, and to our dedicated associates, who provide great service every day.

Rick?

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

Thank you, Mark, and good morning.

As Mark said, from the merchandising perspective, we had a challenging quarter. With a handful of exceptions, our sales were slower than expected, due to broader economic trends and factors relating to Gander Mountain decisions and performance.

Mark mentioned our decision to reduce advertising in mid-quarter. Let me walk through that decision and its implications for the coming year.

First, as part of our overall concentration on improving efficiency, we have evaluated this expense carefully, both for the second half of '07 and all of '08. In considering our sales trend midway through the fourth quarter, we felt that incremental spend would not produce offsetting sales and margin performance.

Looking at our plans for 2008, advertising expense will be about comparable to the past year but will be allocated differently and focused in two areas. First, our direct marketing launch later this year, and second, the high volume third and fourth quarters. We will continue to focus on broader media, for example, radio, with a more tactical, market-by-market allocation as the year progresses.

Overall merchandising trends were weak in hunting products, firearms, camping, and apparel. In the critical hunting area, comparable sales were broadly negative and were below the Company average for the quarter, reflecting poor performance in ammo, black powder and smaller categories like paintball and lighting. Firearms, and particularly new firearms, were soft during the quarter in the mid-price points, reflecting slower discretionary consumer spending.

Fishing was positive, due to a strong ice fishing season. The rod and reel combinations we have offered all year did well and we expect this trend to continue in 2008.

Apparel comps in fieldwear and outerwear were negative but ahead of the Company performance. Footwear was a positive exception, posting solid positive comps for the quarter. This is in part due to the initiatives we implemented in 2007, targeting women and youth.

For the quarter, apparel penetration increased 100 basis points to 31%. PowerSports was also positive, reflecting our first year of carrying boats.

Cooking accessories -- grills, smokers and seasonings -- continue to perform well, as it has all year. The camping side of the business, tents and sleeping bags, as well as paddle sports were soft, consistent with year-to-date performance.

While sales on the quarter were disappointing, margin improvement initiatives provided support for margin gains. Owned-brand penetration increased from 13.4 to 15.9% on the quarter, led by gains in apparel and fishing and contributing about 25 basis points in initial margin expansion. We finished the year at 13% penetration for owned-brand products, up from 11% in the previous year.

Initial margin increased 98 basis points on the quarter, reflecting general improvement in pricing structure, improved clearance management, benefits of scale, and higher penetration of owned-brand merchandise. Inventory ended at $404 million, of which $385 million was in the Gander retail business, an increase of 10% over the prior year. About half of that growth reflects additional stores and the remainder is annualizing our expansion of PowerSports products. Our inventory per square foot in open stores, excluding in-transit and preopening inventory, was $62.19, down 2% from prior year. Without PowerSports, inventory per square foot was $50.07, a decline from $54 the prior year.

Clearance levels are down over last year, which is important as we enter the new year.

On an annualized basis, inventory turnover slipped from 1.7 to 1.5 times. We have several initiatives underway to improve this metric this year. Ongoing SKU rationalization efforts have yielded SKU reductions in some spring categories by as much as 15 to 20% percent in average assortments. We are also flowing goods more efficiently through our distribution center, allowing us to reduce inventory in stores over time.

On a trailing 12-month basis, sales per square foot were $164.86 versus $174.90, down 6% as a result of second half performance. Today, 78% of our square footage is in our 2003 and later big box stores.

Our average customer ticket increased 4.8% to $62.41 for the quarter. Looking toward 2008, Mark listed several initiatives that will be first in our thinking and action.

Obviously, the leader is leveraging the Overton's platform. As we said, Overton's will continue to operate as a wholly owned subsidiary. We will go to market online and catalog under Overton's and Gander Mountain.

With the acquisition of Overton's, Gander Mountain expects to obtain national reach for our products; be able to offer both broad and specialized catalogs; offer our customers the convenience of 24/7 websites for product sales; realize higher margin direct product sales; substantially increase the distribution of Overton's catalogs, in part by distributing catalogs to customers in the retail stores, and offer Overton's owned-brand product in Gander Mountain stores.

As Mark indicated, our first step will be visible very soon as Overton's May catalog will include 44 pages of national and Gander Mountain-branded products, including apparel, fishing, and camping items. Beyond that, we look forward to the launch of Gander Mountain's e-commerce website and Gander Mountain-branded catalog later this year.

