

FINAL TRANSCRIPT

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GMTN - Q1 2008 GANDER MOUNTAIN CO Earnings Conference Call

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PRESENTATION

Operator

Good morning everyone, and welcome to the Gander Mountain company first quarter earnings release conference call. Today's call is being recorded. At this time, I would like to turn the call over to Mr. Bob Burton. Please go ahead, sir.

Bob Burton - IR Squared

Thank you, Cynthia. Good morning, and thank you for joining us. Welcome to the Gander Mountain first quarter 2008 conference call. I am Bob Burton of IR Squared. Joining us on the call today are Mark Baker, President and CEO of Gander Mountain. Rick Vazquez, Executive Vice President of Merchandising and Marketing and Robert 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 realtime on the internet at gandermountain.com. We will also offer an internet replay of the call which will be available shortly after the call is concluded and remain on our web site for approximately 90 days. The transcript of this call will be posted under archives in the investor relations section of our web site.

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 10-K as filed with Securities and Exchange commission as well as in our subsequent reports filed with the SEC. These

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reports are available at the investor relations section of our web site 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 which is at the investor relations page of gandermountain.com under the financial information tab. Now I will turn the call over to Mark.

Mark Baker - GANDER MOUNTAIN CO - President, CEO

Good morning everyone.

In an economic environment that continues to be challenging for all retail, Gander Mountain's results were in line with management expectations. Sales expanded 18.2%, \$208 million. Adjusted EBITDA improved from a loss of \$12.5 million to a loss of \$10.7 million, on a higher number of stores. Net loss for the quarter was \$24.4 million versus 22.8 last year. As Gander Mountain has grown, the first quarter has reflected the seasonal nature of our business. Because of our concentration on northern stores, we have historically reported operating losses for the seasonally small first quarter. In 2008, our first quarter retail operating performance held flat in spite of operating 8 additional stores and their square footage. Put another way, our losses per square foot improved by 12%. This continues a similar trend from last year, and in a business as seasonal as Gander Mountain is, it is an important data point for us.

The 2008 quarter also includes seasonal operating losses for our new direct marketing business. Our comparable sales performance in the quarter was a minus 6.7% compared to a positive 1% one year ago. This performance reflects the pressure of consumer spending that affected nearly every retailer this spring. Nonetheless, it was a sharp improvement on the performance in the fourth quarter and met our expectations for the start of fiscal 2008. From an operational viewpoint, we're encouraged by several items. We did see some rebound in the traditionally strong merchandise categories for Gander Mountain like used firearm accessories and ammunition. Fishing, particularly salt water categories, were ahead of company's comp. As expected, PowerSports was slightly positive as we completed our first full year in the boating business. Our new apparel offering started off with mixed results which Rick will discuss in a moment. Key strengths were denim, work wear, as well as women's and youth products. Gander Mountain is determined to deliver better quality, fresher products and a better serving environment throughout the coming year.

Comparable sales performance was somewhat offset by initial margin gains of approximately 104 basis points, extending a trend of increasing initial margin eight of the past nine quarters. Overall margin gains reflect primarily the impact of direct sales on mix. Our SG&A costs improved 100 basis points as a percent of sales due to result of cost initiatives launched late in 2007. Given the seasonal nature of our operations, this was consistent with our expectations for the quarter and on track to deliver leverage of 100 plus basis points on the year. On our last call, we discussed the summer programs to which we devote our time and resources over the coming year. Let me update you on those. First, we continue to put intense focus this year on improving performance in existing stores. We have identified 25 stores where we have the greatest opportunity for that improvement. For these 25 stores, we provided additional management resources, reallocation of marketing support, increased management focus and merchandise initiatives and emphasis on operational execution. It is very early on in our multi-year program that will eventually benefit all stores. Second, we completed our new store program for 2008 as we opened two stores recently, one in Ocala, which is our fifth store in Florida and one replacement store in Eau Clair, Wisconsin. As a result of this slowing in our incremental square footage in capital spending, we continue to believe that our CapEx for fiscal 2008 will be less than \$25 million compared with \$47 million 2007. We have made good progress in leveraging the direct marketing platform and expanding our entry into this area through Overton's. In mid-May, we issued an Overton catalog which included 44 pages of Gander Mountain branded products including apparel, fishing and camping items. While Overton's business reflects some of the broad economic issues that have affected all retailers, we are pleased with the initial response from our customers. Given the seasonal pattern of our primary marine business, our expectation is that Gander Mountain will benefit from Overton's operation in the

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second quarter. This is an important step in building a national retail operation that goes to market across all channels, and brings us new customers as we launch our Gander Mountain web site and catalog later this year.

