

GANDER MOUNTAIN CO  
Form 10-K  
April 19, 2007

## UNITED STATES

## SECURITIES AND EXCHANGE COMMISSION

Washington, DC 20549

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### FORM 10-K

ANNUAL REPORT PURSUANT TO SECTION 13 OR 15(D) OF THE

SECURITIES EXCHANGE ACT OF 1934 FOR THE FISCAL YEAR ENDED FEBRUARY 3, 2007

Commission file number: 0-50659

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### GANDER MOUNTAIN COMPANY

(Exact name of Registrant as Specified in its Charter)

**Minnesota**  
(State or Other Jurisdiction of  
Incorporation or Organization)

**180 East Fifth Street, Suite 1300**  
**Saint Paul, Minnesota 55101**  
**(651) 325-4300**

**41-1990949**  
(I.R.S. Employer  
Identification No.)

(Address, including zip code, and telephone number, including area code,

of Registrant's Principal Executive Offices)

Securities registered pursuant to Section 12(b) of the Act: **Common Stock, par value \$0.01 per share**

Name of each exchange on which registered: **Nasdaq Global Market**

Securities registered pursuant to Section 12(g) of the Act: **None**

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Indicate by check mark if the registrant is a well-known seasoned issuer, as defined in Rule 405 of the Securities Act. Yes  No

Indicate by check mark if the registrant is not required to file reports pursuant to Section 13 or Section 15(d) of the Exchange Act.

Yes  No

Indicate by check mark whether the registrant: (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days. Yes  No

Indicate by check mark if disclosure of delinquent filers pursuant to Item 405 of Regulation S-K is not contained herein, and will not be contained, to the best of registrant's knowledge, in definitive proxy or information statements incorporated by reference in part III of this Form 10-K or any amendment to this Form 10-K.

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Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, or a non-accelerated filer.  
accelerated filer  Accelerated filer  Non-accelerated filer

Large

Indicate by check mark whether the registrant is a shell company (as defined in Rule 12b-2 of the Exchange Act). Yes  No

The aggregate market value of common stock held by non-affiliates of the registrant was approximately \$29,957,925 as of July 29, 2006, based upon the closing price of \$5.99 on the Nasdaq Global Market reported on July 29, 2006. Shares of common stock held by each executive officer and director and by each person who beneficially owns more than 10% of the outstanding common stock have been excluded in that such persons may under certain circumstances be deemed to be affiliates. This determination of executive officer and affiliate status is not necessarily a conclusive determination for other purposes.

As of April 2, 2007, the number of shares of common stock outstanding was 20,070,052.

### **DOCUMENTS INCORPORATED BY REFERENCE**

Part III of this Annual Report on Form 10-K incorporates by reference information (to the extent specific sections are referred to herein) from the registrant's proxy statement for its 2006 annual meeting of shareholders to be held on or about June 13, 2007.

**GANDER MOUNTAIN COMPANY**  
**FORM 10-K**  
**For the Fiscal Year Ended February 3, 2007**

**INDEX**

	Page
<b><u>PART I</u></b>	4
<u>Item 1.</u>	4
<u>Item 1A.</u>	19
<u>Item 1B.</u>	28
<u>Item 2.</u>	28
<u>Item 3.</u>	29
<u>Item 4.</u>	29
<b><u>PART II</u></b>	30
<u>Item 5.</u>	30
<u>Item 6.</u>	32
<u>Item 7.</u>	35
<u>Item 7A.</u>	51
<u>Item 8.</u>	52
<u>Item 9.</u>	79
<u>Item 9A.</u>	79
<u>Item 9B.</u>	80
<b><u>PART III</u></b>	81
<u>Item 10.</u>	81
<u>Item 11.</u>	81
<u>Item 12.</u>	81
<u>Item 13.</u>	82
<u>Item 14.</u>	82
<b><u>PART IV</u></b>	83
<u>Item 15.</u>	83
<b><u>SIGNATURES</u></b>	88

*Gander Mountain®*, *Gander Mtn.®*, *Gander Mountain Guide Series®*, *We Live Outdoors®*, our logos and the other trademarks, tradenames and service marks of Gander Mountain mentioned in this report are our property. This report also contains trademarks and service marks belonging to other entities.

**SPECIAL NOTE REGARDING FORWARD-LOOKING INFORMATION**

This Annual Report on Form 10-K contains forward-looking statements regarding our business, financial condition, results of operations, performance and prospects. All statements that are not historical or current facts are forward-looking statements and are made pursuant to the safe harbor provisions of the Private Securities Litigation Reform Act of 1995. Forward-looking statements involve known and unknown risks, uncertainties and other factors, many of which may be beyond our control, that may cause our actual results, performance or achievements to be materially different from any future results, performances or achievements expressed or implied by the forward-looking statements. Certain of these risks and uncertainties are described in the Risk Factors section of this Annual Report on Form 10-K. These risks and uncertainties include, but are not limited to, the following:

- the weather conditions in the markets we serve;
- our ability to execute our current business strategy focusing on large-format stores;
- our concentration of stores in the Great Lakes region of the United States and seasonal fluctuations in our business;
- our ability to raise capital in the future;
- our lack of familiarity with markets in which we will open future stores;
- our ability to successfully expand into new product areas, such as boats;
- our ability to locate suitable sites for new stores;
- delays in new store openings;
- our ability to attract and retain management talent and store employees;
- disruptions or natural disasters at our distribution facility or that affect our information systems;
- strain on our infrastructure, including increased demands on our information systems and distribution center resulting from our growth;
- our ability to successfully implement changes to our information systems;
- our ability to generate sales and control expenses in order to operate profitably;
- changes in consumer preferences, general economic conditions or consumer discretionary spending;
- energy and fuel prices;
- our ability to respond to increased competition;
- the loss of key vendors or manufacturers, including foreign manufacturers of our owned-brand merchandise;
- disruption or delays in shipments from domestic or foreign suppliers;
- changes in commercial practices of our key vendors or manufacturers, such as changes in vendor support and incentives or changes in credit or payment terms;

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- increased regulation of the sale of firearms and related products;
- the impact of product liability claims, other litigation and government regulations; and
- the interests of the members of the Pratt family, the Erickson family and their affiliates in our company and their ability to individually influence and collectively control matters approved by our shareholders.

2

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In some cases, you can identify forward-looking statements by terms such as anticipates, believes, could, estimates, expects, intends, may, might, potential, predicts, projects, should, will, would, and similar expressions intended to identify forward-looking statements. Forward-looking statements reflect our current views with respect to future events, are based on assumptions and are subject to risks and uncertainties. Given these uncertainties, you should not place undue reliance on these forward-looking statements. Also, forward-looking statements represent our estimates and assumptions only as of the date of this report. Except as required by law, we assume no obligation to update any forward-looking statements publicly, or to update the reasons actual results could differ materially from those anticipated in any forward-looking statements, even if new information becomes available in the future. Readers are urged to carefully review and consider the various disclosures made by us in this report and in our other reports filed from time to time with the Securities and Exchange Commission, referred to as the Commission, that advise interested parties of the risks and factors that may affect our business.

3

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**PART I**

**ITEM 1. BUSINESS**

**GENERAL**

Gander Mountain Company operates the nation's largest retail network of stores specializing in hunting, fishing, camping, marine and outdoor lifestyle products and services. We have expanded our store base from 26 stores in 1997 to our current base of 105 conveniently located Gander Mountain outdoor lifestyle stores, providing 5.5 million square feet of retail space in 22 states—Alabama, Arkansas, Colorado, Florida, Illinois, Indiana, Iowa, Kansas, Kentucky, Maryland, Michigan, Minnesota, New York, North Carolina, North Dakota, Ohio, Pennsylvania, Texas, Tennessee, Virginia, West Virginia and Wisconsin. We anticipate opening 13 new stores in 2007, including three relocations.

Since its origin in 1960, our brand name has had a heritage of strong appeal and relevance to consumers who participate in outdoor sports and recreation activities. Our customers value our "We Live Outdoors" culture and theme. Our core strategy and focus is to provide our target customers with a unique combination of a broad assortment of outdoor equipment, accessories, related technical apparel and footwear; expert services; convenient locations; and value pricing. Our stores feature an extensive selection of leading national and regional brands as well as our company's owned brands. We tailor our merchandise assortments to take advantage of our customers' seasonal and regional or local preferences. We seek to combine this broad product offering with superior customer service based on our store associates' extensive product knowledge and outdoor-related experience.

In March 2003, we began transforming our market position from a traditional specialty store to a large-format, category-focused store. We did this by opening new stores in a large format and increasing the selling space within our original, small-format stores. Prior to March 2003, our typical store was approximately 31,000 square feet. Our large-format stores range from approximately 50,000 to 100,000 square feet, with our current focus primarily upon stores of 60,000 to 65,000 square feet plus an outside selling area. Our large-format stores are generally located with convenient access to a major highway and have a warehouse-style shopping environment characterized by concrete floors, open bar-joint ceilings, high-density racking and wide aisles. To further build upon our brand's reputation for high quality and exceptional value, we are outfitting certain stores with additional features such as brick and stone accents, log-wrapped columns, and improved branding, fixture, flooring and signage elements.

The larger format enables us to offer more products and services to our customers. Most of our large-format stores offer all-terrain vehicles (ATVs). In January 2007, together with Tracker Marine Group, a division of Bass Pro Shops, we announced that effective in Spring 2007, the popular Tracker Marine Group boat brands will be featured in our stores. We will offer Tracker and Fisher fishing boats, Sun Tracker and Fisher pontoon boats, Nitro and ProCraft high-performance fishing boats, Tahoe runabout/deck boats, Mako offshore/inshore fishing boats, and Kenner Bay boats. Brand offerings will be tailored in each location based on market and store dynamics and customer preferences. For the spring 2007 season, the initial rollout of the Tracker brands will occur in approximately 35 to 40 of our large-format stores. In 2006, approximately 10 of our stores carried an assortment of fishing and recreational boats.

Our large-format stores offer unique features and specialized services, including a full-service gunsmith shop, a full-service archery pro shop, archery target lanes, and a power shop performing repairs for ATVs, boats and other small engines. Some of the large-format stores also include a bait shop that opens early for the convenience of our customers. We utilize outside selling areas adjacent to most of our large-format stores to display additional offerings of larger items such as ATVs, boats, kayaks, trailers and canoes. As of February 3, 2007, 55 of our 105 stores were in our large format.

Nearly all of our stores have a Gander Mountain Lodge, which is an in-store meeting room available for public use, where we provide hunter safety classes, outdoor-skills seminars and other community-focused activities.

We were originally organized as a Delaware limited liability company on November 27, 1996, and we converted to a Delaware corporation on December 31, 2000. We reincorporated in Minnesota in January 2004 by merging into our wholly owned subsidiary formed solely for that purpose. We have been operating our current business since our initial organization in 1996. On April 26, 2004, we closed the initial public offering of our common stock. Our common stock is traded on the Nasdaq Global Market under the symbol GMTN. Our principal executive offices are located at 180 East Fifth Street, Suite 1300, Saint Paul, Minnesota 55101, and our general telephone number is (651) 325-4300.

We maintain a website at [www.GanderMountain.com](http://www.GanderMountain.com). The information contained on and connected to our website is not incorporated into this report. On our website, you can access our annual reports on Form 10-K, quarterly reports on Form 10-Q, current reports on Form 8-K, amendments to those reports filed or furnished pursuant to Section 13(a) or 15(d) of the Securities Exchange Act of 1934, and all other reports we file with the Commission, as soon as reasonably practicable after we electronically file these reports with, or furnish them to, the Commission. You can also request free copies of these reports on our website or by calling investor relations at 651-325-4600.

### **FISCAL 2006 HIGHLIGHTS**

- We opened eight new stores, including one relocated store, expanding our industry-leading retail network to a total of 105 stores.
- We entered four new states in the year Alabama, Florida, Tennessee and West Virginia bringing our total number of states to 22. In addition to adding these new markets, we added second stores in North Carolina and Virginia and our ninth store in Texas as we continued to build our penetration in southern and southeastern markets.
- For the year, income from operations improved to a record \$15.0 million from a loss of \$2.2 million for fiscal 2005. For the fourth quarter, income from operations increased to a record \$29.2 million.
- We increased our cash provided by operating activities by \$30.9 million as compared to fiscal 2005.
- In December 2006, we improved our balance sheet with a private placement of \$50 million of common stock, of which \$20 million was paid through cancellation of our outstanding note payable. In addition, we added a \$20 million term loan to our existing credit facility in March 2006.
- In January 2007, we entered into a distribution agreement with Tracker Marine Group to carry a broad assortment of their fishing and recreational boats. After testing the boat business for a second year in 2006, we believe that this business has great potential. This partnership with Tracker Marine Group, manufacturer of one of the most popular fishing boats in the country, enables us to offer our customers a broad assortment of popular lines of fishing and recreational boats.
- For the year, our owned brand sales as a percent of total sales increased 160 basis points, from 9.7% to 11.3% of sales. Our owned-brand strategy is driven by the unmet needs of consumers in the marketplace and, together with the national brands we carry, enables us to offer a complete product assortment to our customers.

### **OUR BRAND S HISTORY**

After founding the company in Wilmot, Wis., in 1960 as a catalog operation, the original owner of the Gander Mountain brand name developed one of the largest outdoor catalogs in the United States, with significant name recognition and brand equity within the outdoor lifestyle sector. He subsequently added a





retail operation. In 1996, the former owner discontinued its catalog operations. In 1996 and 1997, Holiday Companies, which at the time owned and operated ten retail sporting goods stores, acquired the 17 existing Gander Mountain retail stores and began to utilize the historic Gander Mountain brand to build a new outdoor lifestyle business.

## **OUR GROWTH STRATEGY**

Our long-term strategic objectives are to:

- build upon the Gander Mountain brand name and significantly expand our network of retail stores in order to capture additional market share and expand our geographic diversity;
- offer our customers the best combination of a broad assortment of products and services, convenience and value in the outdoor lifestyle sector;
- enhance our growth by adding new products and services that meet the needs of our customers;
- improve our profitability by leveraging our increasing scale to improve margins and enhance productivity, and by controlling expenses; and
- develop internet and catalog selling capabilities in order to offer our customers more shopping opportunities.