With this significant investment, both companies will look towards building full online product lines and service offerings over the coming quarters.

The next two of our initiatives are apparel-related, and build on the foundation which our merchandising team began putting in place a year ago. This team has been diligently working on re-engineering our product from source to store and their first full efforts will be visible in two areas this spring.

The first is allocating incremental floor space to our successful footwear business across all stores. We will expand the footwear assortments in some areas by as much as 25% with category emphasis on casual footwear, cross trainers, and hikers. We will focus on action wear footwear, not sports and athletics.

Next, look for expanded Gander Mountain sportswear, denim and workwear offerings as we begin to take delivery of our first full five season product line strategy. It is hard to overestimate the amount of change you will see here. In men's, nearly every style has been reengineered. In women's, more than half the styles have been redone and we have expanded classifications.

I'm excited about this end-to-end effort and the styles, quality, and fit look terrific.

Our fourth initiative is the readjustment of the model for our PowerSports footprint. In our first year of this category, we have found success where scale in the market size and support from a large format showroom are in place. We will continue to grow this business and will include it in Palm Beach Gardens and Madison stores this year.

However, based on the learnings of the past year, we are eliminating this category in stores where volumes have not validated the investment in the inventory and service. An example of this would be in the Twin Cities, where we have consolidated these product lines from five stores to our two larger stores.

We have found that the financial performance of this category is considerably stronger in our large format stores and in certain targeted markets. In the future, we will take a flexible approach to this category. We have the PowerSports assortment in 33 stores now and carry loose motors and jonboats in all stores. We still expect this business to contribute increased sales and margins in 2008.

And fifth, we will grow our Gander Gunsmith Certified program, which provides additional value to our customers. We continue to be excited about this point of differentiation in the marketplace as the nation's leading firearms retailer.

Summing up, this has been a difficult six months but we feel good about what lies ahead in 2008.

And now I will turn the call over to Bob Vold.

Bob Vold - *Gander Mountain - SVP and CFO*

Thanks, Rick. First, I will summarize our results and then I will go into more detail on the financials.

For the quarter, Gander Mountain reported a sales decline of 2.8% and a comparable store sales decline of 11.9%. The net income for quarter four of fiscal 2007 was $5.8 million, as compared to net income of $15.3 million last year. This year's fourth quarter includes $1.2 million in net losses attributable to our Overton's acquisition, concluded in December. The quarter also includes $4.3 million in store closing costs, asset impairment and other charges.

As Mark indicated, the comparable store sales decrease, which was the primary factor behind our reporting a loss for the quarter, was system-wide, affecting all regions of our 23-state geographic area. Both Mark and Rick have discussed the contributing elements, both economic and Company-specific.

For the full fiscal year, Gander Mountain reported sales growth of 6.4%, and a comparable store sales decline of 5.4%. The net loss for the year was $31.8 million, or $1.52 per share, compared with a net loss of $13.2 million, or $0.88 per share, last year. This year also includes the fourth quarter operating losses attributable to Overton's, as well as $6.5 million in store closing costs, asset impairment, and other charges. Last year's fourth quarter included a $9 million non-cash debt conversion charge.

Now, let me review the financial metrics. Total square footage year over year increased 12.8% to 6.2 million square feet. There were two stores closed on the last day of the quarter, one in Pontiac, Michigan, and one in Maplewood, Minnesota, both of which were unprofitable stores.

The average square footage per store increased approximately 4% to 54,300 square feet for the fourth quarter, compared to the same quarter last year.

Our comp store base at the end of the quarter was 97 stores.

In the quarter, gross margin decreased 92 basis points to 26.8% of sales. This decrease resulted from a number of factors. Initial margin improved 98 basis points as we benefited from a general improvement in overall pricing structure, reduced clearance activity, and increased penetration of our own brands from 13.4% to 15.9% for the quarter. Mix had a negative impact on initial margin in the quarter as a result of increased PowerSports penetration.

The decrease in gross margin was primarily related to de-leverage in store occupancy costs as well as increased shrink.

On an annual basis, the gross margin improved 18 basis points to 24.8%, primarily as a result of increases in initial margin rates of 107 basis points for the year, partially offset by de-leveraging in store occupancy costs.

Initial margin has increased three of the four quarters in the year and our own brand represented 13% of retail sales for the year as compared to 11.3% last year.

