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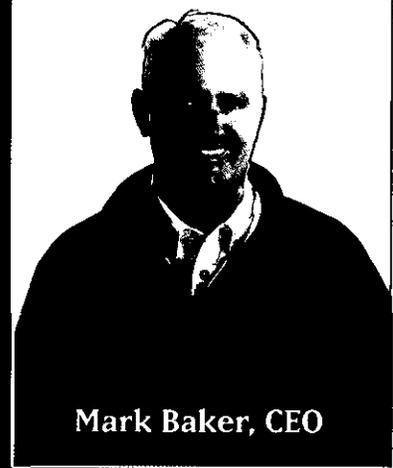
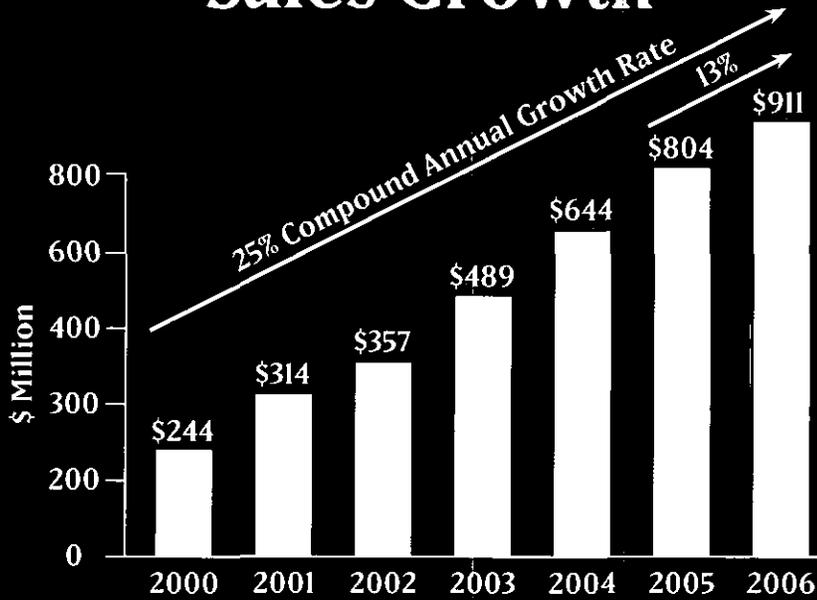
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ANNUAL 2006 REPORT

Sales Growth



Dear Fellow Shareholders:

2006 was a year of on-going growth and validation that our Gander Mountain business model is a winner.

Take a few moments to read the customer comments in the boxes to the right and on the other side of this page. We get thousands like this every year. These customer comments offer proof that our commitment to service and value pricing, along with our regionalized approach to product variety, are a hit with outdoor enthusiasts. Our brand moves into new markets with ease.

Our brand is portable because Gander Mountain is a unique retailer in the outdoor lifestyle category. Our product assortments in hunting, fishing, boating, camping, hiking, and apparel differ from store to store and region to region. This localized approach fulfills the unique needs of our customers who want products and services tailored to their love of the outdoors.

Also unique to Gander Mountain are our in-store service departments for firearms, ATVs, boats and motors, and archery. No other outdoor retailer offers this array of hands-on services. We provide all this through the nation's largest network of retail stores devoted to the outdoors and staffed by associates who personify our "We Live Outdoors" culture.

Gander Mountain had a strong year in 2006, with double digit sales growth, gross margin expansion, and improved operating profitability. We started our year slower than we would have liked, but a strong finish brought our sales growth to more than 13 percent for the year.

In the fourth quarter, we concluded a transaction in which our chairman, David Pratt, purchased 5.7 million newly issued shares of common stock for \$50 million. This investment was very important to our company because it improved our financial flexibility and helped enable our future growth.

During 2006, Gander Mountain's cash flows from store operations continued to improve. Our operating income was up by more than \$17 million for the year and cash flow from operations increased by \$31 million.

We continue to effectively manage our expenses, generating incremental sales of \$107 million in 2006. Those sales yielded more than \$17 million of operating profit, and brought 16 percent of this sales increase to the bottom line.