For Gander Mountain, our financial goals for 2008 include: revenues of over \$1 billion; producing profitable company performance due to improved store economics and cost savings with a cost structure that reflects a comparable sales plan that is mid single digit negative on the year; continued expansion of initial margin based on stronger sales performance from key market categories of apparel and footwear; flat net store growth, but continued shift to southern markets; a drive to better managed costs and improve sales in stores that are currently not meeting expectations; a significant reduction in our revolving credit facility debt by year end resulting from a reduction of inventory balances and improving operating performance; profitable growth in the direct business. Overall, we are well prepared to deliver on our goals this year, despite the difficult economic environment, and continue to have the strong support of our majority shareholders, particularly evidenced by our recent support for Overton's acquisition. We are committed to our customers, our suppliers, partners and dedicated associates who provide great service every day. Rick?

Rick Vazquez - GANDER MOUNTAIN CO - EVP of Merchandising and Marketing

Thank you, Mark. Good morning.

The first quarter performance income merchandising was mixed across key categories with relative improvement from fourth quarter performance in areas of focus like firearms, footwear and selected areas of apparel. Merchandising trends were better than our reported comp of negative 6.7% in Powersports, fishing, firearms, ammunition and selected apparel areas like denim, work wear and women's outer wear. Areas of weakness included men's sportswear and outer wear, marine accessories and camping. Early spring weather was somewhat colder which had some effect on volumes, but echoing Mark, we are seeing the effects of higher fuel prices and a slow economy on our business. While our customers are passionate about their pastime, we anticipate that these economic pressures will continue into the second and third quarter and have planned accordingly. As mentioned last call, we have also reallocated our marketing spend to focus on two areas: first, our direct marketing launch later this year and second, the high volume third and fourth quarters.

While sales volume on the quarter was disappointing, margin improvement initiatives provided support for margin gains. Owned brand penetration increased from 9% to 11% on the quarter led by the inclusion of direct marketing as well as gains in apparel and fishing. Initial margin increased 104 basis points on the quarter, reflecting primarily the inclusion of direct marketing products and their higher related margin, higher penetration of owned brand merchandise and general improvement in pricing structure. Inventory ended at \$426 million versus \$393 million last year. \$23 million is related to the Overton's business and the remainder is attributable to incremental stores. Our retail inventory per square foot in open stores, excluding in transit and pre-opening inventory was \$62.72, down 10.8% from prior year. On a trailing 12 month basis, retail sales per square foot were \$161.85 versus \$174.76, down 7%. Today, 79% of our square footage is in our 2003 and later big box stores. Our average customer ticket increased 5.7% to \$58.53 for the quarter.

Let me review our work on the merchandising initiatives I outlined for you last quarter. Obviously, first is leveraging the Overton's platform. As Mark said we have made good initial progress in leveraging the direct marketing platform through Overton's. Our first step was visible recently as Overton's May catalog included 44 pages of national and Gander Mountain brand of products including apparel, fishing and camping items. We have begun distributing Overton's catalogs through Gander Mountain's stores and delivered several mailing pieces to Gander credit card customers. We continue to make progress towards the launch of Gander Mountain's e-Commerce website and Gander Mountain branded catalog later this year. The next two of our initiatives are apparel-related, and build on the foundation our merchandising team began putting in place since a year ago. This team has been diligently working on reengineering our product from sourcing to store, and their first full efforts have been visible this spring. We have been reallocating incremental floor space to our successful footwear business across all stores. This expands the footwear assortments in some areas by as much as 25% with category emphasis on casual, cross trainers and hikers. Our

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spring assortment is 100% executed, but look for further progress on this initiative in the second half. Next, expanded Gander Mountain apparel and denim work wear offerings are in place as the initial offering of our first full five season product lines.

Early results are mixed, as I said earlier, with good response across the board in denim and work wear and mixed performance in sportswear. We're early in the process of introducing this amount of change in our stores, but we like what we're seeing thus far in the product, and the distribution. Our fourth initiative is the readjustment of the model for our Powersports footprint which is largely complete as we have centered our efforts in stores where scale and the market size and support from a large format are in place. We have completed these shifts and will continue to grow this business. As an example, we included it in both Palm Beach Gardens and Madison stores this year. Last, we're gaining momentum in 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. And now, I will turn the call over to Bob Vold.

Bob Vold - GANDER MOUNTAIN CO - VP, CFO

Thanks, Rick.