Turning to expenses, we have historically reported store operating expenses and general and administrative expenses independently. As a result of the Overton's acquisition, the Company will report SG&A going forward. We will provide segment reporting data for our retail and direct businesses as part of our reporting requirements in our 10K.

In the quarter, SG&A increased 291 basis points to 21.7% of sales, reflecting increased store operating expense, de-leveraging due to soft sales and the inclusion of Overton's expenses. For the year, SG&A increased $33 million to $241 million, or an increase of 16%.

Preopening expense was $84,000 compared to $0 in the fourth quarter last year. For the year, preopening expense increased $1.6 million to $4.8 million, reflecting incremental store openings. Net interest expense was $5.7 million for the quarter versus $4.9 million in the fourth quarter of last year, due to increased borrowing, partially offset by lower interest rates. For the year, net interest expense was $19.7 million and will increase to approximately $21 million in the year, reflecting the acquisition of Overton's.

As discussed, the quarter included store closing costs, asset impairment and other charges of $4.3 million. This included store closing costs of $2.6 million, website development costs incurred prior to the Overton's acquisition of $1 million, as well as costs of $700,000 for the reconfiguration of the PowerSports business.

Comparisons of earnings per diluted share year over year are affected by the Company's issuance of equity capital in 2007, which increased the number of weighted average shares outstanding year over year. The earnings per share for the fourth quarter of fiscal 2007 were $0.25 per share compared to earnings per share of $0.85 in the comparable period.

The weighted average diluted shares for the quarter were 22.9 million shares compared with 18.1 million in the comparable period last year.

As previously reported, we completed the acquisition of Overton's Inc. on December 6 for $70 million in cash. The total purchase price of $72 million, which includes acquisition costs and deferred payments, was funded primarily by $24 million in new equity proceeds from current shareholders and from a $40 million term loan. The purchase price allocation resulted in $67 million in goodwill and other intangible assets.

Capital expenditures were $6.0 million for the quarter versus $5.4 million for the comparable quarter last year, primarily for upgrades to existing stores.

Total capital spending for fiscal 2007 was approximately $46 million. We expect cash for capital expenditures for fiscal 2008 to be less than $25 million.

We ended the quarter with borrowings under our revolving credit facility of $246 million and shareholders' equity of $194 million. Currently, we have approximately $30 million of availability under the credit facility, which is sufficient for our seasonal needs.

Depreciation and amortization was $27 million in fiscal 2007 and will increase to approximately $31 million in fiscal 2008.

Looking forward, we are planning very conservatively for fiscal 2008. As Mark indicated, we have built our plans on a small number of net new stores and a slightly negative comparable sales performance to ensure we have the proper expense structure in place.

Our store growth plans in fiscal 2008 will include only five to six total new stores, of which five will be spring openings. We're closing two smaller stores and opening a larger store in Madison, Wisconsin as well as relocating our Eau Claire, Wisconsin store. As a result of taking a cautious approach to this economic period and in light of opportunities presented by the direct business, this marked reduction in store opening frequency and reduced capital spending is warranted and will also reduce pre-opening expenses for the year.

In meeting our goals, we will benefit from Overton's strong EBITDA performance, which was $8 million on a stand alone basis last year, primarily beginning in the second quarter.

We are committed to improving our operating results. As we expand our direct business, our focus on all stores going forward will be on improvement in business fundamentals -- product gross margins, expense control, store profitability, and management of inventory.

We have already taken steps to reduce store operating and other controllable expenses by more than $10 million. We will continue to evaluate ongoing investments in labor and advertising, and make the necessary adjustments while protecting our ability to serve the customer.

In the second half of 2007, we eliminated 42 corporate overhead positions and pursued other cost reductions which will also benefit performance in 2008. We expect to save $5 million on an annualized basis as a result of these actions.

In addition, we have identified 25 of our stores, the Focus 25 that Mark mentioned, where additional effort in leadership, merchandising, and staffing can deliver sharply improved execution and results over the coming year.

We are committed to margin expansion, expense control and financial discipline as we develop a stronger business structure and deliver a profitable business performance in 2008.

Now we're ready for questions.

QUESTIONS AND ANSWERS

Operator

(OPERATOR INSTRUCTIONS) Bob Simonson with William Blair.

Bob Simonson - *William Blair and Company - Analyst*

Good morning. If I've got these numbers right you are going to have depreciation a little north of $30 million and CapEx of about $25 [million]. Does the difference in whatever net income you can earn go towards net paydown or what are you looking for, for the balance sheet at the end of --?