We opened eight new stores in 2006, with our first stores in Alabama, Florida, Tennessee, and West Virginia, as well as putting additional stores in Texas, Virginia, North Carolina and a replacement store in Minnesota. The southern markets have enthusiastically welcomed Gander Mountain, where new stores set records for opening sales.

Gander Mountain ended the year with 105 stores in 22 states. Our growth will continue in 2007, with the planned addition of 13 new locations. As we expand, we will continue to put emphasis on markets that are not served by other outdoor retailers and that extend our selling seasons to strengthen our first and second quarter sales.

When my 12-year old son came to me with an interest in archery, we did some research, and off to Gander Mountain we went ...That's when Josh ever so patiently helped my son fit and set up his new bow. He was so helpful, and knowledgeable, and patient with my son ... I am so thankful for his kindness and will always be ...Thanks for everything!

— Lake Mary, Florida, customer

I was with my sister picking out my first rod and reel ... Steve asked if we needed help. He was very patient, considering he was dealing with two women who were asking a lot of questions. He was very informative without being condescending, which was a great relief ... He ended up making my experience very enjoyable ... My 4-year old wants his own rod and reel now and I know exactly where I'll take him.

— Hermantown, Minnesota, customer

We are also very excited about the relationship we recently formed with Tracker Marine Group. We expect boats, motors and marine accessories to become an increasingly important part of our business, especially in the first half of the year.

We will continue to innovate and offer the best outdoor experience to our customers, while growing our business and providing a good return for our shareholders. We are upgrading our store environments and retooling our marketing plans, all to make it easier for our customers to find the right products and the right information ... and to bring first-time customers into our stores.

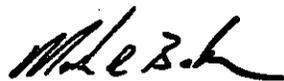
In 2007, investors can look for Gander Mountain to reach a billion dollars in sales. We will continue to diversify our geographic base and to build on the consistent execution in merchandising we saw in the second half of 2006. Because of our strong store operations, we expect to accomplish our new store growth plans and upgrades without increasing our bank debt at year end.

Gander Mountain's vision is being validated by the marketplace. We will be the best outdoor lifestyle retailer as we grow toward our long-term goals of more than 300 stores, \$3 billion in revenue, 5 to 6 percent operating margin and double-digit return on invested capital.

I want to thank our store associates for handling nearly 16 million customer transactions in 2006, and also recognize the associates who supported those efforts at our distribution center and base camp. Gander Mountain has a great team!

The gains made in 2006 are a successful continuation of our work over the past years. We are well positioned to reach our goals in 2007. We will deliver good results for our customers, our supplier partners and our shareholders in 2007.

Sincerely,



Mark Baker
President and CEO
April 19, 2007

I was shopping for a hunting knife for my husband. I know nothing about hunting knives and wasn't sure which one to get for him. John explained which ones would be better for my husband's hunting needs, and helped me make a better decision. John did all this while being polite and not pushy. John should be used as an example of how a professional salesperson should be.

— Utica, New York, customer

I recommend Gander Mountain because of how helpful the gunsmith is. He not only cares about repairing your gun, but gives you advice and is willing to help you in any way he can. I've recommended Gander Mountain to many of my shooting and hunting buddies ... Seldom do you find the "down home" feeling of a local gun store in a retail chain such as Gander Mountain.

— Indianapolis, Indiana, customer

Any statements in this letter that are not historical or current facts are forward looking statements made pursuant to the safe harbor provisions of the Private Securities Litigation Reform Act. These statements involve known and unknown risks that could cause our actual results to vary materially from those implied by such statements. For further information, please review the "Risk Factors" section of our Annual Report on Form 10-K for fiscal 2006.

**UNITED STATES
SECURITIES AND EXCHANGE COMMISSION**

Washington, DC 20549

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

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**

41990930
(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**

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.

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

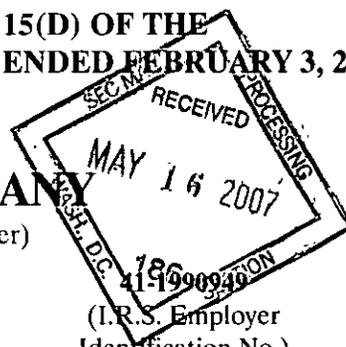
Indicate by check mark whether the registrant is a shell company (as defined in Rule 12b-2 of the Exchange Act). Yes No

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

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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;
- 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.