First, I will summarize our results then go I will go into more detail on the financials. For the quarter, Gander Mountain reported sales of \$207.7 million and revenue growth of 18.2% on a comparable store sales decline of 6.7%. The net loss for the first quarter of fiscal 2008 was \$24.4 million, as compared to a net loss of \$22.8 million last year. This performance was consistent with our expectations despite higher fuel prices, the overall economic environment and their effect on discretionary spending. While the first quarters are seasonally smallest in terms of revenue, this quarter includes \$19.7 million in revenue and a net loss of \$1.6 million attributable to our direct business. As Mark indicated, at the close of the first quarter compared to a year ago, Gander Mountain operated eight additional stores and approximately 840,000 incremental square feet of retail space. On a retail operating basis, losses per square foot improved by 12%, indicating better per store operating performance year-over-year.

Now let me review the financial metrics. Total square footage increased year-over-year 15.3% to 6.4 million square feet.

By mid-May, Gander Mountain had completed its 2008 store opening program with recent openings in Palm Beach Gardens and Ocala Florida and Roanoke, Virginia, as well as Eau Claire and Madison, Wisconsin. The company relocated two stores in Madison and one in Eau Claire and incurred store closing costs of \$776,000 in quarter one of fiscal 2008. The average square footage per store increased approximately 5.9% to 55,500 square feet for the first 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 increased 96 basis points to 20.2% of sales. Initial margin improved 104 basis points, primarily from the inclusion of higher margin direct sales in the mix. Other factors adding to gross margin performance included improved retail margins and increased penetration of our own brands from 9% to 11% for the quarter.

Turning to expenses, we have historically reported store operating expenses and general administrative expenses independently. As a result of the Overton's acquisition, the company began reporting consolidated SG&A last quarter, and will do so going forward. We will provide segment reporting data for our retail and direct businesses as part of our reporting requirements in our 10-Q. In the quarter, SG&A expenses increased 14%. As a percent of sales, SG&A decreased 100 basis points to 28.4% of sales reflecting cost management activities in the retail business, partially offset by increased store operating expenses and the conclusion of direct marketing expenses. This is consistent with our expectations in more than 100 basis points of improvement in this metric in fiscal 2008.

Preopening expense was \$1.6 million which reflects costs for three new stores opened in quarter one and two stores which opened in May as compared to \$730,000 in the quarter last year. With our store program for the year complete as of the end of May, we expect approximately \$500,000 in preopening expenses in quarter two and zero for the remainder of the year. Net interest expense was \$4.8 million for the quarter versus \$4 million in the first quarter of last year due to increased borrowing, principally to fund the Overton's acquisition, partially offset by lower interest rates. Comparisons of earnings per diluted share

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year-over-year was affected by the company's issuance of equity capital in December 2007 which increased the number of weighted average shares outstanding year-over-year. The loss per share for the first quarter of fiscal 2008 was \$1.02 per share compared to the loss per share of \$1.14 in the comparable period. The weighted average diluted shares for the quarter were 24.1 million shares compared with 20.1 million in the comparable period last year.

Cash capital expenditures were \$6.5 million for the quarter versus \$8.9 million for the comparable quarter last year, primarily for new stores. We also continued to invest in systems and are currently implementing and upgrading our ERP merchandising and supply chain software. Depreciation and amortization was \$8 million for the quarter. We demonstrated significant improvement in cash use and operations during the quarter. Cash utilized improved from \$47 million in the quarter last year to \$18 million in the quarter this year or a 39% improvement as a result of better working capital management, particularly in inventory, and payables. We ended the quarter with borrowings under our revolving credit facility of \$274 million and shareholders equity of \$170 million. Current availability under the company's senior credit facility ranges from \$25 million to \$30 million. Our plans for fiscal 2008 remain conservative, as we have budgeted for a small number of net new stores and mid-single digit negative comparable stores sales performance to insure we had proper expense structure in place. We expect the positive seasonal impact of Overton's peak marine business to emerge in the second quarter of fiscal 2008. We are committed to improving our operating results as we expand our direct business, our focus on all stores going forward will be an improvement in business fundamentals, product gross margin, expense control, store profitability, and management of inventory, as we develop a stronger business structure, and develop and deliver a profitable business performance in 2008. Now we're ready for questions.

QUESTIONS AND ANSWERS

Operator

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

Steve Denault - Northland Securities - Analyst

Good morning, everyone. Can you hear me okay?

Mark Baker - GANDER MOUNTAIN CO - President, CEO

Yeah, Steve.

Steve Denault - Northland Securities - Analyst

Okay, great. You made reference to a -- I think it was four categories that seem to be strong. And, one of which appeared to be firearms. I am not certain whether you suggested it was used firearms or new firearms and -- I guess the question is, what are you seeing, within both new and used firearms and ammunition lately?