Mark Baker - *Gander Mountain - President and CEO*

Yes, Bob, I think clearly our goal is inventory management to deliver improved operating performance and to pay down debt during the year.

Bob Simonson - *William Blair and Company - Analyst*

Are there any debt covenants that you have on the revolver that says you should or would hope to do a certain level of debt by the end of the year?

Mark Baker - *Gander Mountain - President and CEO*

No. There are no specific debt covenants relative to a dollar amount. There are two covenants. One is a 5% minimum availability covenant and the second is a limitation on capital expenditures.

Bob Simonson - *William Blair and Company - Analyst*

Okay and what's you said, Bob, and I missed it. The extent of the rollover. How big is it now?

Bob Vold - *Gander Mountain - SVP and CFO*

We have about $30 million availability under revolver today. Again our revolver capacity is $345 million. We are -- at year-end we are at $246, million, that would be under both terminal [and a] and the revolver itself. So we would have $244 million in the revolver as of year-end. It would be slightly higher than that as of today.

Bob Simonson - *William Blair and Company - Analyst*

Now was there also something with -- you could increase the $345 if needed?

Bob Vold - *Gander Mountain - SVP and CFO*

The $345 has an accordion provision. However that cannot be invoked while the Overton's term loan at $40 [million] is outstanding.

Bob Simonson - *William Blair and Company - Analyst*

And if your 2008 results and your internal expectations prove reasonably accurate, can you give a guess as to how many stores you might add next year?

Mark Baker - *Gander Mountain - President and CEO*

We would probably look to do somewhat similar to what we've done this year. We have got a number of stores that are coming up on their lease provisions, a couple of them are two replacements which we probably traditionally will do. And there are a couple of other stores that we would look to in the markets, but it would be similar growth.

Bob Simonson - *William Blair and Company - Analyst*

Okay. You have talked on a number of occasions even before Overton's of the Southern strategy, hopefully moderating the losses in the first and second quarters and ultimately getting to some profits, at least in the second quarter. Is that in this difficult environment still an expectation for 2008?

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

It is. You know we just came off of the Long Beach Gardens grand opening which was our largest grand opening we've ever had in the springtime and our second largest grand opening of all time, which I think exhibits the need or the ability for us to merchandise and market to those areas and we remain very excited about it.

We do see some localities where the housing downturn and the consumer confidence is probably more challenged in some markets. And, obviously, we would like to see that cycle improve, but overall we have had great success in the South and up until this last downturn on the discretionary side. We feel very strongly about it and again recently evidenced by the strength of the Long Beach Gardens, great grand opening.

Bob Simonson - *William Blair and Company - Analyst*

And regarding Overton's I think, Bob, you said that they did about $8 million in EBITDA for their full year. What did that compare with? Was that an up year, down year, sideways year?

Bob Vold - *Gander Mountain - SVP and CFO*

They've had a very stable business model over the last couple of years. Again modest growth, but very stable business over the last two, three years.

Bob Simonson - *William Blair and Company - Analyst*

Okay. And on the litigation side, when do you think you'll have -- are you intending at some point to not only have your merchandise in an Overton's catalog, but also a Gander catalog?

Mark Baker - *Gander Mountain - President and CEO*

That's right. We are free to compete with putting the Gander Mountain products in the Overton catalog which you'll see here in delivery to door steps in a couple of weeks. Their May catalog and then, later, this summer and early this fall, we will have a web site that is a Gander Mountain-hosted and supported website which will distribute product as well as our Gander Mountain catalog this fall.

Bob Simonson - *William Blair and Company - Analyst*

Okay. Thank you.

Operator

Steve Denault. Northland Securities.

Steve Denault - *Northland Securities - Analyst*

Good morning, everyone. I missed the comments. I know you've made reference to the firearms category being down I think below the Company average. What do you see there? What is going on?

Mark Baker - *Gander Mountain - President and CEO*

I will have Rick finish the comments, but a couple of things obviously. We had put in place in early September a program called Gander Gunsmith which basically we sell all of our firearms today with a full warranty which nobody else can do. We have got 120 gunsmiths now across 23 states and basically put a full warranty in place. We put together our Gander Gun Owner Club which is a way for us to talk directly to these consumers and for them to get the first opportunity on new products.