### ***Expand Our Network of Retail Stores***

*Consolidate an Underserved Market.* We believe that our unique retail concept has broad appeal and that there are significant opportunities for profitable new store expansion. By adding new stores, we both capture additional market share and diversify our operations within the large, highly fragmented and underserved outdoor lifestyle market. We strategically locate our outdoor lifestyle stores in suburban and rural areas with a high concentration of our target outdoor enthusiast customers and near hunting, fishing, camping, boating and other outdoor recreation destination areas.

We intend to open stores in new markets and to further penetrate our existing markets to capture additional market share. We opened eight stores in fiscal 2006, all of them in our large format, including seven new stores and the replacement of one smaller store with a new, large-format store.

We plan to open 13 additional stores in fiscal 2007 in both existing and new markets, including three relocated stores. Most of these new stores will be located in moderate to mid-sized markets that meet our site selection criteria. While we will continue to build stores in urban markets, we believe that moderate to mid-sized markets offer great opportunities. In these markets, we are often the only retailer offering a broad selection of products and services to outdoor enthusiasts, and it is less likely that one of our larger competitors will enter one of these markets once we are established there. We will continue to expand our retail network in southern and southeastern markets in order to increase our geographic diversity.

*Employ a Flexible Real Estate Strategy.* Our flexible real estate strategy allows us to open stores in different sizes depending on market characteristics, demographics and availability of sites. Our ability to adapt our store format gives us flexibility to utilize both recycled, or second-use, facilities and build-to-suit opportunities as the market dictates.

*Control Building Costs to Maximize Expansion of Our Retail Network.* We continually monitor and seek to optimize our investment in our stores on a per-store basis. One way we do this is by using recycled real estate where available which is often available for lesser rental rates than new properties. We also use outdoor selling space adjacent to our stores to display large items like ATVs, boats and trailers. This reduces our rent per store while still enabling us to display our full assortment of products. We believe that



our ability to control our investment per-store will allow us to maximize the expansion of our network of conveniently located retail stores.

***Offer Our Customers the Best Combination of a Broad Assortment of Outdoor Lifestyle Products and Services, Convenience and Value***

*Offer a Broad Assortment of Outdoor Lifestyle Products.* We offer a broad assortment of outdoor equipment, accessories, related technical apparel and footwear. Our stores feature an extensive selection of leading national and regional brands as well as our company's owned brands. We tailor our merchandise assortments to take advantage of our customers' seasonal preferences, as well as regional or local preferences.

Another important element of our merchandise strategy is the anticipation of merchandise trends and consumer preferences as we aim to be the first to market with new and innovative products. We continually assess opportunities to add complementary product lines desired by our customers. We seek to combine this broad product offering with superior customer service based on our store associates' extensive product knowledge and outdoor-related experience.

*Offer Convenience.* We believe our ability to tailor the size of our stores to the needs of each market and utilize both new and recycled real estate enables us to target both larger and mid-sized markets and to cluster our stores in key markets, such as the Minneapolis/St. Paul metro area and Houston. Therefore, we provide our customers more convenient shopping opportunities closer to where they live, work or enjoy their recreational activities than certain of our larger competitors who specialize in building a more limited number of large destination retail stores.

*Offer Value.* Our pricing policy is to offer our customers the best value on our broad assortment of products and services. We believe our competitive pricing reinforces our strong value proposition and instills price confidence in customers in each of our markets. We achieve price leadership through our commitment to an every-day-low-price strategy and supporting policies such as our Low Price Guarantee. Our store format reinforces this commitment to value.

*Offer Convenient Expert Services.* As the nation's largest retail network of stores specializing in hunting, fishing, camping, boating, marine and outdoor lifestyle products and services, we have a unique opportunity to become the provider of choice for a broad range of outdoor-related customer services. Our convenient locations make it easy for our customers to rely on us to provide expert services to enhance their outdoor experiences.

We plan to build on our current base of services to strengthen our position as the solution to all of our customers' needs for outdoor recreation. We are the largest employer of professional gunsmiths in the country, with gunsmiths in almost all of our stores and a larger central gunsmith facility in our Kenosha, Wis., store to provide advanced services. We also have archery technicians in every store to provide customization and repair services for archery enthusiasts, and we have archery shooting lanes in our large-format stores. Our large-format stores typically offer a power shop that provides repair services for ATVs, boats and any other small engines. We also offer fishing reel line winding, hunting and fishing license sales and other value-added technical support services. We continually assess opportunities to add complementary services desired by our customers.

We use the Gander Lodge in each of our stores to provide a number of classes and demonstrations that contribute to our customers' enjoyment of their outdoor activities. Many of these sessions are conducted by our knowledgeable associates, who provide expert advice to our customers every day. We conduct a number of gun-safety classes, and in many of our markets we are the leading provider of hunter education.

*Add New Products and Services to Continually Meet Customers' Needs.* We use input from our customers to add to our already extensive assortment of products and services to better meet the needs of our customers. In fiscal 2006, we continued to test the sale and service of fishing and family recreation boats in some of our large-format stores. Based on the results of this test, we entered into a distribution agreement with Tracker Marine Group in January 2007 to offer their popular line of fishing and recreational boats in our stores. In 2006, we added a limited line of *Three Forks Ranch* premium hunting and fishing apparel and equipment in certain of our stores to expand the depth of our assortment.

***Improve Our Productivity and Profitability***

*Implement Operating Initiatives.* We are pursuing a number of initiatives designed to improve product margin. These include sourcing more of our product directly and expanding the penetration of our owned-brand merchandise where appropriate. Other initiatives are designed to improve how we display our merchandise so our stores are easier to shop. We are also focused on initiatives to continue to improve our supply chain to improve inventory turnover and reduce inventory per store, to reduce store labor costs by eliminating non-selling tasks and to control corporate expenses.

We measure performance using key operating statistics such as comparable store sales; sales per square foot; gross margin percentage; and store operating expenses, with a focus on labor, as a percentage of sales. Store operating contribution, which is calculated by deducting a store's operating expenses from its gross margin, is used to evaluate overall performance on an individual store basis. In addition, general and administrative expenses are monitored in absolute amounts, as well as on a percentage-of-sales basis.

*Leverage Our Increasing Scale.* We are focused on increasing our store operating margins and profitability through improved purchasing leverage as we grow and develop stronger relationships with our vendors. We believe our ability to tailor the size of our stores and build clusters in key markets, such as the Minneapolis/St. Paul metro area and Houston, enables us to take advantage of economies of scale in advertising, promotion and distribution costs in those markets.

**OUR PRODUCTS AND SERVICES**

The key elements of our merchandise strategy that reinforce our "We Live Outdoors" culture and theme are:

- offer an extensive selection of products at highly competitive prices on an everyday basis in our large-format stores;
- focus on nationally branded products;
- complement our branded product offering with our proprietary brands, including *Gander Mountain*, *Guide Series*, and *Three Forks Ranch*;
- tailor our merchandise assortment to local and regional market preferences to take advantage of the seasonal nature of our customers' outdoor activities;
- introduce new, on-trend merchandise early in its product life-cycle; and
- support our customers with a superior level of assistance, product expertise and value-added, in-store technical support services.

***Product Offerings***

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We offer a broad and deep assortment of equipment, apparel, footwear, related accessories and consumable supplies to meet the outdoor activity needs of our customers. The extensive breadth and depth

8

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of our product offerings allow us to carry a full range of merchandise at price points within each category to appeal to customers ranging from the beginner to the expert.

Another important element of our merchandise strategy is anticipating new merchandise trends and consumer preferences and attempting to be the first to market with new products. Our goal is to capitalize on new merchandise trends early in their product life cycles. We are able to do this by frequent communications between our customers, store associates, buyers and vendors, and by utilizing consumer research.

The following table shows our sales during the past three fiscal years by product category:

Category	Fiscal 2006	Fiscal 2005	Fiscal 2004
Hunting	45.7 %	43.2 %	42.1 %
Fishing and Marine	14.7 %	15.6 %	16.3 %
Camping, Paddlesports and Backyard Equipment	6.7 %	7.2 %	8.2 %
Apparel and Footwear	25.2 %	26.4 %	26.9 %
Powersports and Other	7.7 %	7.6 %	6.5 %
Total	100 %	100 %	100 %

*Hunting.* Hunting is our largest merchandise category, representing approximately 46% of our sales during fiscal 2006. Our hunting merchandise assortment provides equipment, accessories and consumable supplies for virtually every type of hunting and sport shooting. Gunsmith services and archery technicians support our hunting assortments to service the complete needs of the hunter.

Our hunting assortment includes a wide variety of firearms, including rifles, shotguns, handguns, air guns and black powder muzzle loaders. We also buy and sell used firearms. In addition to firearms, we carry a wide selection of products in the ammunition, hunting equipment, optics, dog training, archery and food plots/feeding categories.

*Fishing and Marine Accessories.* Fishing and marine accessories represented approximately 15% of our sales during fiscal 2006 and includes products for fresh-water fishing, salt-water fishing, fly-fishing, ice-fishing and boating. Our broad assortment appeals to the beginning angler and the weekend angler, as well as avid and tournament anglers. In addition to lures, rods and reels, our fishing assortment features a wide selection of products in the tackle supplies, electronics, fly-fishing, ice-fishing and marine accessories categories. We also provide fishing line winding services in all of our stores and live bait in most of our large-format stores.

Our marine accessory assortment includes products for boat care and maintenance, as well as safety equipment and products for fun on the water, such as wake boards and tubes.

*Camping, Paddlesports and Backyard Equipment.* Camping, paddlesports and backyard equipment represented approximately 7% of our sales during fiscal 2006. Our camping assortment primarily focuses on family camping and the weekend hiker, and includes the camping, paddlesports, backyard cooking and entertainment, and food processing product categories.

*Apparel and Footwear.* Our apparel and footwear product categories include both technical gear and lifestyle apparel for the active outdoor enthusiast. Apparel and footwear represented approximately 25% of our sales during fiscal 2006, and our assortments in these categories include fieldwear, sportswear and workwear.

Fieldwear apparel and footwear offer technical performance capabilities for a variety of hunting activities, including upland, waterfowl, archery, big game hunting, turkey hunting and shooting sports. Performance attributes include waterproofing, temperature control, scent control and visual capabilities,





including camouflage and blaze orange. Outerwear, particularly performance rainwear, is an important category for customers who are fishing, hiking, hunting or marine enthusiasts.

We complement our technical apparel with an assortment of casual apparel and footwear that fits our customers' lifestyles, as well as workwear and boots.

*Power Sports and Other.* Our large-format stores carry an assortment of ATVs and ATV accessories, boats and a small number of power tools. We are one of the largest ATV dealers in the country. In addition to selling a high volume of units, we typically sell a significant amount of accessories with each vehicle. In fiscal 2005 and fiscal 2006, we also sold power boats in approximately ten stores. Our power sports and other category represented approximately 8% of our sales during fiscal 2006.

Our customers view ATVs as working vehicles and appreciate the broad assortment of accessories and attachments we carry to enhance their effectiveness. These attachments range from simple trailers and blades to expensive cultivators that hunters use to plant food plots for game on their hunting land. Our expansion into the ATV market led us to develop our power shop services. Our service shops provide a full range of services and parts and are staffed with trained technicians who can service most small engines. As we have expanded our offering of boats, our power shop services have expanded to provide marine engine services.

In January 2007, our new distribution agreement with Tracker Marine Group significantly expanded our commitment to power boats. Beginning in February 2007, we are distributing a full line of Tracker Marine Group's popular line of fishing and recreational boats in approximately 35 to 40 of our stores, and we plan to add more stores later in the year. This agreement greatly increases the number of our stores that carry power boats. It will also broaden the assortment of boats we offer our customers. In addition, we plan to carry Tracker Marine Group john-boats in all stores and Mercury or Yamaha engines in selected stores. The Tracker Marine Group boat offering is a natural extension of our existing product offerings of small fishing boats, kayaks, canoes and small boat motors.

Other products in this category include cabin and ranch décor items, gifts, books, videos and food.

We also operate Outdoor Expeditions, a travel business that specializes in packaging hunting and fishing trips to domestic and international destinations and providing expert advice on selecting outdoor destinations, accommodations and guide services. Our Outdoor Expeditions staff has accumulated a wealth of knowledge and expertise in packaging rewarding hunting and fishing vacations. We do not own or lease any hunting land or provide guide services.

#### ***Focus on Branded Products***

Our primary merchandise focus is to offer our customers a broad selection of competitively priced national and regional brand products. Our national-brand focus is driven by our customers' buying preferences for national brands and the fact that the national-brand manufacturers are often responsible for most of our industry's new product innovation and development. We not only offer an extensive breadth of brands across multiple product categories, but also offer extensive depth of product within most brands.

Another important element of our branding strategy is the development of strong owned brands, primarily Gander Mountain, Guide Series and Three Forks Ranch, by leveraging the strength of our brand image to create our own line of high-quality products. Our owned-brand strategy is designed to augment our assortment of nationally and regionally branded merchandise with our owned-brand products in select merchandise categories. While the majority of owned-brand products are in the apparel category, we offer an expanding assortment of owned-brand equipment.

Our *Gander Mountain* and *Guide Series* products are designed and priced to offer our customers the quality characteristics of many of our branded products at a price that reflects exceptional value. We believe that by offering a high-quality, competitively priced owned brand, we create an even more compelling value proposition for our customers. Our *Three Forks Ranch* line of products is comprised of premium hunting and fishing apparel and equipment. Our owned-brand products are sourced from a diversified group of established vendors. Owned brand products accounted for 11.3% of our total sales in fiscal 2006 and 9.7% of our sales in fiscal 2005.

#### ***Localization and Relevancy of Product Assortment***

We customize our merchandise assortment on a market-by-market basis. We do this by featuring well-known regional brands that we augment with local brands, allowing us to tailor our merchandise assortment to the local market. This is extremely important across many of our merchandise categories, given the significant differences in product and brand preferences. Also, as we expand geographically, we need to merchandise each of our stores appropriately for the climate and seasonal variations from market to market.

#### ***Services***

We provide our customers with a wide range of in-store, value-added, technical support services. Nearly all of our stores offer full-service gunsmith shops, archery technicians, fishing-reel line winding, and hunting and fishing license sales. We also offer small-engine repair services at all of our stores that sell ATVs, including servicing of boat motors. We believe that offering these services is not only consistent with our goal of offering products and services for all our customers' outdoor lifestyle needs. It is also an important driver of additional sales by building customer traffic and enhancing our relationships with our customers. We believe the ability to provide the necessary technical support in our major product categories is essential to our positioning in the outdoor lifestyle market. We also provide training and seminars for our customers, including gun-safety training, in all our stores.