Mark Baker - GANDER MOUNTAIN CO - President, CEO

I will take that, and then Rick can finish up on that, Steve. Clearly, there has been an explosive increase in costs as it relates to ammunition, and yet, in some cases, availability, but we have had great support from our suppliers. Our new higher costs, obviously, have been passed on to the consumers. And yet, our ammunition business in dollars and in most cases units, continue

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to be strong. There has been somewhat of a shift to used firearms from new. But our firearms business has picked up substantially from the third and fourth quarter. Rick?

Rick Vazquez - GANDER MOUNTAIN CO - EVP of Merchandising and Marketing

That's pretty much it, Steve. There -- we see a growing stronger trend in the used of firearms business, both from a lot of people coming in to trade in as well as our ability to sell them. But by no means is new firearms too far behind it, it is doing very well.

Mark Baker - GANDER MOUNTAIN CO - President, CEO

We also -- be mindful Steve, that we're a unique opportunity because of our gunsmiths ability to buy used firearms and have them reconditioned for that consumer, unique to anybody else.

Steve Denault - Northland Securities - Analyst

Are there any particular changes in the trends among handguns versus long guns?

Mark Baker - GANDER MOUNTAIN CO - President, CEO

Clearly, we have seen some handgun business increase and continue to increase. That is actually up year-over-year. But, all the -- it is pretty good across the board.

Steve Denault - Northland Securities - Analyst

Okay thank you.

Operator

And we will take our next question from Bob Simonson with William Blair.

Bob Simonson - William Blair - Analyst

Good morning.

Mark Baker - GANDER MOUNTAIN CO - President, CEO

Good morning, Bob.

Bob Simonson - William Blair - Analyst

The -- with your comps going down, I assume that you had some deleveraging on your occupancy costs at the gross margin. You talked about some of the things that were favorable to your gross margin and the improvement that you posted. What -- can you quantify what the impact on the gross was of negative comps?

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Mark Baker - GANDER MOUNTAIN CO - President, CEO

You mean, Bob, as a result of including direct for the first time, the reality is, store occupancy really only had about a four basis point negative hit to the expense ratio. Again, on a retail basis, it would have been greater, if -- probably closer to 100 basis points by itself, but again, because we are including direct for the first time, there is minimal impact in quarter one.

Bob Simonson - William Blair - Analyst

Okay. And, you -- a couple of you noted that Overton's is going into their big quarter. Would someone like to stick their neck out and say, is that -- because -- it is tough to figure out what Overton's is going to do in that quarter? Could it make you break even in the second quarter? Is that enough?

Mark Baker - GANDER MOUNTAIN CO - President, CEO

Bob? Thanks for the opportunity --

Bob Simonson - William Blair - Analyst

You're welcome.

Mark Baker - GANDER MOUNTAIN CO - President, CEO

-- but we don't do the forward guidance, but the one thing that we will help connect the dots on, because we said -- we did \$19 million in the first quarter with Overton and we consistently said that Overton's does about 75% of their business on the first half. On a \$90 million to \$100 million basis, you can get pretty close to how significant that is in the second quarter.

Bob Simonson - William Blair - Analyst

Okay. And now, with you putting out your catalog and with Gander Mountain being, what was it, 44 pages in the book? There have been some legal issues in the past. Is there -- can you give a status update of -- as to whether there is any issues remaining?

Rick Vazquez - GANDER MOUNTAIN CO - EVP of Merchandising and Marketing

Well, not commenting specifically on any of those legal matters, we have a great deal of confidence, we have the structure in place, and have delivered the first set of Gander Mountain products through the Overton catalog, and have a great deal of confidence that we will be on the website here later this summer as well as our first catalog will be out this fall.

Bob Simonson - William Blair - Analyst

Okay. And the final one, I just missed what you said, Mark, on gross margin improvements. You had noted that private label was up, and there were two other factors. Could you repeat them?

Bob Vold - GANDER MOUNTAIN CO - VP, CFO

The primary factor, Bob is including the direct in quarter one which had a significant impact.

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Bob Simonson - *William Blair - Analyst*

Okay.

Bob Vold - *GANDER MOUNTAIN CO - VP, CFO*

That was the biggest factor. Also, the retail margins were up. Not to the same degree as direct, but they continued the trend of increases. The third impact was the overall impact of owned brand, which went from 9% to 11% in quarter one.

Bob Simonson - *William Blair - Analyst*

That second factor, the retail margins, could you expand maybe Rick or somebody on --

Rick Vazquez - *GANDER MOUNTAIN CO - EVP of Merchandising and Marketing*

Yes that's --

Bob Simonson - *William Blair - Analyst*

-- what that was?