We didn't probably execute as well as we wanted to in marketing that strategy. We have seen in the last couple of months great growth in that program and our firearms business has picked up very significantly. As well as we saw the consumer shifted a fair amount to use firearms through the fall. We had a much bigger shift to the used firearms business.

I think you've seen that across a lot of discretionary products where consumers still want product, but shifted down a bit. Rick?

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

Yes, and that's basically what has happened, Steve, is the execution on one hand which was something that we intend on improving and are putting steps to improving is one essence of it. The other is as we segment that business by different price points, different buckets, new, used, and price ranges, our data clearly shows that only specific areas of that business were challenged, and as I mentioned, the midprice point guns which would indicate something in the consumer discretionary spending as being challenged.

Steve Denault - *Northland Securities - Analyst*

And the adjustment in PowerSports affected or resulted in the eliminations of ATVs in how many stores?

Mark Baker - *Gander Mountain - President and CEO*

I'll get you those numbers in a moment here. It's probably 15 or 18 stores that were -- generally these 65,000 square foot stores had a hard time fitting them in there particularly with the new initiatives as we went to larger footwear and apparel businesses. We worked with our supplier to make sure that, in many cases, we will actually drive more volume in certain markets than we have previously done because we consolidated that activity using the Twin Cities example where we would've had them available in the Eden Prairie store and Blaine. Today they will be just consolidated into Forest Lake and Lakefield and we can do a much bigger job in the presentation of those larger stores.

Operator

Rick Nelson. Stephens, Inc.

Rick Nelson - *Stephens, Inc. - Analyst*

Thank you and good morning. Could you address the inventory calculating up 16% in the quarter when sales declined?

Mark Baker - *Gander Mountain - President and CEO*

I'm going to have Bob and Rick comment about the inventory growth. I think Bob is prepared to talk about that, but we saw -- again reflecting on the same square footage a significant decline, we canceled a lot of inventory when we saw the business falling off in October and November. But there is growth, it's largely based on the square footage.

Bob Vold - *Gander Mountain - SVP and CFO*

Yes, Rick, the biggest increase in inventory in quarter four was Overton's. Overton's added $19 million as of year-end through an inventory standpoint. Inventory [stock] in the whole year went from $349 million to $404 million. New stores accounted for approximately $40 million of that. Overton's for another $19 million.

As we grew the number of boat stores, our first rollout added to it in dollars inventory as well and then $4.00 per square foot decrease on average, actually decreased inventory by approximately a little over $20 million in total by now.

Overton's is the biggest factor in quarter four.

Rick Nelson - *Stephens, Inc. - Analyst*

So you are not anticipating any aggressive clearance activity then?

Mark Baker - *Gander Mountain - President and CEO*

As a matter of fact, we really feel good about our level of clearance inventory. It's probably at the lowest level we have had in years and the freshness of our inventory. I would say seasonally you go through January, February where you do close out some remaining sizes and heavyweight apparel. But we got through efficiently and very clean.

We got through all the apparel and footwear. It was probably the best footwear season that we have had in terms of moving through all the pack boots and things like that. So we feel very good about our inventory levels.

That said, we continue to believe we can lower our inventory levels throughout the course of the year as we rightsize the business.

Rick Nelson - *Stephens, Inc. - Analyst*

Thank you for that. The Overton's loss of $1.2 million over the period that you owned it, how did that compare to the prior year, same period of time?

Mark Baker - *Gander Mountain - President and CEO*

Again very similar. Overton's is a very seasonal business. Again, that is really their slow period of time of the year. They are ramping up now as we are getting into the spring boating season.

Rick Nelson - *Stephens, Inc. - Analyst*

And the tax rate 6% in the fourth quarter? What are you looking at for a rate.

Mark Baker - *Gander Mountain - President and CEO*

That's really just state taxes again in individual jurisdictions in both Overton's and ourselves on a go-forward basis. It's very similar in that range. I mean, again, our NOL from a Federal standpoint is $86 million. So we will not be a Federal taxpayer for a period of time.

Rick Nelson - *Stephens, Inc. - Analyst*

And at the debt levels, 62% debt to cap, are you contemplating more equity in the current year?

Mark Baker - *Gander Mountain - President and CEO*

Our significant shareholders have always supported this business as evidenced by the last $25 million. We don't see any needs at the moment, but we always feel confident that we can do what we need to do in advance of any needs.