#### ***Pricing***

Our pricing policy is to maintain prices that are competitive in our markets. We believe our competitive pricing strategy reinforces our strong value proposition, instills price confidence in both our customers and our store associates, and is a critical element of our competitive strategy. We achieve price leadership through our commitment to an every-day-low-price strategy and supporting policies such as our Low Price Guarantee. Our *Three Forks Ranch* line of products is priced at a level reflecting the premium quality of the apparel and equipment.

#### ***Store Design and Visual Merchandising***

We design our large-format, warehouse-style stores to create an exciting shopping environment and to highlight our extensive product assortment. We use our store design and layout to emphasize our positioning as a value-oriented outdoor lifestyle retailer. We use a variety of display fixtures, in-aisle merchandise displays, tables and end-caps to create a functional design that enables us to expand and adjust the size of our merchandise offerings by season and market. To further build upon our brand's reputation for high quality and exceptional value, we are outfitting certain stores with additional features such as brick and stone accents, log-wrapped columns, and improved branding, fixture, flooring and signage elements.

## **PURCHASING AND DISTRIBUTION**

Our merchandising team is responsible for all product selection and procurement except for certain purchases by our store managers to address local customer preferences or seasonal considerations. In addition, our merchandising team's responsibilities include the determination of initial pricing, product marketing plans and promotions. They coordinate with our merchandise planning and allocation team to establish inventory levels and product mix. Our merchandising team also regularly communicates with our store management to monitor shifts in consumer tastes and market trends.

Our merchandise planning and allocation team is responsible for merchandise distribution, inventory control, and replenishment. This team also coordinates the inventory levels necessary for each advertising promotion with our buyers and our advertising department. They track the effectiveness of each advertisement to allow our buyers and our advertising department to determine the relative success of each promotional program. Other responsibilities include price changes, creation of purchase orders and determination of store-level inventory.

We purchase merchandise from over 2,300 vendors. We have no long-term purchase commitments, and no single vendor represented more than 4% of our purchases during fiscal 2006.

We operate a distribution center to which vendors ship our merchandise. In fiscal 2006, we leased a second building of approximately 202,000 square feet to add additional capacity at our distribution center, bringing the total capacity to 427,000 square feet. Our product is processed at our distribution center as necessary and shipped to our stores. In addition, approximately 20% of our merchandise is shipped directly to our stores by the vendors.

In fiscal 2005, we invested approximately \$2.7 million to upgrade the product-handling equipment in our distribution center. We believe that we will be able to service our existing stores from our distribution center through fiscal 2007 and into fiscal 2008. We have undertaken a study to analyze our future distribution requirements. We believe we will need to expand our distribution capabilities in the next two to three years as we continue to add new stores.

## **MARKETING AND ADVERTISING**

Our marketing strategy communicates our "We Live Outdoors" culture and theme and is designed to emphasize Gander Mountain's position in the market as a leader in selection, service and competitive pricing in our core categories—hunting, fishing, camping, boating, apparel and footwear. In addition, we seek to develop a unique relationship with our customers and establish our store associates as true experts in their field. Our advertising calendar focuses on the key hunting, fishing and camping seasons.

We use a combination of radio, print, television, and outdoor advertising to communicate our message. We anticipate our primary advertising vehicle in fiscal 2007 will be radio. Print advertising will support store openings and other events, using a combination of newspapers and direct mail appropriate to our markets. We also utilize television advertisements, sponsorships of key sporting events and fishing tournaments, event marketing and grassroots marketing through support of community organizations. In addition, our "We Live Outdoors" television show airs on The Outdoor Channel.

A significant element of our local and grassroots marketing effort is our use of the Gander Mountain Lodge. The Lodge is a designated space in nearly all our stores that serves as a meeting place for local outdoor groups. Our store management schedules presentations and training seminars from our world-class pro-staff in conjunction with natural resource organizations, including local chapters of Ducks Unlimited, Pheasants Forever, Muskies, Inc. and boy and girl scout troops. The Lodge is also used for firearms training and youth certification, making us one of the largest providers of hunter safety training in the country.

**RETAIL STORES AND MARKETS***Store Locations*

The following table lists the location by state of our 105 stores open as of February 3, 2007:

<b>States and Number of Stores</b>			
<b>Northern Markets</b>		<b>Southern Markets</b>	
Colorado	2	Alabama	1
Illinois	4	Arkansas	1
Indiana	5	Florida	1
Iowa	2	Kansas	1
Maryland	1	Kentucky	1
Michigan	14	North Carolina	2
Minnesota	13	Tennessee	1
New York	9	Texas	9
North Dakota	1	Virginia	2
Ohio	9	West Virginia	1
Pennsylvania	11		
Wisconsin	14		
	<b>85</b>		<b>20</b>

We have announced plans to open 13 new stores in fiscal 2007, including three relocations. In April 2007, we opened a new store in Eden Prairie, Minn., that replaced our small-format store in Minnetonka, Minn., which closed in February 2007. We have announced three additional new store openings in spring 2007 in College Station, Texas; Fayetteville, N.C.; and St. Augustine, Fla. In the fall of 2007, we plan to open nine new stores, including two replacement stores. These new stores will further increase our geographic diversity.

*Site Selection*

We select geographic markets and store sites on the basis of:

- demographic information,
- quality and nature of neighboring tenants,
- store visibility,
- accessibility and
- lease economics.

Key demographics include not only population density, but also the number of outdoor activity participants, as measured by hunting and fishing licenses, and proximity to outdoor recreation areas. While we will continue to build stores in urban markets, we believe that moderate to mid-sized markets offer great opportunities. In these markets, we are often the only retailer offering a broad selection of products and services to outdoor enthusiasts, and it is less likely that one of our larger competitors will enter one of these markets once we are established there.

Generally, we seek to locate our new stores in retail areas with major discount retailers, such as Wal-Mart or Target, or other specialty retailers, such as The Home Depot, Bed, Bath and Beyond or Best Buy. Our market and site selection decision-making process is ultimately based on the projected economics of the new store.



Our ability to adapt our store format gives us flexibility to utilize both recycled, or second-use, facilities and build-to-suit opportunities as the market dictates. We have the flexibility to adapt our store model from 30,000 square feet up to 100,000 square feet. We are now building our large-format stores primarily at 60,000 to 65,000 square feet, and we prefer sites where we can include an outside selling area to display large items such as ATVs, boats, trailers, kayaks and canoes. We believe that there is ample availability of recycled real estate at reasonable occupancy costs to accommodate a significant portion of our future growth. We believe that our flexible real estate strategy will assist us in meeting our expansion objectives and operating with reasonable occupancy costs.

Our expansion strategy is to open stores in both new and existing markets. In our existing markets, we will add stores to further penetrate certain market areas. In certain situations, opening new stores in existing markets will negatively impact comparable store sales for a period of time. However, by clustering our stores, we seek to gain additional market share and take advantage of economies of scale in advertising, promotion, distribution and management supervisory costs. In new markets, we generally seek to expand in geographically contiguous areas in order to build on our experience in the same or nearby regions. We intend to continue our expansion into the southern and southeastern markets of the U.S. in order to expand our geographic diversity.

### **INFORMATION SYSTEMS**

Over the past several years, we have made significant investments in our infrastructure, including our information systems, distribution capabilities and management ranks, to support our accelerating growth. We use enterprise-wide merchandise and financial systems which we believe are scalable. In 2006, we began a significant effort to upgrade our merchandise and information systems that will provide enhanced efficiencies in buying, receiving, payables management and provide better and more detailed operating information for decision making and continued supply chain improvement. We expect to continue to evaluate, modify and update our information systems over the next several years.

### **SEASONALITY**

Our business is subject to seasonal fluctuations. We generated 63% of our annual sales in the third and fourth quarters of fiscal 2006 and approximately 62% of our annual sales in those same quarters of fiscal 2005. The third and fourth quarters are primarily associated with the fall hunting seasons and the holiday season. In addition, we typically open a greater number of new stores during the second half of the year, which further increases the percentage of our sales generated in the third and fourth fiscal quarters. We also incur significant additional expenses in the third and fourth fiscal quarters due to higher volume and increased staffing in our stores.

Unseasonable weather conditions affect outdoor activities and the demand for related apparel and equipment. Customers' demand for our products, and therefore our sales, can be significantly impacted by weather patterns.

We are working to reduce the seasonality of our business by opening new stores in the south and southeast. As of the end of fiscal 2006, we have increased our number of stores located outside our traditional northern markets to 20 stores. Customers in these markets enjoy longer seasons for outdoor activities. As we open more stores in these regions, we expect over time to increase the percentage of our sales that are generated in the first half of the year. We also expect to reduce the impact on our sales of weather patterns in any one region of the country.

### **EMPLOYEES**

As of February 3, 2007, we had approximately 6,000 associates, approximately 2,400 of whom were employed by us on a full-time basis. We also employ additional associates during peak selling periods. We

consider our relationships with our associates to be good. None of our associates are covered by a collective bargaining agreement.

## COMPETITION

We operate in a large, highly fragmented and competitive industry, which we believe is currently underserved at the retail level. The outdoors is an integral part of many Americans' lifestyles. We believe the principal competitive factors in our industry are breadth and depth of product selection, value pricing, convenient locations, technical services, and customer service. Our principal competitors include the following:

- local specialty stores;
- large-format entertainment-focused outdoor retailers, such as Cabela's and Bass Pro Shops;
- other outdoor-focused chains, such as Sportsman's Warehouse;
- catalog and Internet-based retailers, such as Cabela's, Bass Pro Shops and The Sportsman's Guide;
- traditional sporting goods chains, such as The Sports Authority, Dick's Sporting Goods and Academy;
- discount chains and mass merchants, such as Wal-Mart, Kmart and Target Corporation;
- ATV and boat dealers;
- power shops; and
- marinas and marine supply stores, such as West Marine and Boater's World.

*Local Specialty Stores.* These stores generally range in size from approximately 2,000 to 10,000 square feet, and typically focus on one or two specific product categories such as hunting, fishing or camping and usually lack a broad selection of product.

*Large-Format Entertainment-Focused Outdoor Retailers.* These large-format retailers generally range in size from 100,000 to 250,000 square feet and seek to offer a broad selection of merchandise focused on hunting, fishing, camping and other outdoor product categories. These stores combine the characteristics of an outdoor retailer with outdoor entertainment and theme attractions. We believe the number of these stores that can be supported in any single market area is limited because of their large size and significant per-store cost.

*Other Outdoor-Focused Chains.* These other chains, typically ranging from two to 25 stores, focus on offering a broad selection of merchandise in one or more of the following product categories: hunting, fishing, camping or other outdoor product categories. The largest of these chains is significantly smaller than our company. We believe that other outdoor-focused chains generally do not offer a similar depth and breadth of merchandise in all of our product categories.

*Catalog and Internet-Based Retailers.* These retailers sell a broad selection of merchandise through the use of catalogs and the Internet. The products are competitively priced and the direct channel offers relative convenience to customers. However, catalog and Internet retailers are not able to provide face-to-face customer service and support, nor offer the expert technical, repair and other services that are provided at our retail stores.

*Traditional Sporting Goods Chains.* These stores generally range from 20,000 to 80,000 square feet and offer a broad selection of sporting goods merchandise covering a variety of sporting goods categories, including hunting, fishing and camping. However, we believe the amount of space devoted to our outdoor product categories limits the extent of

their offerings in these areas.

15

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*Discount Chains and Mass Merchants.* These stores generally range in size from approximately 50,000 to over 200,000 square feet and are primarily located in shopping centers, free-standing sites or regional malls. Hunting, fishing and camping merchandise and apparel represent a small portion of the store assortment, and of their total sales.

*ATV and Boat Dealers.* In many markets, the retail ATV and boat industries are served by franchise and independent dealers. Although most competitors are primarily local in focus, some of these companies operate retail ATV or boat stores on a national or regional basis. We are subject to competition from dealers that sell the same brands of new ATVs or boats that we sell and from dealers that sell other brands of ATVs or boats that we do not represent in a particular market. Certain ATV or boat manufacturers may designate specific marketing and sales areas within which only one dealer of a given brand may operate. We may also be impacted by various state franchise or dealer protection laws from featuring a particular brand of ATV or boat within any area that is served by another dealer of the same brand, and we may need manufacturer approval to relocate or feature a particular brand in a new store.

*Power Shops.* Our power shop operations are subject to competition from independent ATV and boat service shops and service center chains. We believe that the principal competitive factors in the service and repair industry are price, location, the use of factory-approved replacement parts, expertise with the particular ATV and boat lines, and customer service.

*Marinas and Marine Supply Stores.* There are national chains that sell marine accessories and supplies. These products can also be found in a wide range of other retail outlets, including marine dealers, marina shops, boat service and repair shops, sporting goods suppliers and mass merchants.

## **GOVERNMENT REGULATION**

We operate in highly regulated industries. A number of federal, state and local laws and regulations affect our business. In every state in which we operate, we must obtain various licenses or permits in order to operate our business.

Because we sell firearms at all of our retail stores, we are subject to regulation by the Bureau of Alcohol, Tobacco, Firearms and Explosives, or BATFE. Each store has a federal firearms license permitting the sale of firearms, and our distribution center has obtained a federal firearms license to store firearms. Our federal firearms licenses permit gunsmith activities at each of our stores. We have also obtained in certain stores a federal license to sell black powder used to shoot muzzle-loading firearms. Certain states require a state license to sell firearms and we have obtained these licenses for the states in which we operate.

We must comply with federal, state and local regulations, including the National Firearms Act and the federal Gun Control Act, which require us, among other things, to maintain federal firearms licenses for our locations and perform a pre-transfer background check in connection with all firearms purchases. We perform this background check using either the FBI-managed National Instant Criminal Background Check System, or NICS, or a comparable state government-managed system that relies on NICS and any additional information collected by the state, a state point of contact or POC. The federal categories of prohibited purchasers are the prevailing minimum for all states. States (and, in some cases, local governments) on occasion enact laws that further restrict permissible purchasers of firearms. These background check systems confirm either that a transfer can be made, deny the transfer or require that the transfer be delayed for further review, and provide us with a transaction number for the proposed transfer. We are required to record the transaction number on BATFE Form 4473 and retain this form in our records for 20 years for auditing purposes for each approved, denied or delayed transfer.