Rick Vazquez - *GANDER MOUNTAIN CO - EVP of Merchandising and Marketing*

On the retail side of the business, without the direct marketing, the margin expanded as well and the initiatives to do that are the same that we have been working on diligently, which is the expansion of own brand as Bob Vold mentioned already. The change in the mix of our assortment, we -- our buyers continue to work on better assortments to trade the consumers from a lot of opening price point products to better invest. And I think, as we go through and we architect our retails accordingly so that consumers can trade up in some categories, that is having a positive impact as well.

Bob Vold - *GANDER MOUNTAIN CO - VP, CFO*

Also less clearance activity. Inventories are in better shape.

Bob Simonson - *William Blair - Analyst*

So have you had fewer markdowns.

Bob Vold - *GANDER MOUNTAIN CO - VP, CFO*

Correct, yes.

Bob Simonson - *William Blair - Analyst*

As well. Okay. Very good, thanks.

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Operator

We will take our next question from Paul Swinand with Stephans Inc..

Paul Swinand - *Stephans, Inc. - Analyst*

Good morning it is Paul Swinand for Rick Nelson.

Mark Baker - *GANDER MOUNTAIN CO - President, CEO*

Good morning, Paul.

Paul Swinand - *Stephans, Inc. - Analyst*

First question on the merchandise, just following up on your last comment that you had fewer markdowns. From our store visits lately, it appears, actually, that your merchandise is cleaner. Is there a net lower number of items on sale, or markdown or do you have actually less clearance than last year at this time?

Rick Vazquez - *GANDER MOUNTAIN CO - EVP of Merchandising and Marketing*

Yes, Paul. We actually have -- pretty much across all categories, we have less clearance inventory than we have had in the past. That has been primarily due to a couple of years now of changing how we flow product in, how we get it to market, and then in some cases, taking earlier markdowns on early reads of products that are not going to sell. So that has been a real big benefit. The other is that -- we have also been working on for some time and have really stepped it up this year is on rationalizing our assortments to make sure that our SKU offering is less because of better planning on our good, better, best and not necessarily carrying every SKU available out there. So, we have made a lot of progress on the buy side, we have made a lot of progress on the SKU rationalization side and consequently that is -- even in light of the weaker sales, that has put us in better position to manage the clearance.

Paul Swinand - *Stephans, Inc. - Analyst*

Got it. And then -- another related comment or question on that is, it looks like you have less -- I would call it clearance out of season. Is that fair to say as well or --

Rick Vazquez - *GANDER MOUNTAIN CO - EVP of Merchandising and Marketing*

Yes, very much so. That is attributable in a couple of areas as well. One of them, on the apparel side, we did come really -- pretty clean out of the last season, but also, as we go forward we're -- part of the five season plan that the merchandising team has rolled out is really identifying good core basic items that are really good year round. So from that standpoint, changing the buying habits and the changing the assortments, that is also giving us less -- it is -- there is just going to be less altogether on the carryover. On the hard line side of the business, we find, in certain categories that we have traditionally treated very seasonally, we find some customers are wanting to buy it year round. So, as long as we buy it in the right quantities to support it, then they become good categories for year round purposes.

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Paul Swinand - *Stephans, Inc. - Analyst*

Understood. Well, congratulations on that. That was a big job. And, again, in the store that we saw in the Wisconsin area, it is a noticeable difference. Next question is on the brand strategy. Another comment, seems that you have some brands doing a little presentations in the store. Is that something that is going to increase and is that in all stores right now?

Mark Baker - *GANDER MOUNTAIN CO - President, CEO*

Specifically, Paul, are you talking about some of the national brands that we position or --

Paul Swinand - *Stephans, Inc. - Analyst*

Yes, in other words, in the past you maybe had a rack or a rounder kind of here or there, now you have like a wall or some kind of special presentation, and I am just wondering if that is just something I just saw in some of the local stores or is that -- is that across the chain now?

Mark Baker - *GANDER MOUNTAIN CO - President, CEO*

As an example, what you probably saw was a Wrangler wall and -- who also supplies our private label denim. And we have made a great partnership with Wrangler and they have support us in a way helps us replenish much faster than doing it ourselves. We're able to stay in the sizes. By having the national brand and then supported by our own brand we have made I think a quantum leap with that and the Riggs work wear side which is also a Wrangler company, as well as Rick can talk a little more about the Columbia product and some of the foot wear things that you have seen.

Rick Vazquez - *GANDER MOUNTAIN CO - EVP of Merchandising and Marketing*

From brand strategy we have positioned ourselves as a branded house and continue to support the brands that the customers are asking for. We augment those brands with the Gander Mountain brand, where the opportunities exist for a number of different reasons. But we clearly position ourselves as retailer that does support the brands that the customers are asking for, so that's why whether it is an apparel or firearms or camping or whatever it is, you will see a lot of national brands. While in many areas merchandising by category is the right thing to do, there are some instance instances where the power of merchandising a brand, is also very beneficial. As Mark stated, on the denim side, it is really 2 in 1, because the brand being Wrangler but yet the category being denim, are both in the same vein. You have probably seen a bigger expansion in that area since that was one of our apparel focuses for 2008.