But we see ourselves in a he position right now to pay down debt and to run the business the way it is.

Rick Nelson - *Stephens, Inc. - Analyst*

And then to follow up on Bob Simonson's question, the seasonality of the business, are you looking now as you look at this year, [two] profitable quarters, [two losses in the] quarters.

Mark Baker - *Gander Mountain - President and CEO*

We obviously don't break out and give any guidance by quarter. And what we continue to believe is we have made the right changes in our business from adding the boats last year and building to grow our boat and marine business which we had evidence through the first two quarters of last year. We are very new to that business. We expect that to grow.

Rick pointed out all the opportunities we see in women's and kids' apparel and the footwear business, which we believe is a year-round business.

And then, finally, I would see the seasonality of the Overton's business which I pointed out significantly impacts quarter two is something we look forward to. But other than that we don't break it out by quarter.

Rick Nelson - *Stephens, Inc. - Analyst*

Thanks a lot.

Operator

Reed Anderson. D.A. Davidson.

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

Good morning. Mark, I was wondering, hoping if you and the rest of the folks there might just add a little more color on these 25 stores you are focusing on in terms of improving. Obviously there the lot that isn't -- they are your underperformers, etc., but could you maybe give us more sense of some of the common characteristics there that you have found whether it is geography or mix or management? And just give us a better sense of what kind of opportunity might lie within those stores.

Mark Baker - *Gander Mountain - President and CEO*

First, what a great question. Thank you for that one. We see the opportunity in 25 stores and the effort here is going to meet and do reviews of all the management there, make sure we have the right people in place.

We are reviewing the merchandising and the mix of the merchandising in those markets, reviewing the marketing in those markets. And frankly the displays and what we called this Focus 25 will cause us to have learnings which we can apply across all of our stores.

As you know for the last three or four years, we've spent a great deal of our top talent building and opening new stores and it's always exciting to do that. What we looked at when we turned around and looked at some of our stores that we believed had higher sales opportunity than we were achieving, in some cases we needed different management and some cases we needed different timing of merchandise. In some cases, slightly different marketing.

We are really excited about focusing on these opportunities and spending a lot of quality time with this management and the merchants in those stores. Recognizing that these stores in some cases, by the way, are performing very well. I mean some of these stores are actually our highest volume stores, but we believe they are capable of driving another $1 million or $2 million in additional volume out of them.

What are the things that it takes to take our learnings from one store to the other? And this pause in our absolute store rollout, it's sometimes very healthy for us to refocus on those existing opportunities. And I look forward to reporting on those quarterly.

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

So we shouldn't infer, then, that these 25 are all losing money or your worst performing stores? These are stores where you have identified the best opportunity for improvement?

Mark Baker - *Gander Mountain - President and CEO*

That's -- thank you very much for that, Reed, because as a matter of fact we only have a couple of stores, less than a handful, that lose in total probably $1 million in four wall contribution. So we have moved all of the stores across the line of profitability with a couple, three exceptions. And what we see these stores are across the spectrum is big opportunities in the marketplace to do a lot better.

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

And are they spread across all of your geographies or are they more concentrated in a particular area?

Mark Baker - *Gander Mountain - President and CEO*

They are spread across geographies primarily because we wanted each district manager to have a couple of these stores so that we can apply those learnings across the rest of that base. So every district has a couple of these stores.

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

And do you -- and final question on this topic, is it something where you think you can seriously drive meaningful improvement by the end of the year or are you just starting a multiyear process with these locations?

Mark Baker - *Gander Mountain - President and CEO*

You know, the easy learnings and the low hanging fruit will be applied across all of the stores quickly. But we think this is a process that which you continue to improve for the rest of your life in retail. But we see meaningful differences in these stores and what their upside can be throughout the year.

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

That's good. Couple more questions. Bob, if -- curious, if you just stripped out Overton's, what would your range or ballpark, what would your gross profit margin on a reporting basis look like in the fourth quarter?

Bob Vold - *Gander Mountain - SVP and CFO*

Again in the fourth quarter it's a very small difference. Overton's revenues were $5 million or so in that period of time. It's minimal basis points whatsoever.

Obviously on a go-forward basis as the direct business becomes a larger component, I mean, the initial margin would -- separate from Overton's, we expect that we will have initial margin expansion similar to the last couple of years. The last couple of years have expanded initial margin by over 100 basis points each year and in addition get the benefit from Overton's in the direct business which is -- could be 40, 50 basis points impact on an overall initial margin.