In some cases, you can identify forward-looking statements by terms such as "anticipates," "believes," "could," "estimates," "expects," "intends," "may," "plans," "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.

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. 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

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 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	<u>100%</u>	<u>100%</u>	<u>100%</u>

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:

States and Number of Stores			
Northern Markets		Southern Markets	
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		
	<u>85</u>		<u>20</u>

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.

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.

<u>Name</u>	<u>Age</u>	<u>Position</u>
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

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.

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:

	<u>High</u>	<u>Low</u>
Fiscal 2006:		
First Quarter	\$ 9.90	\$6.05
Second Quarter	\$ 9.97	\$5.01
Third Quarter	\$ 7.75	\$4.95
Fourth Quarter	\$10.49	\$7.31
Fiscal 2005:		
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.

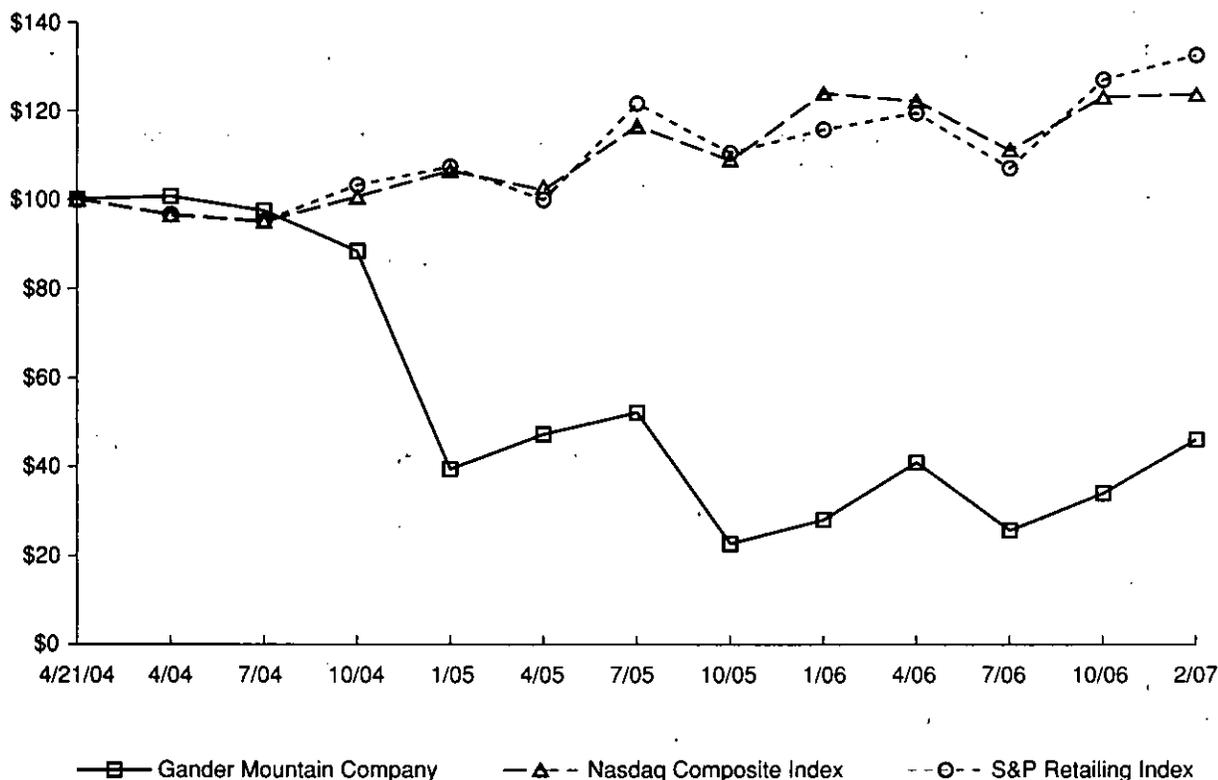
Dividends

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.