Paul Swinand - *Stephans, Inc. - Analyst*

Interesting, thank you for that comment. And then I wanted to ask a little more -- for a little more color on the comp. I think you said that a positive impact on the comp was Powersports, fishing, firearms, ammo, footwear and denim, and then the soft side was men's sports apparel, marine accessories, camping and was there something else?

Mark Baker - *GANDER MOUNTAIN CO - President, CEO*

I think you got it covered pretty well.

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Paul Swinand - *Stephans, Inc. - Analyst*

The question there is just -- I realize that it is a seasonal difference with the spring and camping is stronger, but fishing is strong in the spring, too. It seems like on the as a positive side as a percentage of your total volume is quite big. Where there were things that were particularly weak in those subcategories? In other words, Powersports, fishing, firearms, ammo, footwear, denim seems like that would be at least 65% of your business. So were there things on the other side that were dragging the comp down sort of excessively or something or something?

Mark Baker - *GANDER MOUNTAIN CO - President, CEO*

I think we saw bigger tickets that were challenged. Sometimes the ATV business was off whereas the boat business would have been up significantly. Some of the other areas in men's apparel, as you pointed out, Rick, were particularly soft. Some of it seasonally. But those are the things that really happened. Our average ticket was up nicely, but there were some areas where the consumer just held back. But nothing in a broad-based category that your making a big statement of.

Paul Swinand - *Stephans, Inc. - Analyst*

Was the average ticket up without Powersports?

Mark Baker - *GANDER MOUNTAIN CO - President, CEO*

Yes, it was. It was up in all stores, basically with or without Powersports.

Paul Swinand - *Stephans, Inc. - Analyst*

Okay, and could you tell us, were Overton's 1Q sales compared to last year, were they above or below last year? And then, did they have a negative operating contribution last year? Or, in other words, did they have a negative operating profit last year in the same -- matching your month fiscal year?

Mark Baker - *GANDER MOUNTAIN CO - President, CEO*

Yes, Overton's was down slightly, I mean compared to the year ago. They have been impacted somewhat -- just like any other retailer, from the economy, and to some degree with the colder weather in the spring has affected the boating season. So it has been a little delayed in that sense. They did lose money a year ago in the same quarter, comparable period. Again, included in the \$1.6 million charge also is acquisition interest. So it is a little bit higher in losses --

Paul Swinand - *Stephans, Inc. - Analyst*

Okay.

Mark Baker - *GANDER MOUNTAIN CO - President, CEO*

-- as it relates to that.

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Paul Swinand - *Stephans, Inc. - Analyst*

And then, did any of your net catalog distribution, whether it is stores or mailing, did that hit this quarter? Or is that is only going to hit starting next quarter or this -- the second quarter?

Mark Baker - *GANDER MOUNTAIN CO - President, CEO*

The second quarter is where most of that activity you have seen, from particularly, the launch of the Gander Mountain 44 pages was really at the beginning of May, which is our Q2. And actually, that was the first time there were efforts there, as well as Overton's spent more of their distribution in the Q2 this year is what they had planned to do.

Paul Swinand - *Stephans, Inc. - Analyst*

Okay. All right. Thank you very much.

Operator

And we will take our next question from [Dan McCallum] with River Capital Partners.

Dan McCallum - *River Capital Partners - Analyst*

Hi, good morning.

Mark Baker - *GANDER MOUNTAIN CO - President, CEO*

Good morning.

Dan McCallum - *River Capital Partners - Analyst*

Just a question on your working capital. You explained the decrease in inventories pretty well. My question is about accounts payable. It seems you guys are stretching accounts payable, at least on a quarterly basis, on a year-over-year basis. I am trying to gauge how I can think about this going forward. So, if you could discuss that and what your accounts payable days, or what the metric we should be thinking of, moving forward.

Bob Vold - *GANDER MOUNTAIN CO - VP, CFO*

There are actually two or three factors that play into the payables. Part of it is getting back to what I would call more of a normal accounts payable days outstanding. If you go back to a year ago, we had gone down -- really gone backwards in that regard. This really gets it back to a more normalized level. The second aspect of it is, we had -- with more new stores in this earlier period, five compared to four a year ago but also two of the stores that we opened up in this spring were significantly larger stores than average, and so, we get new store dating on all those terms. That is significant. Also, boat are up year-over-year, and we get specific dating on those. And then also, the direct businesses is included the first time as well, which has traditionally better dating than the seasonally peak period of time as we're building inventory. All of those moving factors have an impact on accounts payable dating as specifically as compared to last year.