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

Okay and then what did you -- I mean, if you look at just building out that direct piece, knowing what they already have and what you've spent so far, I mean how much do think you are going to have to spend just on that piece this year? Is it $3 million or $4 million? Is it more than that, less than that?

Mark Baker - *Gander Mountain - President and CEO*

What we've done is we evaluated some of the advertising we have had in the past and reallocated in many cases to the catalog and the distribution of that. We believe that the catalog being distributed will support our retail stores as well as a marketing piece. So it won't be incrementally very much larger for the year in our total advertisement between the two companies.

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

And then, Rick, I was curious about the footwear expansion you talked about. Approximately how many locations might that apply to where you are talking about a 25% increase in floor space? And then secondly is this more of a push into the women's and kids' or are you expanding the men's as well? New brands? Just a little more color in that area, please.

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

The actual expansion is really going to come across all stores. Exactly which stores may get up to about 25% is very difficult to pinpoint, because we have to look at each door individually and assess a couple of things. The space that's available and how we get there as well as the assortment needs for those markets. So that number is pretty tough to pin down with just a comment.

As far as the assortment growth, there really is opportunity across all categories. Men's casual is one that we continue to have a lot of opportunity in, although we don't talk a lot about it. We are very strong in the hunting boot category, but men's casual is the big opportunity. And women and youth clearly continue to be our largest opportunity.

Having said that, there are some other classifications that our customers, our current customers that not only are regular users of but would expect to find in our stores. And as I mentioned anything that is outdoor lifestyle, action wear type of footwear that goes with sportswear, but not getting into athletics, not getting into team or anything of that nature. Just keeping it within the outdoor lifestyle segment.

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

And very much a push on the branded side primarily?

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

Footwear continues to be primarily a national branded category that we get great support from our manufacturers, and we will continue to do that. We will do some own brand where we see going to the marketplace as an opportunity. But, yes, the primary focus will be on branded.

Operator

(OPERATOR INSTRUCTIONS). [Peter Keith]. Piper Jaffray.

Peter Keith - *Piper Jaffray - Analyst*

Thank you very much and good morning. I wanted to just ask a little bit about your view on the competitive environment. Obviously it looks like you and others are pulling back on some of the advertising, but at the same time, I would guess that the tough consumer environment might be creating some irrational behavior out there.

So are you starting to see more clearance or discounting activity from competitors and how much have you -- reacting to that?

Mark Baker - *Gander Mountain - President and CEO*

Actually we haven't seen in our category a lot of predatory pricing or even additional advertising of significance. Just remember even though the top three of us in this category still do less than 15% of the total business out there and in many cases we don't even have overlapping geographies with most of the big box competitor, we don't see much of that. And I think from a breath of fresh air, this will be the first year that I can remember that there are no significant impacts of additional competitors opening real estate in our 23 states against us.

Peter Keith - *Piper Jaffray - Analyst*

Okay. But any of the smaller independent retailers that maybe have one or two stores that are potentially going out of business? Are you seeing any of that activity?

Mark Baker - *Gander Mountain - President and CEO*

There certainly is that stress in the marketplace and whether it is a small archery shop in a particular market or a small gun shop in another market or a bait shop, we have heard and seen the stress that is going on there. And you know in these times there's an opportunity to consolidate that market share by performing.

We are keenly aware of that and understand that we will be the place of choice for those consumers if we do the things right.

Peter Keith - *Piper Jaffray - Analyst*

Also then I wanted to shift it a little bit over towards the boat launch and last year I know there were some expenses that came up in Q1 and Q2. Just looking back in my notes I think it was about $800,000 in Q1 and $2 million in Q2.

I'm sorry if I missed this on the prepared remarks, but how would those expenses as you continue that boat launch compared to this year? Would they be about the same or a little bit less?

Mark Baker - *Gander Mountain - President and CEO*

Bob can complete the comment on this, but generally they should be less. We -- you know, there was a lot of expenses it took to remodel some stores, make some space, obviously some training that went in to developing the mechanics and the sales training for the stores. We have cycled that quite a bit, I think. Bob?

Bob Vold - *Gander Mountain - SVP and CFO*

Yes, again, as we -- last year as we really rolled those boats out in that March April May time frame, for the first time there were more startup costs. we are in the boat stores that we are in now, other than new stores, so those expenses that really aren't recurring in nature from last year to this year.