We are also subject to numerous other federal, state and local laws regarding firearm sale procedures, record keeping, inspection and reporting, including adhering to minimum age restrictions regarding the

purchase or possession of firearms or ammunition, residency requirements, applicable waiting periods, importation regulations, and regulations pertaining to the shipment and transportation of firearms. The Protection of Lawful Commerce in Arms Act, which became effective in October 2005, prohibits civil liability actions from being brought or continued against manufacturers, distributors, dealers or importers of firearms or ammunition for damages, injunctions or other relief resulting from the misuse of their products by others. The legislation does not preclude traditional product liability actions. From time to time, federal, state or local governments consider proposed bills relating to the sale of firearms, such as laws that confirm or support an individual's right to possess a firearm or laws that would further restrict or prohibit certain firearm sales.

We are subject to a variety of federal, state and local laws and regulations relating to, among other things, protection of the environment, human health and safety, advertising, pricing, weights and measures, product safety, and other matters. Some of these laws affect or restrict the manner in which we can sell certain items such as hand guns, black powder, ammunition, bows, knives and other products. Our ATV and boat dealership operations may be impacted by various state franchise or dealership protection laws that may prohibit or restrict our ability to feature a particular brand of ATV or boat within any area that is served by another dealer of the same brand, and we may need manufacturer approval to relocate or feature a particular brand in a new store. State and local laws and regulations governing hunting, fishing, boating, ATVs and other outdoor activities can also affect our business. We believe that we are in substantial compliance with the terms of such laws and that we have no liabilities under such laws that we expect could cause a material adverse effect on our business, results of operations or financial condition.

In addition, many of our imported products are subject to existing or potential duties, tariffs or quotas that may limit the quantity of products that we may import into the U.S. and other countries or impact the cost of such products. To date, quotas in the operation of our business have not restricted us, and customs duties have not comprised a material portion of the total cost of our products.

#### PROPRIETARY RIGHTS

Each of Gander Mountain, Gander Mountain Guide Series, and Gander Mtn. and our logos has been registered as a service mark or trademark with the United States Patent and Trademark Office. In addition, we have pending applications for additional trademarks, including We Live Outdoors.

#### EXECUTIVE OFFICERS

The following table sets forth the name, age and positions of each of our executive officers as of April 1, 2007.

Name	Age	Position
Mark R. Baker	49	President, Chief Executive Officer and Director
Dennis M. Lindahl	54	Executive Vice President, Strategy and Business Development
Richard J. Vazquez	48	Executive Vice President, Merchandising and Marketing
Mark A. Bussard	43	Senior Vice President, Retail Sales
Andrew P. Carlin	43	Senior Vice President, Store Operations
Eric R. Jacobsen	50	Senior Vice President, General Counsel and Secretary
Robert J. Vold	48	Senior Vice President, Chief Financial Officer and Treasurer

*Mark R. Baker*, an avid outdoorsman, was appointed president in February 2004 and has served as our chief executive officer since September 2002. Mr. Baker was an independent consultant from August 2001 through September 2002. From May 1996 through July 2001, he served in various positions with Home Depot Inc., including executive vice president, chief operating officer and chief merchandising officer from April 1999 to July 2001. Prior to joining Home Depot, Mr. Baker held senior leadership

positions in the retail sector, serving in various management positions for Knox Hardware and Lumber from 1980 through 1988, as vice president of merchandising and marketing of Scotty's Home Improvement Centers from 1988 through 1992 and as executive vice president of merchandising of HomeBase from 1992 through 1996. Mr. Baker is a director of The Scotts Company, a public company that manufactures and markets lawn and garden products.

**Dennis M. Lindahl** was appointed executive vice president, strategy and business development, in January 2007. He served as our executive vice president and chief financial officer from July 2003 to January 2007 and was appointed treasurer in February 2004. He served as our secretary from February 2004 to May 2005, our assistant secretary from February 1997 through January 2004 and our acting chief executive officer from February 1997 through November 1997. In 1986, Mr. Lindahl joined Holiday Companies following ten years with Arthur Andersen LLP and served as Holiday Companies' vice president and chief financial officer from April 1997 through December 2003.

**Richard J. Vazquez** joined our company as executive vice president, merchandising in August 2005 and assumed responsibility for marketing in November 2005. Prior to joining our company, Mr. Vazquez served in various positions at Home Depot Inc. from 1994 to 2005, most recently as vice president, merchandising and marketing, Mexico Division. He served as vice president, merchandising and marketing for Home Depot's Expo Design Center from 2002 to 2004; and general merchandising director, Chile and Argentina, from 1996 to 2001.

**Mark A. Bussard** was named senior vice president of retail sales in December 2006, with responsibility for driving sales and increasing communication between the stores and the merchant and marketing teams. He began his career at Gander Mountain in 1994 as a store manager in Michigan and progressed through roles as district manager and regional manager. In 2002, he joined the corporate staff, where he led the hunting and fishing merchant teams as divisional vice president. Before joining Gander Mountain, Mr. Bussard served as a store manager and as a regional recruiter of store managers for Quality Stores, Inc.

**Andrew P. Carlin** joined us in August 2003 as our regional vice president with primary responsibility for our western stores and was promoted to senior vice president, store operations in August 2004. Mr. Carlin came to our company from Kohl's Corporation, where he served as a regional vice president from January 2002 to July 2003, district manager and vice president from June 1997 to December 2001, and a store manager from April 1995 to May 1997. Prior to his employment by Kohl's Corporation, Mr. Carlin served in various store management positions for the department store division of Target Corporation from September 1986 to March 1995.

**Eric R. Jacobsen** joined us in May 2005 as senior vice president, general counsel and secretary. From November 1998 to November 2004, he served as general counsel for Northwestern Corporation, serving most recently as senior vice president and general counsel, and from 1995 to 1998 he served as vice president, general counsel and secretary of Lodgenet Entertainment Corporation. Previously, he was a partner in the law firm of Manatt, Phelps & Phillips in Los Angeles, California, specializing in corporate finance, mergers and acquisitions.

**Robert J. Vold** was named senior vice president, chief financial officer and treasurer in January 2007. He joined Gander Mountain in October 2005 as vice president, finance. Mr. Vold previously spent seventeen years in positions of increasing responsibility in finance at Norstan, Inc., including chief financial officer. He began his career with Arthur Andersen LLP.

**ITEM 1A. RISK FACTORS**

*Risks Related to Our Business*

**Our current business strategy that focuses on large-format retail stores has not been proven successful on a long-term basis and may negatively impact our operating results.**

In fiscal 2003, we began implementing our current business strategy that focuses on large-format retail stores. The viability of this business strategy has not been proven on a long-term basis. We have transitioned from opening approximately 30,000-square-foot stores to predominantly opening stores ranging from 50,000 to 100,000 square feet. The results we achieved at our small-format stores may not be indicative of the results that we may achieve at our new large-format stores. The large format increases our operating costs per store, but may not lead to proportionately increased revenues per store. Our mix of higher and lower-margin merchandise in our large-format stores differs from the merchandise mix in our small-format stores, and therefore, may negatively impact our gross margins in our large-format stores. We cannot assure you that we will be successful in operating our large-format stores on a profitable basis. If a large-format store is unprofitable, the impact on our financial results could be greater than the impact of an unprofitable small-format store.

**Our concentration of stores in the Great Lakes region of the United States makes us susceptible to adverse conditions in this region, including atypical weather.**

The majority of our stores are located in the Great Lakes region of the United States. Our growth may result in other regional concentrations over time, such as in Texas and Florida. As a result, our operations are more susceptible to regional factors than the operations of more geographically diversified competitors. These factors include regional economic and weather conditions, natural disasters, demographic and population changes and governmental regulations in the states in which we operate. Environmental changes and disease epidemics affecting fish or game populations in any concentrated region may also affect our sales. If a concentrated region were to suffer an economic downturn or other adverse event, our operating results could suffer.

Our results of operations may be harmed by atypical weather conditions. Many of our stores are located in areas that traditionally experience seasonably cold weather. Abnormally warm weather conditions could reduce our sales of seasonal items and harm our operating results. Moreover, significant snowfalls or other adverse weather on peak shopping days, particularly during the holiday season, could adversely impact our sales if potential customers choose not to shop during those days.

**Our operating results are subject to seasonal fluctuations.**

We experience substantial seasonal fluctuations in our sales and operating results. We generated approximately 63% of our net sales in our third and fourth quarters of fiscal 2006, which include the peak hunting and holiday seasons. We incur significant additional expenses in the third and fourth fiscal quarters due to higher purchase volumes and increased staffing in our stores. If, for any reason, we miscalculate the demand for our products or our product mix during the third or fourth fiscal quarters, our sales in these quarters could decline, resulting in higher labor costs as a percentage of sales, significantly lower margins and excess inventory, which could cause our annual operating results to suffer and our stock price to decline significantly. Due to our significant seasonality, the possible adverse impact from other risks associated with our business, including atypical weather, consumer spending levels, and general business conditions, is potentially greater if any such risks occur during our peak sales seasons.

**The growth of our business is dependent upon the availability of adequate capital.**

The growth of our business depends on the availability of adequate capital, which in turn depends in large part on cash flow generated by our business and the availability of equity and debt financing. We

cannot assure you that our operations will generate positive cash flow or that we will be able to obtain equity or debt financing on acceptable terms or at all. Our credit facility contains provisions that restrict our ability to incur additional indebtedness or make substantial asset sales that might otherwise be used to finance our expansion. Security interests in substantially all of our assets, which may further limit our access to certain capital markets or lending sources, secure our obligations under the credit facility. Moreover, the actual availability of funds under our credit facility is limited to specified percentages of our eligible inventory and credit card receivables. Accordingly, opportunities for increasing our cash on hand through sales of inventory would be partially offset by reduced availability under our credit facility. As a result, we cannot assure you that we will be able to finance our future expansion plans.

**Our expansion into new, unfamiliar markets presents increased risks that may prevent us from being profitable in these new markets.**

Pursuant to our growth strategy, we are opening stores in new markets. In these new markets, we may have less familiarity with local customer preferences, difficulties in attracting customers due to a reduced level of customer familiarity with our brand, difficulties in hiring a sufficient number of qualified store associates and other challenges. In addition, entry into new markets may bring us into competition with new, unfamiliar competitors. We cannot assure you that we will be successful in operating our stores in new markets on a profitable basis.

**Our expansion strategy includes further penetration of our existing markets, which could cause sales at our existing stores to decline.**

Pursuant to our expansion strategy, we are opening additional stores in our existing markets. Because our new, larger stores typically draw customers from a greater area, a new store may draw customers away from any existing stores in the general service area and may cause sales performance and customer counts at those existing stores to decline, which may adversely affect our overall operating results.

**We are expanding into new product areas, such as boats, with which we have limited experience and which may not be profitable for us.**

We recently announced an agreement to distribute Tracker boats through most of our stores. We have limited experience in selling boats and entering the boat business on a large scale represents a significant investment of resources by us. We may not realize a return on this investment and our boat business may not generate profits while diverting the attention of management and store-level personnel away from businesses with which we have greater familiarity. In addition, Tracker is affiliated with one of our primary competitors, Bass Pro Shops, which may adversely affect our relationship with Tracker.

We are continually looking for new products to introduce at our stores and believe that entering new product areas is an important part of our growth strategy. We cannot assure you that we will be able to identify new product areas or successfully introduce them at our stores. In addition, the identification, introduction and operation of these new businesses may distract our attention from existing product areas and adversely affect our overall operating results.

**An inability to find suitable new store sites or delays in new store openings could materially affect our financial performance.**

In order to meet our growth objectives, we will need to secure an adequate number of suitable new store sites. We require that all proposed store sites satisfy our criteria regarding cost and location. In addition, we are experiencing increased competition for store sites as our competitors seek to expand. Local land use and other regulations applicable to the types of stores we desire to construct may impact our ability to find suitable locations, and also influence the cost of constructing new stores. We cannot

assure you that we will be able to find a sufficient number of suitable new sites for any planned expansion in any future period.

Our expected financial performance is based on our new stores opening on expected dates. It is possible that events such as problems with our credit, delays in the entitlements process or construction delays caused by permitting or licensing issues, material shortages, labor issues, weather delays or other acts of god, discovery of contaminants, accidents, deaths or injunctions could delay planned new store openings beyond their expected dates or force us to abandon planned openings altogether. Any failure on our part to recognize or respond to these issues may adversely affect our sales growth, which in turn may adversely affect our future operating results.

**If we lose key management or are unable to attract and retain the talent required for our business, our operating results and financial condition could suffer.**

Our performance depends largely on the leadership efforts and abilities of our senior management and other key employees. None of our employees, except certain senior executive officers, have an employment agreement with us and we do not have key person insurance covering any of our employees. If we lose the services of one or more of our key employees, we may not be able to successfully manage our business or achieve our growth objectives. As our business grows, we will need to attract and retain additional qualified personnel in a timely manner.

**We rely on a single distribution center, and if there is a natural disaster or other serious disruption at the facility, we may be unable to deliver merchandise effectively to our stores.**

We rely on a single distribution center in Lebanon, Indiana. Any natural disaster or other serious disruption at this facility due to fire, tornado, flood or any other cause could damage our on-site inventory or impair our ability to use our distribution center as a docking location for merchandise. While we maintain business interruption insurance, as well as general property insurance, the amount of insurance coverage may not be sufficient to cover our losses in such an event. Any of these occurrences could impair our ability to adequately stock our stores and harm our operating results.

**Our planned growth may strain our business infrastructure, which could adversely affect our operations and financial condition.**

Over time, we expect to significantly expand the size of our retail store network. As we grow, we will face the risk that our existing resources and systems, including management resources, accounting and finance personnel and operating systems, may be inadequate to support our growth. We cannot assure you that we will be able to retain the personnel or make the changes in our systems that may be required to support our growth. Failure to secure these resources and implement these systems could have a material adverse effect on our operating results. In addition, the retention of additional personnel and the implementation of changes and enhancements to our systems will require capital expenditures and other increased costs that could also have a material adverse impact on our operating results.

Our expansion in new and existing markets may also create new distribution and merchandising challenges, including strain on our distribution center, an increase in information to be processed by our management information systems and diversion of management attention from operations towards the opening of new stores and markets. We intend to upgrade and replace certain of our current management information systems in order to support our growth strategy. Based on our current growth strategy, we will need to increase our distribution capabilities within the next few years, which could disrupt our business operations. To the extent that we are not able to meet these additional challenges, our sales could decrease and our operating expenses could increase.