	Fiscal Year Ended(1)				
	February 3, 2007	January 28, 2006	January 29, 2005	January 31, 2004	February 1, 2003
	(dollars in thousands, except per share data)				
Statement of Operations Data					
Sales	\$911,438	\$804,474	\$644,014	\$489,530	\$357,441
Cost of goods sold(2)	<u>686,722</u>	<u>612,029</u>	<u>479,662</u>	<u>370,532</u>	<u>271,991</u>
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)	<u>\$ (13,242)</u>	<u>\$ (13,307)</u>	<u>\$ 1,570</u>	<u>\$ 1,473</u>	<u>\$ (12,824)</u>
Loss applicable to common shareholders	<u>\$ (13,242)</u>	<u>\$ (13,307)</u>	<u>\$ (2,735)</u>	<u>\$ (15,050)</u>	<u>\$ (22,881)</u>
Basic and diluted loss applicable to common shareholders per share .	\$ (0.88)	\$ (0.93)	\$ (0.25)	\$ (15.47)	\$ (23.52)

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
	(dollars in thousands)				
Balance Sheet Data					
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
	(dollars in thousands, except per square foot data)				
Operating 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.....	<u>\$ 36,957</u>	<u>\$ 16,032</u>	<u>\$18,363</u>	<u>\$14,459</u>	<u>\$ 3,798</u>

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

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)	<u>(1.5)%</u>	<u>(1.7)%</u>	<u>0.2%</u>

(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 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.

	Cash Flow Summary Fiscal Year Ended		
	53 weeks February 3, 2007	52 weeks January 28, 2006	52 weeks January 29, 2005
	(in thousands)		
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	<u>\$ (238)</u>	<u>\$ 547</u>	<u>\$ 63</u>
Details of financing activities:			
(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	—
Reductions in long term debt	(1,229)	(697)	—
Repayments of notes with affiliates	—	—	(9,840)
Net cash provided by financing activities	<u>\$ 27,449</u>	<u>\$ 80,303</u>	<u>\$ 98,759</u>
Store openings, including relocated stores	<u>8</u>	<u>19</u>	<u>19</u>

Net cash provided by operating activities was \$0.6 million in fiscal 2006, compared to net cash used in operating activities of approximately \$30.3 million in fiscal 2006 and approximately \$50.2 million in fiscal 2004.

The overall \$30.9 million decrease in net cash used in operating activities in fiscal 2006 compared to fiscal 2005 is primarily due to:

- a \$14.1 million increase in non-cash expenses (depreciation, debt conversion expense and stock-based compensation expense) that increased our net loss but did not require the use of cash, and
- increased funding of approximately \$29.9 million from accounts payable balance increases, due to improved vendor terms and increased ATV, boat and firearm's inventories that typically carry more favorable payment terms, offset by
- an increase of \$7.9 million in funds used by increased receivables and \$7.8 million in funds used by increased prepaid expenses and other assets, driven primarily by growth in our business and increased prepaid rent of \$5.0 million, due to the timing of our fiscal 2006 year end.

We also used \$3.5 million less for inventory growth in fiscal 2006 as compared to fiscal 2005 due to the opening of only eight new stores in fiscal 2006 versus 19 new stores in fiscal 2005. However, boat and ATV inventory at the end of fiscal 2006 was \$11.2 million higher than at the end of fiscal 2005, due to our increasing mix of large-format stores that carry ATVs and the expansion of our boat business, which requires product presentations as early as February in certain stores to prepare for the spring selling season. We also held higher levels of fishing product inventories at the end of fiscal 2006, as part of an effort to have merchandise sets done earlier in our season, with which we have had success in other categories in fiscal 2006.

The \$19.9 million decrease in net cash used in operating activities in fiscal 2005 compared to fiscal 2004, partially reflects the lower levels of inventories in the fiscal 2005 new stores as well as the success of our efforts to reduce inventory in all of our stores. The reduced use of cash resulting from the inventory reduction on a per store basis was partially offset by less funding through accounts payable balances, due in part to increased sourcing of foreign product.