Peter Keith - *Piper Jaffray - Analyst*

So it sounds like there will be some expense, but it will certainly be down in both quarters here for this year?

Bob Vold - *Gander Mountain - SVP and CFO*

Yes. That's right.

Peter Keith - *Piper Jaffray - Analyst*

Just the last thing on the advertising, the -- I know there's been an effort with the small or excuse me, the Southern stores, in trying to take out some of the seasonality of your business and spread it across the year.

But now it appears your advertising is shifting more towards Q3 and Q4. It seems to kind of fly in the face of that, of balancing the business over the course of the year. I was wondering if you could just comment on that and let us know what you're thinking.

Mark Baker - *Gander Mountain - President and CEO*

I'm going to give Rick the microphone here in a minute, but I think what we looked at is we still have 65% of Gander Mountain's business because of the hunting season, which is a significant piece of our business that we spend more of our money at that the period of time. Now within that, there are local markets and opportunities where they get ads that are not done on a national level. Rick.

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

Yes, the real key for this is -- number 1 is, we have got to maintain what's in proportion to our business, the front half, back half business and we have got to make sure that we protect that number 1.

Number 2, whatever we are doing whether it be in the front or the back half, the efforts to become more strategic or more surgical so that the actual advertising the piece and all of that is going where we are going to get that return becomes important. So whether it is driving first half business in the Southern store because of the nature of that seasonality, then we will make sure that that concentration is in and around those locations.

And then the last part of it that I think is going to be a huge benefit to Gander Mountain is the ability to start reaching that customer via the Web and the catalog later this year.

Peter Keith - *Piper Jaffray - Analyst*

Thank you very much. That's helpful.

Operator

Bob Simonson. William Blair.

Bob Simonson - *William Blair and Company - Analyst*

Couple quick follow-ups. Someone said, I'm not sure, did they say net or pretax? The $1.2 million for Overton. That's a pretax impact? Or was that tax-effected?

Mark Baker - *Gander Mountain - President and CEO*

That's a pretax.

Bob Simonson - *William Blair and Company - Analyst*

Okay and the preopening, Bob, in last year was $4.8 million with fewer stores expected for this year? Is that one you can give?

Bob Vold - *Gander Mountain - SVP and CFO*

Again it is about $400,000 per store. We are opening five new stores this year. So --.

Bob Simonson - *William Blair and Company - Analyst*

Less than half of what it was in '07?

Bob Vold - *Gander Mountain - SVP and CFO*

Yes, correct. Yes.

Bob Simonson - *William Blair and Company - Analyst*

Mark, correct me if I'm wrong, did you say you would like to see your SG&A ratio as you now report it down 100 basis points this year versus '07?

Mark Baker - *Gander Mountain - President and CEO*

Sorry, we said about at least that. We made all of those cuts, difficult choices on our last call. We have been operating on that plan, since the beginning of the year.

Bob Simonson - *William Blair and Company - Analyst*

And then you said you hoped that this or you would anticipate, I don't know, guided a number to $1 billion or more in sales. So the SG&A dollars have to go down to have that kind of impact unless you have a sales expectation that doesn't seem to befit your -- wouldn't seem to fit your commentary.

Mark Baker - *Gander Mountain - President and CEO*

We have some new stores that actually added -- or a little bit add up to that, but obviously from a base camp level, a leverageable piece of business, right.

Bob Simonson - *William Blair and Company - Analyst*

So you don't need a flat or up comp to accomplish that SGA leverage?

Mark Baker - *Gander Mountain - President and CEO*

My point that I made earlier which was we have actually planned and anticipated slightly negative comps with year and built a plan that returns us to profitability with that anticipated.

Bob Simonson - *William Blair and Company - Analyst*

Very good. Thank you.

Operator

We have no further questions at this time. I will turn the conference back over to management for additional or closing remarks.

Mark Baker - *Gander Mountain - President and CEO*

Thanks. Thanks, everyone, for attending this call. We are developing a scale of business with a stronger first half based on Southern stores, new products, the acquisitions of Overton's, acceleration of our catalog and e-commerce efforts.

I want to thank all of our associates for handling five million customer transactions over the quarter. They are the real drivers of our success.

Thanks for joining us today. We will speak to you again very soon.

Operator

That concludes today's conference. You may disconnect at this time. We appreciate your participation.