**We are implementing substantial information systems changes in support of our business that might disrupt our operations.**

Our success depends on our ability to efficiently source, distribute and sell merchandise through our stores utilizing appropriate management information systems. We are in the process of implementing modifications to our technology that will involve updating or replacing our information systems with successor systems over the course of several years. There are inherent risks associated with replacing or modifying these systems, including supply chain disruptions that could affect our ability to deliver products to our stores in an efficient manner. In addition, in updating and replacing our systems, we may be unable to accurately capture and transfer data. We may be unable to successfully launch these new systems, the launch of these new systems could result in business disruptions or the actual cost may exceed the estimated cost of these new systems, any of which could have an adverse effect on our financial condition and results of operations. Additionally, there is no assurance that successfully implemented new systems will deliver the expected value to us.

**Our ability to operate profitably is uncertain.**

Through much of our history, we have experienced net losses and negative cash flow from operations. As of February 3, 2007, we had an accumulated deficit of \$51.7 million. We have increased our expenses significantly to expand our store base. We may not generate sufficient revenue to offset these expenditures and may incur losses that we would not incur if we developed our business more slowly. If our revenue grows more slowly than we anticipate, or if our cost of goods sold or operating expenses exceed our expectations, our operating results would be harmed and the trading price of our common stock could suffer.

**Our business depends on our ability to meet our labor needs.**

Our success depends in part upon our ability to attract, motivate and retain a sufficient number of qualified employees, including store managers, assistant managers, customer service representatives and store associates, who understand and appreciate our We Live Outdoors culture and are able to adequately represent this culture to our customers. Qualified individuals of the requisite caliber and number needed to fill these positions may be in short supply in some areas, and the turnover rate in the retail industry is high. If we are unable to hire and retain sales associates capable of consistently providing a high level of customer service, as demonstrated by their enthusiasm for our culture and knowledge of our merchandise, our business could be materially adversely affected. Although none of our employees is currently covered by collective bargaining agreements, we cannot guarantee that our employees will not elect to be represented by labor unions in the future, which could increase our labor costs. Additionally, competition for qualified employees could require us to pay higher wages to attract a sufficient number of employees. An inability to recruit and retain a sufficient number of qualified individuals in the future may delay the planned openings of new stores. Any such delays, any material increases in employee turnover rates at existing stores or any increases in labor costs could have a material adverse effect on our business, financial condition or operating results.

**If we fail to anticipate changes in consumer demands, including regional preferences, in a timely manner, our operating results could suffer.**

Our products appeal to consumers who regularly hunt, fish, camp and boat. The preferences of these consumers cannot be predicted with certainty and are subject to change. In addition, due to different types of fish and game stocks and different weather conditions found in different markets, it is critical that our stores stock appropriate products for their markets. Our success depends on our ability to identify product trends in a variety of markets as well as to anticipate, gauge and react to changing consumer demands in these markets in a timely manner. If we misjudge the market for our products, our sales may decline

significantly and we may face significant excess inventory of some products and missed opportunities for other products, which could harm our operating results.

**Our ability to use certain of our trademarks in direct marketing activities is uncertain.**

We and one of our competitors, Cabela's Incorporated, have a dispute regarding the enforceability and scope of a non-competition agreement entered into in 1996. Although the non-competition provisions of the agreement expired in June 2003, our competitor contends that a contingent trademark licensing provision may require us to grant it a license that would restrict our ability to use certain of our trademarks that were in existence in 1996 in a direct marketing business (as defined in the agreement). In July 2004, we filed a complaint in the U.S. District Court for the District of Minnesota seeking clarification as to the interpretation and enforceability of the non-competition agreement. In August 2005, our complaint was dismissed without resolving our competitor's counterclaim to enforce the contingent trademark provision. In December 2005, the court denied our motion to amend the complaint but granted our motion to amend our reply to the counterclaim, which permits us to raise our issues regarding the enforceability and scope of the contingent trademark provision. We and our competitor have both filed motions for summary judgment in this lawsuit. We are not able to predict the ultimate outcome of this litigation, but it may be costly and disruptive. The total costs may not be reasonably estimated at this time. The contested agreement with Cabela's affects only the use of certain trademarks and does not prohibit us from engaging in Internet and catalog sales activities utilizing other trademarks not in dispute. Although the outcome of this dispute may impact the manner in which we market our products in certain distribution channels in the future, it is not expected to have any impact on the marketing of our products through our retail stores.

**We may be named in litigation, which may result in substantial costs and divert management's attention and resources.**

**We face legal risks in our business, including claims from disputes with our employees and our former employees and claims associated with product liability. Risks associated with legal liability often are difficult to assess or quantify and their existence and magnitude can remain unknown for significant periods of time. While we maintain director and officer insurance, as well as general and product liability insurance, the amount of insurance coverage may not be sufficient to cover a claim and the continued availability of this insurance cannot be assured. We may in the future be the target of litigation and this litigation may result in substantial costs and divert management's attention and resources.**

**Our comparable store sales will fluctuate and may not be a meaningful indicator of future performance.**

Our comparable store sales have fluctuated significantly. Changes in our comparable store sales results could adversely affect the price of our common stock. Among the factors that have historically affected, and will continue to affect, our comparable store sales are: competition, our new store openings, general and regional economic conditions, consumer trends and preferences, timing and effectiveness of promotional events, loss of key vendors, disruption to our supply chain, seasonality, natural disasters and adverse weather. There is no assurance that we will be able to maintain or increase our comparable store sales over time.

**Our computer hardware and software systems are vulnerable to damage that could harm our business.**

Our success, in particular our ability to successfully manage inventory levels, largely depends upon the efficient operation of our computer hardware and software systems. We use management information systems to track inventory information at the store level, communicate customer information and aggregate daily sales, margin and promotional information. These systems are vulnerable to damage or interruption from:

- fire, flood, tornado and other natural disasters;



- power loss, computer system failures, internet and telecommunications or data network failures, operator negligence, improper operation by or supervision of employees, physical and electronic loss of data or security breaches, misappropriation and similar events;
- computer viruses; and
- upgrades, installations of major software releases and integration with new systems.

Any failure that causes an interruption in our systems processing could disrupt our operations and result in reduced sales. We have centralized the majority of our computer systems in our corporate office. It is possible that an event or disaster at our corporate office could materially and adversely affect the performance of our company and the ability of each of our stores to operate efficiently.

**If any of our key vendors or manufacturers fails to supply us with merchandise or changes key business terms, we may not be able to meet the demands of our customers and our sales could decline.**

We depend on merchandise purchased from our vendors and sourced from third-party manufacturers to obtain products for our stores. Our vendors and manufacturers could discontinue selling products to us at any time. The loss of any key vendor or manufacturer for any reason could limit our ability to offer products that our customers want to purchase. In addition, we believe many of our vendors obtain their products from China, Taiwan, Korea, Mexico and other foreign countries and we source products from third-party manufacturers in foreign countries. A vendor could discontinue selling to us products manufactured in foreign countries at any time for reasons that may or may not be in our control or the vendor's control, including foreign government regulations, political or financial unrest, war, trade restrictions, tariffs, currency exchange rates, the outbreak of pandemics, disruption or delays in shipments, port security, changes in local economic conditions and other issues. In addition, to the extent that any foreign supplier utilizes labor or other practices that vary from those commonly accepted in the U.S., we could be adversely affected by any resulting negative publicity or otherwise. Changes in commercial practices of our key vendors or manufacturers, such as changes in vendor support and incentives or changes in credit or payment terms, could negatively impact our results. Our operating results could also suffer if we are unable to promptly replace a vendor or manufacturer who is unwilling or unable to satisfy our requirements with a vendor or manufacturer providing equally appealing products.

**We may pursue strategic acquisitions, which could have an adverse impact on our business.**

We have considered acquisitions in the past and we may from time to time acquire complementary businesses in the future. Acquisitions may result in difficulties in assimilating acquired companies, and may result in the diversion of our capital and our management's attention from other business issues and opportunities. We may not be able to successfully integrate companies that we acquire, including their personnel, financial systems, distribution, operations and general store-operating procedures. If we fail to successfully integrate acquired companies, our business could suffer. In addition, the integration of any acquired business, and its financial results, into ours may adversely affect our operating results.

#### ***Risks Related to Our Industry***

**A downturn in the economy may affect consumer purchases of discretionary items, which could harm our operating results.**

In general, our sales result from discretionary spending by our customers. Discretionary spending is affected by many factors, including, among others:

- weather,
- general business conditions,

- interest rates,
- inflation,
- the availability of consumer credit and consumer debt levels,
- taxation,
- energy and fuel prices,
- unemployment trends,
- natural disasters,
- terrorist attacks and acts of war, and
- other matters that influence consumer confidence and spending.

Changes in energy costs impact our business, both by influencing the cost of operating our stores and transporting goods, and by affecting consumer spending patterns. Our customers' purchases of discretionary items, including our products, could decline during periods when disposable income is lower or periods of actual or perceived unfavorable economic conditions. If this occurs, our operating results could suffer.

**Competition in the outdoor products industry could limit our growth and harm our operating results.**

The retail market for outdoor products is highly fragmented and competitive, with competition increasing in recent periods. Our current and prospective competitors include many large companies that have substantially greater market presence, name recognition, and financial, marketing and other resources than we do. In addition, most of our largest competitors have undertaken accelerated growth strategies. We compete directly or indirectly with the following categories of companies:

- large format entertainment-focused outdoor retailers, such as Bass Pro Shops and Cabela's;
- other outdoor-focused chains, such as Sportsman's Warehouse;
- catalog and Internet-based retailers, such as Bass Pro Shops, Cabela's, and The Sportsman's Guide;
- traditional sporting goods chains, such as Dick's Sporting Goods, The Sports Authority and Academy;
- discount chains and mass merchants, such as Wal-Mart, Kmart and Target Corporation;
- ATV and boat dealers, local specialty stores and repair shops; and
- marinas and marine supply stores, such as West Marine and Boater's World.

Pressure from our competitors could require us to reduce our prices or increase our spending for advertising and promotion, which could erode our margins. Increased competition in markets in which we have stores or the adoption by competitors of innovative store formats, aggressive pricing strategies and retail sale methods, such as the Internet, could cause us to lose market share and could have a material adverse effect on our business, financial condition and results of operations.



**We may be subject to product liability claims relating to our sale of outdoor equipment and firearms, and our insurance may not be sufficient to cover damages related to those claims.**

We may incur damages due to lawsuits relating to outdoor equipment that we sell. For example, we sell tree stands, which are equipment that hunters attach to trees to allow them to sit above the ground while hunting, and we have been sued in the past and may incur damages in the future due to lawsuits relating to injuries or deaths associated with the tree stands sold by us. We may also be subject to lawsuits relating to the design, manufacture or sale of our owned-brand products. In addition, we sell and service rifles, shotguns and handguns, along with archery equipment, which are products that are associated with an increased risk of injury and death. We may incur damages due to lawsuits relating to the improper use of firearms sold by us, including lawsuits by municipalities or other organizations attempting to recover costs from firearm manufacturers and retailers relating to the misuse of firearms. We may be subject to lawsuits relating to our performance of background checks on firearms purchasers as mandated by state and federal law. We also sell and service boats and all-terrain vehicles (ATVs), which are motorized vehicles designed for off-road use. Lawsuits relating to the products we sell could result in substantial liability, which would adversely affect our business and financial condition. There is a risk that claims or liabilities relating to products we sell will exceed our insurance coverage and we may be unable to retain adequate liability insurance in the future. In addition, the commencement of lawsuits against us relating to our sale of outdoor equipment or firearms could cause us to reduce our sales of those products.

**Increased regulation of the sale of firearms could cause us to reduce our firearm sales, which could harm our operating results.**

Increased federal, state or local regulation, including taxation, of the sale of firearms in our current markets or in future markets in which we may operate could cause us to reduce our firearm sales or adversely affect our margins on these sales. Sales of firearms represent a significant percentage of our net sales and are critical in drawing customers to our stores. A substantial reduction in our sales or margins on sales of firearms due to the establishment of new regulations could harm our operating results.

**Some of the products and services we sell are highly regulated, which could lead to high compliance costs.**

We are subject to regulation by the Bureau of Alcohol, Tobacco, Firearms and Explosives, the Consumer Product Safety Commission, the Occupational Safety and Health Administration and similar state regulatory agencies. If we fail to comply with government and industry safety standards, we may be subject to claims, lawsuits, fines and adverse publicity that could have a material adverse effect on our business, results of operations and financial condition. In addition, regulations issued by the Bureau of Alcohol, Tobacco, Firearms and Explosives may delay our ability to change certain of our officers and prohibit some individuals from serving in certain of our offices.

***Risks Related to Our Common Stock***

**Pratt family members, Erickson family members and their affiliates collectively own a controlling interest in our company and these individuals and entities may have interests that differ from those of our other shareholders.**

Members of the Pratt family, the Erickson family and their affiliates collectively own a controlling interest in us through a combination of their individual stock ownership and their beneficial interest in certain entities that hold our shares. While neither the Pratt family nor the Erickson family, together with their respective affiliates, owns a controlling interest in our company, each of them owns in excess of 30% of our outstanding voting stock. As a result, these shareholders are able to individually influence and collectively control matters requiring approval by our shareholders, including the election of directors and the approval of mergers or other extraordinary transactions. They may have interests that differ from or otherwise conflict with those of other shareholders and may vote in a way with which you disagree and that

may be adverse to your interests. The concentration of ownership may have the effect of delaying, preventing or deterring a change in control of our company, could deprive our shareholders of an opportunity to receive a premium for their common stock as part of a sale of our company and might ultimately affect the market price of our common stock.

No members of the Pratt family, the Erickson family or their affiliates are subject to any contractual obligations to retain their interests. Certain individual members of the Erickson family and certain of the entities described above have rights to cause us to register their shares. A sale by these shareholders of a large interest in us, or the perception that such a sale could occur, could cause the market price of our common stock to decline significantly.

**Conflicts of interest may arise as a result of the significant interest in our company held by the Pratt family, the Erickson family and their affiliates.**

Conflicts of interest may arise as a result of the significant ownership interests in us by the Pratt family, the Erickson family and their affiliates. David C. Pratt is the chairman of our board of directors and two members of our board of directors are members of the Erickson family, including Ronald Erickson, our vice chairman, and Gerald Erickson. We may face unavoidable conflicts of interest when our board of directors faces decisions that affect both us and either Pratt family or Erickson family interests.