Net cash used in investing activities was \$28.3 million in fiscal 2006, \$49.5 million in fiscal 2005 and \$48.5 million in fiscal 2004. Net cash used in investing activities consists entirely of purchases of property and equipment, net of proceeds received from sales of assets and insurance proceeds. We use cash for leasehold improvements and equipment to open new and relocated stores and to remodel and upgrade existing stores. We opened 8, 19 and 19 new stores in fiscal 2006, 2005 and 2004, respectively. Purchases of property and equipment also include purchases of information technology systems and expenditures for our distribution facility and our corporate headquarters.

Net cash provided by financing activities was \$27.4 million in fiscal 2006 compared to \$80.3 million in fiscal 2005 and \$98.8 million in fiscal 2004. The financing activities during these periods were primarily related to financing the increased inventory levels and property and equipment purchases for store openings and, to the extent of the highly seasonal nature of our business, operating losses primarily incurred in the first six to eight months of our fiscal years.

Equity Financing—December 2006

On December 8, 2006, we agreed with the holder of our \$20.0 million floating rate convertible subordinated note due August 15, 2010, to amend and restate the note in order to (i) eliminate the right to convert the note into shares of our common stock and to (ii) eliminate the floating rate feature of the note and fix the interest rate at 6.75% per year, a reduction of 25 basis points. The holder of the note was a trust, the annual income beneficiary of which is our chairman, David C. Pratt. Following the amendment of the note, the trust assigned the note to a newly formed limited liability company managed by Mr. Pratt and comprised of certain Pratt family trusts, the current beneficiaries of which are Mr. Pratt or members of his immediate family.

On December 11, 2006, we entered into a stock purchase agreement pursuant to which we sold 5,701,255 shares of our common stock to the Pratt LLC for an aggregate purchase price of \$50.0 million, or \$8.77 per share. The per share price of the stock purchase was equal to the closing bid price per share of our common stock on the Nasdaq Global market on December 11, 2006. The purchase price for the shares was paid by surrendering the note for cancellation of the \$20 million in principal due thereunder and by delivering \$30 million in cash for the balance of the purchase price. The net cash proceeds from the stock purchase, after deducting the expenses incurred to complete the deal, were approximately \$29.5 million, and were used to reduce outstanding borrowings under our credit facility. The funding of this transaction and issuance of the shares occurred on December 13, 2006.

The modifications to the note and subsequent tendering and cancellation of the note in a short time period, was deemed to be an in-substance conversion and, in effect, represented a modification to the conversion price. Accordingly, we recorded a non-cash debt conversion charge in the amount of \$9.0 million. This charge was required because the note was tendered as consideration for equity shares and we issued additional shares beyond the number of shares issuable in the original note agreement. U.S. generally accepted accounting principles require that the resulting incremental 1.03 million shares issued, valued at the \$8.77 fair value, be reflected as a debt conversion charge in our statement of operations.

The shares were not registered under the Securities Act of 1933 upon issuance. We are obligated to file a shelf registration statement for resale of the shares and use our best efforts to cause the shelf registration statement to become effective under the Securities Act of 1933 within 420 days after the closing date of the stock purchase.

Placement of Subordinated Unsecured Convertible Note—August 2005

On August 16, 2005, we completed a private offering of a \$20 million subordinated unsecured convertible note in a transaction exempt from registration pursuant to Rule 506 promulgated under the Securities Act of 1933, as amended. The note was convertible into our common stock at any time by the holder at an initial conversion price of \$16.00 per share. The conversion price had no reset feature and adjusted only for dividends, stock divisions or combinations, recapitalizations and similar occurrences. The note had a maturity date of August 16, 2010 and bore interest at 7.0% per annum for the first two years, payable semi-annually. The proceeds from the note were used to reduce the outstanding borrowings under our credit facility. Transaction costs associated with the placement were approximately \$85,000. This note was canceled in December 2006 as part of the equity financing described above.

Other Financings

During July 2006, we completed the purchase of an aircraft and financed \$5.3 million of the \$5.7 million purchase price with a term note. The term note matures in seven years and has a 7.26% fixed annual interest rate. The note is collateralized by the aircraft. We received \$2.1 million in proceeds from the sale of the aircraft we replaced.