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Dan McCallum - River Capital Partners - Analyst

Okay. Thank you.

Operator

And we will take our next question from Reed Anderson with D.A. Davidson.

Reed Anderson - D.A. Davidson - Analyst

Good morning. A couple questions. In terms of comps, just kind of trends, I know, Mark, coming out of the fourth quarter we were talking about comps being down mid-singles. You kind of held in there. I am just curious as you kind of look out over the balance of the year. I mean, are there any anomalies out there that you think of as you look toward being down sort of this level for the full year? Is there anything we should think about on a quarterly or monthly basis that would cause that to sway one way or the other significantly?

Mark Baker - GANDER MOUNTAIN CO - President, CEO

Clearly, the next quarter, Q2, has a tougher comparable, nearly 4% comp last year at this point in time. So it will probably be a little more difficult comparison as we look to the Q3 and 4, obviously we were negative on those periods of time. We think those would be a little bit easier to cycle. Nonetheless, Reed, I think the point we're making is that even at mid-single digit negative comps, we will do well over \$1 billion in sales, and return to be a profitable company as we have managed the expenses better, and I think the first quarter is the first evidence you have seen of the SG&A and the store operating costs. Even if it turns out to be the world -- the economic world that it is out there, we can manage through it and get to our goals. At this point in time, we don't see anything that gets in the way of that.

Reed Anderson - D.A. Davidson - Analyst

Okay. And then to that point about costs, Bob, in your prepared remarks, you talked about -- I wrote it down, but it seemed like they were conflicting. I just want to clarify. You talked about the SG&A being down 100 basis points. I think your first point was that it was cost management of retail, but then the second point was something like higher store OPS. Can you just reconcile or clarify that for me?

Bob Vold - GANDER MOUNTAIN CO - VP, CFO

Again, most of the decrease, if you break down the components of SG&A in total, clearly inclusion of direct had a negative impact. There was a slight deleverage, primarily with the store occupancy as you look at stores by itself. But the biggest benefit altogether was in what we used to call the G&A category. And again, a net of all those three really combined to give us the 100 basis point improvement.

Reed Anderson - D.A. Davidson - Analyst

So if we were to just be very, very simplistic here, at these types of comp levels, is that sort of year-over-year SG&A trend more or less sustainable, or will that move around a lot?

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Bob Vold - GANDER MOUNTAIN CO - VP, CFO

No, again, we truly believe it is sustainable. We have said all along that we believe we can gain leverage of over 100 basis points for the year in SG&A leverage.

Reed Anderson - D.A. Davidson - Analyst

Okay, good. Then Rick, on the -- I was curious more about the men's sportswear piece being real weak, and you're starting to see a little more markdown activity in that category, at least a lot of other retailers. I'm just curious, a couple of things. One is performance of your own branded product versus the national brands, just color on that. Then secondly, is this a category? Because it looks like it is coming out of the gate very weak. That you're thinking about getting a little more aggressive on the pricing there.

Rick Vazquez - GANDER MOUNTAIN CO - EVP of Merchandising and Marketing

Reed, thanks for the question. Actually, when we look at the overhaul that we have done in the apparel, it is really -- in and of itself, it is too early to make any kind of corrections. The product is really, really good product. It is priced very fair, and while we're down, in light of the economic situation, and what all the apparel retailers are facing out there, I think it is -- I think we are doing well. On the other hand, I also believe that this is not the kind of product that is too perishable. If you recall, back about a year ago, when we started down this journey, we said that we're looking to produce more of the core basic products that last year-over-year and not get too much into very unique kinds of items. That was one of the game plans to reduce the amount of the need for clearance or markdowns. So consequently, if you look at our sales floor today, what you will see in our apparel, other than the improved quality and fits and et cetera, you will see a lot of very good, staple core items, whether it be in the denims or in the jeans, the shorts, short sleeve shirts, long sleeve shirts, those are all long lasting. So I am not -- at this point, I am not prepared or planning on looking at our strategy of making any kind of radical changes in pricing or promotability just to try to move some inventory or drive some sales.

Reed Anderson - D.A. Davidson - Analyst

Great, and so then really no major -- no differences between your national brands and your own brand in the quarter?

Rick Vazquez - GANDER MOUNTAIN CO - EVP of Merchandising and Marketing

No, not really.

Reed Anderson - D.A. Davidson - Analyst

Okay. And then lastly, on inventory, down nicely on a store basis, you said 10.8%, Bob. Is that a level that makes sense at the store level? By the end of the year? And then secondly, what do you think overall inventory might look like year-over-year at the end of this fiscal year?