**We can issue shares of preferred stock without shareholder approval, which could adversely affect the rights of common shareholders.**

Our articles of incorporation permit us to establish the rights, privileges, preferences and restrictions, including voting rights, of future series of our preferred stock and to issue such stock without approval from our shareholders. The rights of holders of our common stock may suffer as a result of the rights granted to holders of preferred stock that may be issued in the future. In addition, we could issue preferred stock to prevent a change in control of our company, depriving common shareholders of an opportunity to sell their stock at a price in excess of the prevailing market price.

**Certain provisions of Minnesota law may make a takeover of our company more difficult, depriving shareholders of opportunities to sell shares at above-market prices.**

Certain provisions of Minnesota law may have the effect of discouraging attempts to acquire us without the approval of our board of directors. Section 302A.671 of the Minnesota statutes, with certain exceptions, requires approval of any acquisition of the beneficial ownership of 20% or more of our voting stock then outstanding by a majority vote of our shareholders prior to its consummation. In general, shares acquired in the absence of such approval are denied voting rights and are redeemable by us at their then-fair market value within 30 days after the acquiring person failed to give a timely information statement to us or the date the shareholders voted not to grant voting rights to the acquiring person's shares. Section 302A.673 of the Minnesota statutes generally prohibits any business combination by us, or any of our subsidiaries, with an interested shareholder, which includes any shareholder that purchases 10% or more of our voting shares within four years following such interested shareholder's share acquisition date, unless the business combination is approved by a committee of all of the disinterested members of our board of directors before the interested shareholder's share acquisition date. Consequently, our common shareholders may lose opportunities to sell their stock for a price in excess of the prevailing market price due to these protective measures.

**The price of our common stock is volatile.**

The trading price of our common stock fluctuates substantially. These fluctuations could cause you to lose part or all of your investment in our shares of common stock. The factors that could cause fluctuations include, but are not limited to, the following:

- price and volume fluctuations in the overall stock market from time to time;
- significant volatility in the market price and trading volume of outdoor and sporting goods companies and other retail companies;
- relatively few shares available for public trading;
- actual or anticipated changes in our sales and earnings, fluctuations in our operating results or the failure to meet the expectations of financial market analysts and investors;
- investor perceptions of the outdoor products, sporting goods and marine industries, the retail industry in general and our company in particular;
- the operating and stock performance of comparable companies;
- general economic conditions and trends;
- major catastrophic events;
- changes in accounting standards, policies, guidance, interpretation or principles;
- adverse weather conditions in our markets;
- regulatory changes;
- loss of external funding sources;
- sales of large blocks of our stock or sales by insiders; or
- departures of key personnel.

**We do not anticipate paying cash dividends on our shares of common stock in the foreseeable future.**

We have never declared or paid any cash dividends on our shares of common stock. We currently intend to retain all future earnings for the operation and expansion of our business and do not anticipate paying cash dividends on our shares of common stock in the foreseeable future. Any payment of cash dividends in the future will be at the discretion of our board of directors and will depend upon our results of operations, earnings, capital requirements, contractual restrictions, outstanding indebtedness and other factors deemed relevant by our board of directors. In addition, our credit facility restricts our ability to pay cash dividends or other non-stock distributions on any shares of our capital stock.

**ITEM 1B. UNRESOLVED STAFF COMMENTS**

None.

**ITEM 2. PROPERTIES**

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Our corporate headquarters are located in Saint Paul, Minnesota where we lease approximately 63,000 square feet. The initial term of this lease expires March 31, 2020, and is subject to two renewal options of five years each. Renewal rent is to be established at the then-current market rate. This lease also provides us with expansion options.

28

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We currently lease 427,000 square feet in two buildings for our distribution center in Lebanon, Indiana. The first building is approximately 225,000 square feet with an initial lease term that expires in 2011 and is subject to multiple five-year renewal options and rent escalation provisions. The second building is approximately 202,000 square feet with an initial lease term that expires in 2010 and is subject to multiple one-year renewal options and rent escalation provisions.

We lease all of our 105 stores, which are in various locations in Alabama, Arkansas, Colorado, Florida, Illinois, Indiana, Iowa, Kansas, Kentucky, Maryland, Michigan, Minnesota, New York, North Carolina, North Dakota, Ohio, Pennsylvania, Tennessee, Texas, Virginia, West Virginia and Wisconsin. Our Bemidji, Minn., store is leased from Holiday Stationstores, Inc., a company controlled by the Erickson family. Our stores are generally leased for 10 to 15 years, and most leases contain multiple five-year renewal options and rent escalation provisions.

### ITEM 3. LEGAL PROCEEDINGS

**Trademark Litigation** On July 2, 2004, we filed a complaint in the U.S. District Court for the District of Minnesota seeking declaratory relief that the contingent trademark licensing provision of a noncompetition agreement dated May 16, 1996, made between our predecessor and Cabela's Incorporated, is invalid and unenforceable. Although the noncompetition provisions of the noncompetition agreement expired in June 2003, Cabela's contends that a contingent trademark licensing provision of the noncompetition agreement now requires us to grant Cabela's a license that would preclude our use of certain of our trademarks for direct marketing purposes.

On August 18, 2005, the court ruled that the contingent trademark licensing provision is not legally invalid as a noncompetition agreement and dismissed our complaint. The court also acknowledged that it had not been asked at that point to determine, and was not determining, the scope of the contingent trademark license or the parties' respective rights thereunder. In December 2005, the court granted our motion to file an amended reply to Cabela's counterclaim, in which we raised multiple additional issues regarding the validity, enforceability, and interpretation of any trademark rights allegedly possessed by Cabela's, and any limitations upon our rights to engage in certain marketing activities under the trademarks at issue. These issues remain before the court. Discovery is currently underway. Both parties have filed motions for summary judgment. Trial, if necessary, will be scheduled sometime after a ruling on the parties' motions for summary judgment.

We are not able to predict the ultimate outcome of this litigation, but it could be costly and disruptive. The total costs may not be reasonably estimated at this time. The outcome of this dispute may impact the manner in which we market our products in certain distribution channels in the future. An adverse result is not expected to have an affect on any current use that we make of our trademarks or the marketing of our products through our retail stores. Nor would an unfavorable result preclude us from engaging in direct marketing activities such as catalog and internet sales. A favorable result would confirm our right to use the subject trademarks in all direct marketing.

**Other Legal Claims** Various claims and lawsuits arising in the normal course of business may be pending against us from time to time. The subject matter of these proceedings typically relate to commercial disputes and employment issues. As of the date of this report, we are not a party to any legal proceedings that are expected, individually or in the aggregate, to have a material adverse effect on our financial condition or results of operations.

### ITEM 4. SUBMISSION OF MATTERS TO A VOTE OF SECURITY HOLDERS

No matters were submitted to a vote of security holders during the fourth quarter of fiscal year 2006.



**PART II****ITEM 5. MARKET FOR REGISTRANT'S COMMON EQUITY, RELATED STOCKHOLDER MATTERS AND ISSUER PURCHASES OF EQUITY SECURITIES**

Shares of our common stock are traded on the Nasdaq Global Market under the symbol GMTN. Our common stock began trading on April 21, 2004. The following table shows the high and low sales prices of our common stock on the Nasdaq Global Market for the periods indicated:

	<b>High</b>	<b>Low</b>
<b>Fiscal 2006:</b>		
First Quarter	\$ 9.90	\$ 6.05
Second Quarter	\$ 9.97	\$ 5.01
Third Quarter	\$ 7.75	\$ 4.95
Fourth Quarter	\$ 10.49	\$ 7.31
<b>Fiscal 2005:</b>		
First Quarter	\$ 14.59	\$ 8.33
Second Quarter	\$ 13.19	\$ 9.79
Third Quarter	\$ 12.56	\$ 4.90
Fourth Quarter	\$ 7.76	\$ 4.43

On April 2, 2007, the last reported sale price for shares of our common stock on the Nasdaq Global Market was \$10.92 per share.

 **Holders**

There were 77 holders of record of our common stock as of April 2, 2007.

 **Issuer Purchases of Equity Securities**

We did not make any purchases of our equity securities during the fourth quarter of fiscal year 2006.

 **Dividends**

We have never declared or paid any cash dividends on our shares of common stock. We currently intend to retain all future earnings for the operation and expansion of our business and do not anticipate paying cash dividends on our shares of common stock in the foreseeable future. Any payment of cash dividends in the future will be at the discretion of our board of directors and will depend upon our results of operations, earnings, capital requirements, contractual restrictions, outstanding indebtedness and other factors deemed relevant by our board of directors. In addition, our credit facility restricts our ability to pay cash dividends or other non-stock distributions on any shares of our capital stock.

**Company Stock Performance**

The following graph compares the quarterly change in the cumulative total shareholder return on our common stock from April 21, 2004, which is the day our common stock began to trade publicly, through February 3, 2007 with the cumulative total return on the Nasdaq Composite Index and S&P Retailing Index. The comparison assumes \$100 was invested on April 21, 2004 in our common stock and in each of the foregoing indices and assumes that dividends were reinvested when and as paid. We have not declared dividends on our common stock. You should not consider shareholder return over the indicated period to be indicative of future shareholder returns.

**COMPARISON OF 35 MONTH CUMULATIVE TOTAL RETURN\***

Among Gander Mountain Company, The NASDAQ Composite Index  
And The S&P Retailing Group

\* \$100 invested on 4/21/04 in stock or on 3/31/04 in index-including reinvestment of dividends.

Indexes calculated on month-end basis.

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	April 21, 2004	April 30, 2004	July 31, 2004	October 30, 2004	January 29, 2005	April 30, 2005	July 30, 2005	October 29, 2005	January 28, 2006	April 29, 2006	July 29, 2006	October 28, 2006	February 3, 2007
Gander Mountain Company	\$ 100.00	\$ 100.59	\$ 97.41	\$ 88.35	\$ 39.37	\$ 47.23	\$ 52.09	\$ 22.71	\$ 28.11	\$ 40.83	\$ 25.70	\$ 33.97	\$ 46.00
Nasdaq Composite Index	100.00	96.46	94.96	100.50	106.42	101.99	116.52	108.69	123.86	122.01	110.97	123.00	123.62
S&P Retailing Index	100.00	96.55	95.08	103.11	107.29	99.84	121.50	110.41	115.70	119.34	106.95	126.91	132.44



**ITEM 6. SELECTED FINANCIAL DATA**

The following selected financial data is qualified by reference to and should be read in conjunction with our financial statements and notes thereto included in Item 8 and our Management's Discussion and Analysis of Financial Condition and Results of Operations included in Item 7.

The selected financial data presented below under the heading Statement of Operations Data for the years ended February 3, 2007, January 28, 2006, and January 29, 2005 and the selected financial data presented below under the heading Balance Sheet Data as of February 3, 2007 and January 28, 2006 have been derived from our audited financial statements included under Item 8.

The selected financial data presented below under the heading Statement of Operations Data for the years ended January 31, 2004 and February 1, 2003 and the selected financial data presented below under the heading Balance Sheet Data as of January 31, 2004 and February 1, 2003 have been derived from our audited financial statements that are not required to be included in this report.

The fiscal year ended February 3, 2007 included 53 weeks. All other fiscal years presented include 52 weeks.

The unaudited selected financial data presented below under the heading Operating Data, for all periods have been derived from our internal records of our operations, except for Gross profit as a percentage of sales, which is derived from our audited financial statements.

	<b>Fiscal Year Ended(1)</b>				
	<b>February 3, 2007</b>	<b>January 28, 2006</b>	<b>January 29, 2005</b>	<b>January 31, 2004</b>	<b>February 1, 2003</b>
<b>(dollars in thousands, except per share data)</b>					
<b>Statement of Operations Data</b>					
Sales	\$ 911,438	\$ 804,474	\$ 644,014	\$ 489,530	\$ 357,441
Cost of goods sold(2)	686,722	612,029	479,662	370,532	271,991
Gross profit	224,716	192,445	164,352	118,998	85,450
Operating expenses:					
Store operating expenses(2)	167,456	154,542	121,575	86,125	67,122
General and administrative expenses	40,433	36,049	27,876	21,719	20,864
Pre-opening expenses	3,245	6,555	8,194	4,921	700
Gain on insurance settlement	(1,400 )				
Gain on contract settlement		(2,500 )			
Income (loss) from operations	14,982	(2,201 )	6,707	6,233	(3,236 )
Interest expense	19,187	11,106	5,137	4,760	7,314
Debt conversion charge	9,037				
Income (loss) before income taxes	(13,242 )	(13,307 )	1,570	1,473	(10,550 )
Income tax provision (benefit)					2,274
Net income (loss)	\$ (13,242 )	\$ (13,307 )	\$ 1,570	\$ 1,473	\$ (12,824 )
Loss applicable to common shareholders	\$ (13,242 )	\$ (13,307 )	\$ (2,735 )	\$ (15,050 )	\$ (22,881 )
Basic and diluted loss applicable to common shareholders per share	\$ (0.88 )	\$ (0.93 )	\$ (0.25 )	\$ (15.47 )	\$ (23.52 )

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Historical results are not necessarily indicative of the results of operations to be expected for future periods. See Note 2 and Note 15 to our financial statements included in this report for a description of the method used to compute basic and diluted net earnings (loss) per share.

	Fiscal Year Ended(1)				
	February 3, 2007	January 28, 2006	January 29, 2005	January 31, 2004	February 1, 2003
<b>Balance Sheet Data</b> (dollars in thousands)					
Cash and cash equivalents	\$ 1,342	\$ 1,580	\$ 1,033	\$ 970	\$ 591
Inventories, net	349,120	308,395	264,138	180,361	109,962
Total assets	521,617	458,930	385,843	249,701	156,723
Borrowings under credit facility	168,485	174,936	114,441	102,058	45,147
Capital lease obligations	12,894	11,650	12,349		
Unsecured convertible debt		20,000			
Notes payable to affiliate				9,840	
Total shareholders' equity	\$ 196,791	\$ 149,825	\$ 162,308	\$ 64,498	\$ 63,025

	Fiscal Year Ended (1)				
	February 3, 2007	January 28, 2006	January 29, 2005	January 31, 2004	February 1, 2003
<b>Operating Data</b> (dollars in thousands, except per square foot data)					
Comparable store sales increase / (decrease)(1)(3)	(1.1 )%	(6.0 )%	(2.5 )%	11.5 %	2.9 %
Number of stores at end of period	105	98	82	65	57
Total square feet at end of period	5,483,029	4,999,813	3,773,835	2,533,223	1,779,689
Sales per square foot(4)	\$ 175	\$ 180	\$ 205	\$ 227	\$ 203
Gross profit as a percentage of sales	24.7 %	23.9 %	25.5 %	24.3 %	23.9 %
Operating margin(5)	1.6 %	(0.3 )%	1.0 %	1.3 %	(0.9 )%
Adjusted EBITDA(6)	\$ 36,957	\$ 16,032	\$ 18,363	\$ 14,459	\$ 3,798

(1) Our fiscal year ends on the Saturday closest to the end of January, electing a 52-53 week fiscal year. All years presented herein include 52 weeks, except the fiscal year ended February 3, 2007, which includes 53 weeks. For the year ended February 3, 2007, the comparable stores sales decrease of -1.1% is based on a 53-week to 53-week comparison, and is not derived from a comparison to the 52-week year ended January 28, 2006.