During fiscal 2006, we purchased information technology equipment totaling \$2.4 million financed through capital lease transactions. During fiscal 2004, we purchased property and equipment totaling \$11.7 million financed through capital lease transactions. For one particular store location, we entered into a lease containing a bargain-purchase option that is exercisable upon the cancellation of a note obligation by the economic development authority in the region. We capitalized this lease obligation, resulting in the recording of building and equipment of \$9.0 million with a corresponding lease obligation of \$9.0 million. These capital lease purchases are excluded from the caption "purchases of property and equipment" in our statements of cash flows for fiscal 2006 and fiscal 2004 as they did not require the use of cash.

On April 26, 2004, we closed the initial public offering of our common stock, selling 6,583,750 shares of common stock, including the underwriters' over-allotment, at a price of \$16.00 per share, resulting in net

proceeds to us of \$96.2 million. Transaction costs were \$9.1 million and have been reflected as a reduction of paid-in-capital. The proceeds were used to eliminate our outstanding note payable to Holiday Companies in the amount of \$9.8 million and reduce \$86.4 million of outstanding indebtedness on our credit facility.

Credit Facility

Background. To meet our liquidity and capital needs, we entered into a credit facility with Fleet Retail Finance in fiscal 2001. Fleet Retail Finance was subsequently acquired by Bank of America, N.A. As amended in February 2004, this credit facility provided for revolving loans in an aggregate amount of up to \$175 million including up to \$35 million in the form of letters of credit. In February 2005, we completed an amendment to our credit facility to increase our availability under the facility from \$175 million to \$225 million and extend the maturity date to June 2009. In September 2005, we exercised our option to increase the facility to \$275 million. Availability under the facility may be further increased to \$300 million, subject to certain conditions including the absence of default. Other substantive terms of the facility were not materially changed by the February 2005 amendment or the September 2005 increase. In November 2005, we amended our credit facility to adjust the level of EBITDA and operating cash flow covenants, as defined in the credit agreement. The November 2005 amendment also specifies quarterly, rather than annual testing of the operating cash flow covenant beginning on January 28, 2006 and continuing each quarter thereafter.

On March 3, 2006, we amended and restated our credit facility. The principal purpose of the amendment was to add a \$20 million term loan to the credit facility. Effective May 25, 2006, we amended our credit facility to adjust the level of the EBITDA covenants for the months of April 2006 through July 2006. The credit facility continues to specify that testing of the EBITDA covenant is required when our availability is less than 10% of the lesser of (a) the revolving credit facility maximum on any given day or (b) the borrowing base, as defined and adjusted for certain reserves. It also continues to specify quarterly testing of the operating cash flow covenant. Other substantive terms of the agreement were not materially changed in the May 2006 amendment. Effective February 28, 2007, we amended our credit facility in order to have the \$30 million of cash received from our December 2006 stock sale be taken into consideration in determining EBITDA, for pricing purposes only, to allow us to borrow at lower interest rates. At the time of the amendment and based on current EBITDA levels at that time, this change resulted in a reduced interest rate of 50 basis points relative to the revolving credit facility. Pricing also was modified on the \$20 million term loan, with prime borrowings reduced by 75 basis points and LIBOR borrowings reduced by 125 basis points.

The table below summarizes pertinent information regarding our credit facility as of each of the three fiscal years ending February 3, 2007:

	<u>February 3, 2007</u>	<u>January 28, 2006</u> <small>(in thousands)</small>	<u>January 29, 2005</u>
Revolving credit facility available.....	\$ 275,000	\$ 275,000	\$ 175,000
Term loan	\$ 20,000	\$ —	\$ —
Outstanding borrowings	\$ 168,485	\$ 174,936	\$ 114,441
Outstanding letters of credit	\$ 9,619	\$ 5,120	\$ 4,926
Borrowing availability.....	\$ 51,299	\$ 18,960	\$ 45,328
Interest rate at year end	7.3%	6.5%	4.3%
Agreement maturity.....	June 2009	June 2009	June 2007

Term Loan. In addition to the revolving credit facility, our credit facility includes a \$20 million term loan. The amount of the term loan is not deducted in determining availability under the revolving credit facility, except to the extent that the balance of the term loan exceeds approximately 4% to 5% of the eligible borrowing base. The term loan matures on June 30, 2009 and bears interest at either (a) 1.25% over the higher of (i) Bank of America's prime rate or (ii) the federal funds rate plus 0.5%, or (b) LIBOR plus 2.75%. This additional financing was obtained to maintain the liquidity levels necessary to fund continued growth and seasonal cash flow needs.