Bob Vold - GANDER MOUNTAIN CO - VP, CFO

I think that the levels of inventory we have in -- the work we're doing there is a continuing work in progress. I think we have made good progress. I think there is potentially more to be had there. At the same time, as Mark indicated in his remarks, by year end, we still expect a significant reduction in inventory balances, across the board, which really funds a good part of our debt pay down through year end and through the heavy selling season of the third and fourth quarters from that standpoint. So again, there is a lot of different factors. It is SKU rationalization, it is assortments, it is across the board from that standpoint.

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It is the five seasons of inventory that Rick is -- I mean a big significant difference this year, compared to last year also, is they would have brought in apparel inventory in for the first half. And again, we're really into the five season program. So, a significant number of items that will drive that, but our goal is better inventory management across the board.

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

Okay. That's it for me, thank you.

Mark Baker - *GANDER MOUNTAIN CO - President, CEO*

Reed, I would just finish that out saying long term, there is no question we have to get this company north of two turns and we're on our path to get there.

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

That is helpful, thank you, Mark.

Operator

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

Bob Simonson - *William Blair - Analyst*

Thank you. Bob, did you say CapEx? I just missed it. Did you say CapEx would be something under \$25 million?

Bob Vold - *GANDER MOUNTAIN CO - VP, CFO*

Yes, we have -- similar to guidance at the end of quarter four, CapEx will be less than \$25 million.

Bob Simonson - *William Blair - Analyst*

And the depreciation, I think you said was about \$8 million in the first quarter.

Bob Vold - *GANDER MOUNTAIN CO - VP, CFO*

\$8 million for the quarter. I think we said earlier just north of 30. So in the \$31 million, \$32 million range for the year.

Bob Simonson - *William Blair - Analyst*

Okay. And you have got, what was it, 44 pages of Gander merchandise in the Overton's catalog currently? Just a technical question. Does that revenue show up in what you report for Overton's or do you put that into the Gander Mountain category?

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Bob Vold - GANDER MOUNTAIN CO - VP, CFO

We really report, Bob, I mean -- again, when -- you will see in the 10-Q, it is really between direct and retail segments, so again, it will be included in the direct segment.

Bob Simonson - William Blair - Analyst

Okay. And the Overton's the \$1.6 million loss, that is pretax, correct?

Bob Vold - GANDER MOUNTAIN CO - VP, CFO

That's pretax, correct.

Bob Simonson - William Blair - Analyst

Okay and the final one, kind of on the -- your expectations for the boat business versus your overall guidance of mid-single declines. I noticed where Marine Max and Bass Pro are having a boat sale May 30 to June 15. Can you talk a little bit about the boat business and what your expectations are versus a year ago, and just going forward?

Rick Vazquez - GANDER MOUNTAIN CO - EVP of Merchandising and Marketing

I think, -- thanks Bob -- the first quarter that we pointed out was significantly positive. It was primarily due to not being in the boat business in February and March as we rolled it out April of last year. But comparables will be a little more difficult as we get to the second quarter with boats which were pretty significant a year ago in some of the deliveries. That said, we are having great success, in what we call open stock motors replacement, or little Mercury motors. They continue to sell very well. Jon boats continue to do very well. Even many of the fiberglass runabout boats do very well. We're still very bullish, long term on being in the boat business. A very difficult category nationally this year. You have seen numbers of 20% to 30% down, depending on category. But we expect that we will finish the year up. Reasonably significant for, a relatively small base for Gander Mountain's boat business for the year.

Bob Simonson - William Blair - Analyst

It does seem a little odd that Bass and Marine Max kind of teamed together. Were you approached about participating in that boat sale?

Rick Vazquez - GANDER MOUNTAIN CO - EVP of Merchandising and Marketing

We don't overlap in very many of those markets. Yes, they tend to view those things apparently where they share the same area, but we don't overlap very often.

Bob Simonson - William Blair - Analyst

Very good, thank you.

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Operator

It appears we have no further questions at this time. I would like to turn the conference back over to Mr. Baker for any additional or closing remarks.

Mark Baker - GANDER MOUNTAIN CO - President, CEO

Thank you, Cynthia. Thanks very much for attending the call. We are developing a scalable business with a stronger first half business based on stores, new products, the acquisition of Overton and the acceleration of our catalog and e-Commerce efforts. I want to thank our associates for handling 3.3 million customer transactions over the quarter. They are the real drivers of our success. Thanks for joining us today, and we will speak to you again very soon.

Operator

Thank you. That does conclude today's conference. You may disconnect at this time.

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