(2) Beginning in fiscal 2004, we agreed with our vendors to eliminate proof-of-performance requirements on substantially all of our contracts. Accordingly, vendor monies that support our advertising programs are now recorded as a reduction in the cost of inventory, and are recognized as a reduction of cost of goods sold when the inventory is sold. Prior to fiscal 2004, vendor monies were accounted for as a reduction of advertising costs at the time the advertising programs occurred.

(3) For fiscal 2002 and fiscal 2003, a store was included in the comparable store base in its fourteenth full month of operations. A relocated store was returned to the comparable store base in its fourteenth full month of operations following relocation. Beginning in fiscal 2004, we include a store, including a relocated store, in the comparable store base in its fifteenth full month of operations. This change did not have a material impact on comparable store sales.

(4) Calculated based on the weighted average of the gross square footage in the period, which includes office, storage and receiving areas.

(5) Calculated based on operating income (loss) and sales for the period.



(6) Adjusted EBITDA consists of net income (loss) plus interest expense, plus income tax provision or minus income tax benefit, plus depreciation and amortization and plus debt conversion expense. This term, as we define it, may not be comparable to a similarly titled measure used by other companies and is not a measure of performance presented in accordance with U.S. generally accepted accounting principles. We use Adjusted EBITDA as a measure of operating performance because it assists us in comparing performance on a consistent basis, as it removes from our operating results the impact of our capital structure, which includes interest expense and depreciation and amortization. We also use Adjusted EBITDA to measure our compliance with covenants under our secured credit facility. We do not use it as a measure of liquidity. The funds depicted by Adjusted EBITDA are not necessarily available for discretionary use and exclude the impact of interest expense and income taxes. Adjusted EBITDA should not be considered as a substitute for net income or net loss, net cash provided by or used in operations, or other financial data prepared in accordance with U.S. generally accepted accounting principles, or as a measure of liquidity.

We believe Adjusted EBITDA is useful to an investor in evaluating our operating performance because:

- it is a widely accepted financial indicator of a company's ability to service its debt and it is used in determining compliance with certain covenants under our credit facility;
- it is widely used to measure a company's operating performance without regard to items such as depreciation and amortization, which can vary depending upon accounting methods and the book value of assets, and to present a meaningful measure of corporate performance exclusive of our capital structure and the method by which assets were acquired; and
- it helps investors to more meaningfully evaluate and compare the results of our operations from period to period by removing from our operating results the impact of our capital structure, primarily interest expense from our outstanding debt, and asset base, primarily depreciation and amortization of our property and equipment.

Our management uses Adjusted EBITDA:

- as a measurement of operating performance because it assists us in comparing our performance on a consistent basis, as it removes from our operating results the impact of our capital structure, which includes interest expense from our outstanding debt, and our asset base, which includes depreciation and amortization of our property and equipment;
- to measure our compliance with certain covenants under our secured credit facility; and
- in presentations to the members of our board of directors to enable our board to have the same consistent measurement basis of operating performance used by management.

The following table provides a reconciliation of net income (loss) to Adjusted EBITDA:

	Fiscal Year Ended(1)				
	February 3, 2007	January 28, 2006	January 29, 2005	January 31, 2004	February 1, 2003
	(dollars in thousands)				
Net income (loss)	\$ (13,242 )	\$ (13,307 )	\$ 1,570	\$ 1,473	\$ (12,824 )
Income tax provision					2,274
Interest expense	19,187	11,106	5,137	4,760	7,314
Debt conversion charge	9,037				
Depreciation and amortization(7)	21,975	18,233	11,656	8,226	7,034
Adjusted EBITDA	\$ 36,957	\$ 16,032	\$ 18,363	\$ 14,459	\$ 3,798

(7) Excludes amortization of loan origination fees which are included in interest expense.

34

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**ITEM 7. MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS**

The following discussion may contain forward-looking statements regarding us, our business prospects and our results of operations that are subject to certain risks and uncertainties posed by many factors and events that could cause our actual business, prospects and results of operations to differ materially from those that may be anticipated by such forward-looking statements. Factors that could cause or contribute to such differences include, but are not limited to, those described in Item 1A - Risk Factors. Readers are cautioned not to place undue reliance on these forward-looking statements, which speak only as of the date of this report. We undertake no obligation to revise any forward-looking statements in order to reflect events or circumstances that may subsequently arise. Readers are urged to carefully review and consider the various disclosures made by us in this report and in our other reports filed with the Commission that advise interested parties of the risks and factors that may affect our business.

**Overview**

Gander Mountain Company operates the nation's largest retail network of stores specializing in hunting, fishing, camping, marine and outdoor lifestyle products and services. We have expanded our store base to 105 conveniently located Gander Mountain outdoor lifestyle stores, providing approximately 5.5 million square feet of retail space in 22 states: Alabama, Arkansas, Colorado, Florida, Illinois, Indiana, Iowa, Kansas, Kentucky, Maryland, Michigan, Minnesota, New York, North Carolina, North Dakota, Ohio, Pennsylvania, Tennessee, Texas, Virginia, West Virginia and Wisconsin. We anticipate opening 13 new stores in 2007, including three relocations.

Our core strategy and focus is to provide our target customers with a unique combination of a broad assortment of outdoor equipment, accessories, related technical apparel and footwear; expert services; convenient locations and value pricing. Our stores feature an extensive selection of leading national and regional brands as well as our company's owned brands. We tailor our merchandise assortments to take advantage of our customers' seasonal and regional or local preferences. We seek to combine this broad product offering with superior customer service based on our store associates' extensive product knowledge and outdoor-related experience.

Since its origin in 1960, our brand name has had a heritage of strong appeal and relevance to consumers who participate in outdoor sports and recreation activities, based on our "We Live Outdoors" culture and theme. From 1960 to 1996, our predecessor operated a nationwide catalog business that, by 1996, included 17 retail stores. In 1996 and 1997, Holiday Companies, which at the time owned and operated a group of retail sporting goods stores, acquired these Gander Mountain retail stores, formed our company and began to build a new outdoor lifestyle business.

In March 2003, we began transforming our market position from a traditional specialty store to a large-format, category-focused store by opening new stores in a large format and increasing the selling space within our original, small-format stores. Prior to March 2003, our typical store was approximately 31,000 square feet. Our large-format stores range from approximately 50,000 to 100,000 square feet, with our current focus primarily upon stores of 60,000 to 65,000 square feet with an outside selling area. Our large-format stores generally are located with convenient access to a major highway and have a warehouse-style shopping environment characterized by concrete floors, open-bar joist ceilings, high-density racking and wide aisles. To further build upon our brand's reputation for high quality and exceptional value, we are outfitting certain stores with additional features such as brick and stone accents, log-wrapped columns, and improved branding, fixture, flooring and signage elements.

The larger format enables us to offer more products and services to our customers. Most of our large-format stores offer all-terrain vehicles (ATVs). In January 2007, we and Tracker Marine Group, a division of Bass Pro Shops, announced that effective in spring 2007, the popular Tracker Marine Group boat

brands will be featured in our stores. Brand offerings will be tailored in each location based on market and store dynamics and customer preferences. For the spring 2007 season, the initial rollout of the Tracker brands will occur in approximately 35 to 40 of our large-format stores. In 2006, approximately 10 stores carried an assortment of fishing and recreational boats. Our large-format stores offer unique features and specialized services, including a full-service gunsmith shop, a full-service archery pro shop, archery target lanes, and a power shop performing repairs for ATVs, boats and other engines. Some of the large-format stores also include a bait shop that opens early for the convenience of our customers. Nearly all of our stores have a Gander Mountain Lodge, which is an in-store meeting room available for public use, where we provide hunter safety classes, outdoor-skills seminars and other community-focused activities. We utilize outside selling areas adjacent to some of our large-format stores to display additional offerings of larger items such as ATVs, boats, kayaks, trailers and canoes. These increase the efficiency of our stores and also give those products greater visibility. As of February 3, 2007, 55 of our 105 stores were in our large format.

We are utilizing several strategic and operating initiatives aimed at improving our merchandise offerings, enhancing profitability and expanding the number and geographic diversity of our stores. We measure performance using such key operating statistics as comparable store sales, sales per square foot, gross margin percentage and store operating expenses, with a focus on labor, as a percentage of sales.

We also measure and evaluate investments in our retail locations, including inventory and property and equipment. Inventory performance is primarily measured by inventory per square foot and by inventory turns, or the number of times store inventory turns over in a given period, and amounts of owned inventory at various times based on payment terms from our vendors. The most significant investments in property and equipment are made at the time a store is opened by us.

We believe that the overall growth of our business will allow us to generally maintain or increase our product gross margins. Increased merchandise volumes should enable us to improve our purchasing leverage and achieve greater support throughout the supply chain. The mix of merchandise in our total sales also influences our product gross margins. As we continue sales and store growth, a number of other factors may impact, positively or negatively, our product gross margin percentage, including:

- the introduction of new product categories with varying gross margin percentage characteristics,
- changes in the merchandise mix at our current locations,
- differences in merchandise mix by geographic location,
- price competition,
- clearance activities in connection with seasonal inventory management,
- closeout sales in connection with store relocations and consolidations,
- sourcing of products from locations outside the United States,
- vendor programs, and
- supply chain enhancements.

In addition, our gross margin is impacted by store occupancy and distribution costs. We monitor these costs in absolute dollars and as a percentage of sales.

The most significant store operating expenses are labor and related employee benefits and advertising. Our employee benefits include health insurance, the cost of which continues to increase faster than the general rate of inflation. We continually monitor this cost and review strategies to effectively control increases, but we are subject to the overall trend of increases in health care costs. Advertising costs are

monitored as a percentage of sales. These costs are largely variable, which allows us to actively manage them to facilitate achieving our sales, gross margin percentage and store operating contribution objectives.

Store operating contribution, which is calculated by deducting a store's operating expenses from its gross margin, is used to evaluate overall performance on an individual store basis.

General and administrative expenses are monitored and controlled as a percentage of sales. We have made significant investments in infrastructure, including our information systems, distribution capabilities and personnel. Our current infrastructure facilitates our planned opening of stores. We expect these expenses to decrease as a percentage of sales over time.

Pre-opening expenses will continue to be related to store openings, including relocations. These expenses will fluctuate based on the number and timing of new store openings.

Inventory turns are based on cost of sales and average inventory for the applicable period. We recognize that our inventory turns may be lower than those of other retailers, which we believe is due, in part, to the categories of merchandise we carry, including firearms, and the large quantities of merchandise we use in our in-store displays. We believe we have the opportunity to enhance our supply chain to improve our inventory turns. Additionally, in merchandise categories that experience slower inventory turns, we continue to work with vendors to increase our trade credit terms to reduce our investment in owned inventory. We cannot assure you that we will be able to improve our inventory turns or inventory investment.

Identification of appropriate new store sites is essential to our growth strategy. We believe our focus on our larger store size and our ability to utilize either recycled, or second-use, facilities or build-to-suit locations provides us with increased opportunities to find optimal real estate locations on attractive terms. We evaluate and invest in new stores based on site-specific projected returns on investment.

## Results of Operations

The following table presents, for the periods indicated, selected items in the statements of operations as a percentage of our sales:

	Fiscal Year Ended		
	53 weeks February 3, 2007(1)	52 weeks January 28, 2006	52 weeks January 29, 2005
Sales	100 %	100 %	100 %
Cost of goods sold	75.3 %	76.1 %	74.5 %
Gross profit	24.7 %	23.9 %	25.5 %
Operating expenses:			
Store operating expenses	18.4 %	19.2 %	18.9 %
General and administrative expenses	4.4 %	4.5 %	4.3 %
Pre-opening expenses	0.4 %	0.8 %	1.3 %
Gain on insurance settlement	(0.2 )%		
Gain on contract settlement		(0.3 )%	
Income (loss) from operations	1.6 %	(0.3 )%	1.0 %
Interest expense, net	2.1 %	1.4 %	0.8 %
Debt conversion charge	1.0 %		
Income (loss) before income taxes	(1.5 )%	(1.7 )%	0.2 %
Income tax provision			
Net income (loss)	(1.5 )%	(1.7 )%	0.2 %

(1) Column does not add due to rounding

Sales consist of sales from comparable stores, new stores and non-comparable stores. A store is included in the comparable store base in its fifteenth full month of operations. A relocated store returns to the comparable store base in its fifteenth full month after relocation. New store sales include sales from stores we opened during the current period. Non-comparable store sales include sales in the current period from our stores opened during the previous fiscal year before they have begun their fifteenth month of operation. During the quarter ended July 31, 2004, we changed this internal measurement from the fourteenth month to the fifteenth month to better reflect comparable sales activity in the stores and minimize the effect of grand opening activities.

Cost of goods sold includes the cost of merchandise, freight, distribution, inventory shrinkage and store occupancy costs. Store occupancy costs include rent, real estate taxes and common area maintenance charges.

Store operating expenses include store associate payroll, taxes and fringe benefits, advertising, maintenance, utilities, depreciation, insurance, bank and credit card charges and other store level expenses.

General and administrative expenses include all expenses associated with operating our corporate headquarters.

Pre-opening expenses consist primarily of payroll, rent, recruiting, advertising and other costs incurred prior to a new store opening.

***Fiscal Year Ended February 3, 2007 compared to Fiscal Year Ended January 28, 2006***

*Sales.* Sales increased by \$107.0 million, or 13.3%, to \$911.4 million in fiscal 2006 from \$804.5 million in fiscal 2005. The increase resulted from sales of \$118.4 million from fiscal 2006 and fiscal 2005 new stores not included in the comparable store sales base, a comparable store sales increase of \$2.3 million and a \$13.7 million sales decrease from stores closed during 2006 but open during 2005 and changes in other revenue. Our comparable store sales decline of 1.1% is the result of comparing the 53 weeks of fiscal 2006 to 53 weeks, not the actual 52 weeks, for fiscal 2005. In fiscal 2006, we opened eight new stores, including one relocated store, and added 500,000 square feet of retail selling space, a 9.7% increase. During fiscal 2005, we opened 19 new stores, including two relocated stores, and added 1.2 million square feet of retail selling space, a 33% increase.

Comparable store sales decreased 1.1% for fiscal 2006 primarily from weak sales in our first half of fiscal 2006. Comparable store sales in our fiscal third quarter increased 7.4% and were approximately flat in our fiscal fourth quarter at 0.4%. Our fiscal fourth quarter was negatively impacted by particularly warm weather in our northern states in December, which adversely affected apparel and footwear. The slower first half of fiscal 2006 is primarily reflective of (i) reduced spending in advertising and promotions, (ii) our focus on our Everyday Low Price strategy that resulted in fewer promotions to drive customer traffic, and (iii) lower levels of clearance merchandise available to customers. Cannibalization from some of the new store openings and new competition entering some of our markets continues to reduce our overall level of comparable store sales.

Overall, the sales mix for fiscal 2006 was relatively consistent with fiscal 2005 with no product category changing its sales mix more than 1%, except the firearms/ammunition category. Our firearms/ammunition category continues to gain market share with a significant increase in comparable stores sales and increased sales penetration of 170 basis points. The power sports category increased its sales penetration by 60 basis points, driven largely by ATV sales at new large-format stores and increased penetration of boat sales in our second year with this category. The apparel/footwear category experienced a decline in its share of the sales mix, primarily driven by weather factors.

*Gross Profit.* Gross profit increased by \$32.3 million, or 16.8%, to \$224.7 million in fiscal 2006 from \$192.4 million in fiscal 2005. As a percentage of sales, gross profit increased 80 basis points to 24.7% in fiscal 2006 from 23.9% in fiscal 2005. The more significant factors primarily affecting gross margin during fiscal year 2006 were:

- an initial product margin increase of approximately 140 basis points as a result of continued benefits from increasing scale, the positive impact of our Everyday Low Price strategy on our pricing structure, higher penetration of our owned-brand merchandise, and lower clearance inventory coupled with better management of clearance merchandise and pricing,
- an approximately 40 basis point negative impact from the change in our product mix,
- an approximately 30 basis point favorable impact from increased co-branded credit card revenues,
- an approximately 25 basis point favorable impact from improved leverage from distribution costs,
- an approximately 30 basis point negative impact from increased store occupancy costs as a result of reduced leverage from lower comparable store sales and lower sales per square foot at our newer, less mature stores,
- an approximately 40 basis point negative impact from reduced vendor discounts for new stores as a result of opening fewer new stores with lower inventories for those new stores, and
- an approximately 25 basis point negative impact from the continuation in the trend toward higher freight-in costs as fuel prices increased.

*Store Operating Expenses.* Store operating expenses increased by \$12.9 million, or 8.4%, to \$167.5 million in fiscal 2006 from \$154.5 million in fiscal 2005. As a percentage of sales, store operating expenses decreased 80 basis points to 18.4% in fiscal 2006 from 19.2% in fiscal 2005. Advertising expense decreased approximately 75 basis points due to our decision to reduce advertising in the first half of the fiscal year and shift a portion of advertising expenditures from print media to local radio in the second half of the fiscal year.

*General and Administrative Expenses.* General and administrative expenses increased by \$4.4 million, or 12.2%, to \$40.4 million in fiscal 2006 from \$36.0 million in fiscal 2005. As a percentage of sales, general and administrative expenses decreased 10 basis points to 4.4% in fiscal 2006 from 4.5% in fiscal 2005 primarily as a result of sales leverage from increasing scale and cost controls.

*Pre-opening Expenses.* Pre-opening expenses decreased \$3.3 million, or 50.5%, to \$3.2 million in fiscal 2006 from \$6.6 million in fiscal 2005. We opened eight new stores in fiscal 2006 and 19 new stores in fiscal 2005, including relocations. Pre-opening expenses on a per store basis declined slightly due to continued efficiencies in store opening processes and cost control, with the exception of costs related to one significantly larger store.

*Gain on Insurance Settlement.* During our third quarter of fiscal 2006, we recorded a gain of \$1.4 million in connection with an insurance settlement resulting from flood damage at one of our stores.

*Gain on Contract Settlement.* During our first quarter of fiscal 2005, we received a \$2.5 million non-recurring payment relating to the termination of our contract with the former provider of our co-branded credit card services in consideration of the lost opportunity.

*Interest Expense, net.* Interest expense increased by \$8.1 million, or 72.8%, to \$19.2 million in fiscal 2006 from \$11.1 million in fiscal 2005. The increase in interest expense resulted from higher average net borrowings used to fund our growth, including the placement of \$20 million of convertible debt in August 2005 and the addition of a \$20 million

term loan to our credit facility in March 2006. Average interest rates on our credit facility were approximately 200 basis points higher in fiscal 2006 than in fiscal

2005. The interest rate in effect on our credit facility at February 3, 2007 and January 28, 2006 was 7.3% and 6.5%, respectively.

*Debt conversion charge.* In December 2006, we completed a private placement of \$50 million of our common stock. The purchase price was paid with \$30 million in cash and the tender of our outstanding \$20 million convertible note in exchange for the issuance of 5,701,255 shares of common stock. In connection with this transaction, we recorded a non-cash charge of \$9.0 million representing the fair value of the common shares issued in excess of the shares that were issuable under the original convertible note agreement executed in August 2005.

*Income Tax Provision.* We did not record an income tax provision for fiscal 2006 or 2005, due to the uncertainty of the realization of the net operating loss carryforwards. We have determined the realization of the tax benefit related to our net deferred tax asset is uncertain at this time and a valuation allowance was recorded for the entire balance of our net deferred tax asset.

*Net Loss.* Our net loss was \$13.2 million for fiscal 2006, as compared to net loss of \$13.3 million for fiscal 2005, due to the factors discussed above.

***Fiscal Year Ended January 28, 2006 compared to Fiscal Year Ended January 29, 2005***

*Sales.* Sales increased by \$160.5 million, or 24.9%, to \$804.5 million in fiscal 2005 from \$644.0 million in fiscal 2004. The increase resulted from sales of \$216.0 million from fiscal 2005 and 2004 new stores not included in the comparable store sales base, offset by a comparable store sales decrease of \$33.4 million, or 6.0%, and a \$22.1 million sales decrease from closed stores and changes in other revenue. In fiscal 2005, we opened 19 new stores, including two relocated stores, and added 1.2 million square feet of retail selling space, a 33% increase.

Comparable store sales decreased 6.0% for fiscal 2005 as we experienced reduced sales across all but one of our product categories. Overall, we believe sales performance in fiscal year 2005 was negatively impacted by, among other factors, cannibalization from some of the new store openings and new competition entering certain of our markets. In addition, sales in the second half of fiscal 2005 were impacted by the weather, directly, from unseasonable weather patterns in certain of our operating markets, and, indirectly, from the impact of three devastating hurricanes and the resulting downturn in consumer confidence, much of which we believe was driven by higher energy prices.

Overall, the sales mix for fiscal 2005 was relatively consistent with fiscal 2004, except for the power sports category, which increased its share of the sales mix, driven largely by ATV sales at new large-format stores and sales of ATV accessories. Our firearms business continued to gain market share, reflecting consistent gains as a percentage of the sales mix. The apparel/footwear category experienced a slight decline in its share of the sales mix, primarily driven by weather factors. Marine accessories sales produced a positive comparable store sales result for the year and an increase in the overall sales mix as a result of the expansion of the marine products offering and our increased focus on that market.

*Gross Profit.* Gross profit increased by \$28.1 million, or 17.1%, to \$192.4 million in fiscal 2005 from \$164.4 million in fiscal 2004. As a percentage of sales, gross profit decreased 160 basis points to 23.9% in fiscal 2005 from 25.5% in fiscal 2004. Major factors primarily affecting gross margin during fiscal year 2005 were:

- an initial product margin increase of approximately 100 basis points,
- a negative impact of approximately 80 basis points resulting from the absence of a co-branded credit card program for a significant part of fiscal 2005 as well as different terms under the new card provider,
- aggressive seasonal clearance sales of merchandise in the second and third quarters of fiscal 2005 negatively impacting gross margin by approximately 35 basis points,





- changes in our product mix, primarily increased sales penetration of lower-margin categories such as firearms and ATVs and less penetration of higher-margin apparel and footwear, accounted for a decrease of approximately 40 basis points,
- a negative impact of approximately 90 basis points from increased store occupancy costs as a result of reduced leverage from lower comparable store sales and lower sales per square foot at our newer, less mature stores, and
- a negative impact of approximately 20 basis points from higher distribution costs as a result of higher fuel costs and inefficiencies at our distribution center.

*Store Operating Expenses.* Store operating expenses increased by \$33.0 million, or 27.1%, to \$154.5 million in fiscal 2005 from \$121.6 million in fiscal 2004. As a percentage of sales, store operating expenses increased 30 basis points to 19.2% in fiscal 2005 from 18.9% in fiscal 2004. Advertising expense decreased 70 basis points due to more focused advertising that resulted in less spending, offset by the effect of reduced leverage in labor costs and depreciation primarily due to the comparable store sales decline and lower sales in less mature stores.

*General and Administrative Expenses.* General and administrative expenses increased by \$8.2 million, or 29.3%, to \$36.0 million in fiscal 2005 from \$27.9 million in fiscal 2004. As a percentage of sales, general and administrative expenses increased 20 basis points to 4.5% in fiscal 2005 from 4.3% in fiscal 2004. The increase was primarily due to reduced leverage from the comparable stores sales decline and increased legal fees.

*Pre-opening Expenses.* Pre-opening expenses decreased \$1.6 million, or 20.0%, to \$6.6 million in fiscal 2005 from \$8.2 million in fiscal 2004. We opened 19 new stores in each of fiscal 2005 and fiscal 2004, including two relocated stores in each year. The reduced pre-opening expenses on a per store basis are due to improved efficiencies in store opening processes and cost control.

*Gain on Contract Settlement.* During our first quarter of fiscal 2005, we received a \$2.5 million non-recurring payment relating to the termination of our contract with the former provider of our co-branded credit card services in consideration of the lost opportunity.

*Interest Expense, net.* Interest expense increased by \$6.0 million, or 116.2%, to \$11.1 million in fiscal 2005 from \$5.1 million in fiscal 2004. The increase in interest expense resulted from higher average net borrowings used to fund our growth during fiscal 2005, including the placement of \$20 million in convertible debt in August 2005. Average interest rates on our credit facility were 160 basis points higher in fiscal 2005 than in fiscal 2004. Our average interest rate in effect at January 28, 2006 and January 29, 2005 was 6.5% and 4.3%, respectively.

*Income Tax Provision.* We did not record an income tax provision for fiscal 2005 or 2004, due to the uncertainty of the realization of the net operating loss carryforwards. We have determined the realization of the tax benefit related to our net deferred tax asset is uncertain at this time and a valuation allowance was recorded for the entire balance of our net deferred tax asset.

*Net Loss.* Our net loss was \$13.3 million for fiscal 2005, as compared to net income of \$1.6 million for fiscal 2004, due to the factors discussed above.

#### **Quarterly Results of Operations and Seasonality**

Our quarterly operating results may fluctuate significantly because of several factors, including the timing of new store openings and related expenses, profitability of new stores, weather conditions and general economic conditions. Our business is also subject to seasonal fluctuation, with the highest sales activity normally occurring during the third and fourth quarters of our fiscal year, which are primarily associated with the fall hunting seasons and the holiday season. In recent years, the second half of our fiscal years have generated approximately 62% to 65% of our

annual sales, including new store sales. In

41

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addition, our customers' demand for our products and therefore our sales can be significantly impacted by unseasonable weather conditions that affect outdoor activities and the demand for related apparel and equipment. Our grand opening activities surrounding our new store openings can also cause fluctuations in sales when compared to operating periods in later months. It is for this reason we include a new store in our comparable store sales base in its fifteenth full month to minimize the effect of grand opening activities.

This seasonality also impacts our inventory levels, which tend to rise beginning approximately in April, reach a peak in November, and decline to lower levels after the December holiday season.

Our pre-opening expenses have and will continue to vary significantly from quarter to quarter, primarily due to the timing of store openings. We typically incur most pre-opening expenses for a new store during the three months preceding, and the month of, its opening. In addition, our labor and operating costs for a newly opened store can be greater during the first one to two months of operation than what can be expected after that time, both in aggregate dollars and as a percentage of sales. Accordingly, the volume and timing of new store openings in any quarter has had, and is expected to continue to have, a significant impact on quarterly pre-opening costs and store labor and operating expenses. Due to these factors, results for any particular quarter may not be indicative of results to be expected for any other quarter or for a full fiscal year.

See Note 18 to our financial statements included in this report for additional information.

### Liquidity and Capital Resources

Our primary capital requirements are for inventory, property and equipment and pre-opening expenses to support our new store growth plans and, to the extent of the highly seasonal nature of our business, operating losses. Until the completion of our initial public offering, our main sources of liquidity were equity investments by, and advances from, Holiday Companies and its affiliated entities, and borrowings under our credit facility. The following chart summarizes the principal elements of our cash flow for the past three fiscal years and the number of stores opened during the period.

	<b>Cash Flow Summary</b>		
	<b>Fiscal Year Ended</b>		
	<b>53 weeks February 3, 2007</b>	<b>52 weeks January 28, 2006</b>	<b>52 weeks January 29, 2005</b>
	<b>(in thousands)</b>		
Net cash provided by (used in) operating activities	\$ 604	\$ (30,279 )	\$ (50,164 )
Net cash used in investing activities	(28,291 )	(49,477 )	(48,532 )
Net cash provided by financing activities	27,449	80,303	98,759
Total net (decrease) increase in cash	\$ (238 )	\$ 547	\$ 63
<b>Details of financing activities:</b>			
(Repayments) borrowings under credit facility, net	\$ (6,451 )	\$ 60,495	\$ 12,383
Proceeds from sales of common stock, net	29,540		96,216
Proceeds from exercise of stock options and stock sales	289	505	
Proceeds from long term debt	5,300	20,000	