Availability. The actual availability under the amended credit facility is limited to 85% of eligible credit card receivables plus the lesser of 68% to 75% of eligible inventory or 85% of the inventory's liquidation value, in each case, net of specified reserves and less any letters of credit outstanding. Interest on the outstanding indebtedness under the revolving portion of the credit facility currently accrues at the lender's prime commercial lending rate plus 0% to 0.5% depending on our EBITDA, as defined in the credit agreement, or, if we elect, at the one, two, three or six month LIBOR plus 1.50% to 2.25% depending on such EBITDA. Our obligations under the credit facility are secured by interests in substantially all of our assets.

Outstanding borrowings under the credit facility, including the term loan, as of February 3, 2007 and January 28, 2006, were \$168.5 million and \$174.9 million, respectively. Our total remaining borrowing capacity under the credit facility, after subtracting letters of credit, as of February 3, 2007 and January 28, 2006, was \$51.3 million and \$19.0 million, respectively.

Covenants. Financial covenants under the credit facility require that operating cash flow and EBITDA, as defined in the credit agreement, meet certain levels as adjusted over time. The credit facility continues to specify that testing of the EBITDA covenant is required when our availability is less than 10% of the lesser of (a) the revolving credit facility maximum on any given day or (b) the borrowing base, as defined and adjusted for certain reserves. It also requires quarterly testing of the operating cash flow covenant. The February 2007 amendment also provided that the \$30 million raised in our December 2006 stock sale may be utilized in the calculation of the operating cash flow covenant for a 12 month period effective December 2006.

The credit facility also contains other covenants that, among other matters, restrict our ability to incur substantial other indebtedness, create certain liens, engage in certain mergers and acquisitions, sell assets, enter into certain capital leases or make junior payments, including cash dividends. We were in compliance with all covenants as of February 3, 2007 and January 28, 2006.

Income Taxes / Net Operating Losses.

We did not record a tax provision for the three fiscal years ending February 3, 2007 due to accumulated operating losses. Due to the uncertainty of the realization of net operating loss carry forwards, 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.

In 2005, we determined that a "change in ownership", within the meaning of Section 382 of the Internal Revenue Code, occurred effective February 8, 2005. This change in ownership imposes a limitation on the amount of our net operating losses that we may deduct for tax purposes in any given year. We have federal and state net operating loss carry-forwards of approximately \$54.5 million expiring between 2016 and 2026. The amount of our net operating loss carry-forwards subject to the Section 382 limitation was \$10.9 million at February 3, 2007. Unrestricted net operating losses carry-forwards were \$43.5 million. We do not expect this limitation to materially impact our future tax provision for financial reporting purposes.

Future Capital Requirements

Our future capital requirements will primarily depend on the number of new stores we open, the timing of those openings within a given fiscal year and the need to fund seasonal operating losses. These requirements will include costs directly related to opening new stores and may also include costs necessary to ensure that our infrastructure, including technology and distribution capabilities, is able to support a larger store base. We opened 8, 19 and 19 new stores in each of fiscal years 2006, 2005 and 2004, respectively, including one or two relocated/consolidated stores in each year. Our cash used in investing activities was approximately \$28 million in fiscal 2006 and approximately \$50 million in fiscal 2005 and fiscal 2004. We currently plan to open 13 new stores in fiscal 2007, including three relocations and expect our total capital expenditures in fiscal 2007 to be approximately \$40 to \$45 million, including capital expenditures to improve certain existing stores. However, business conditions, business strategy or other factors may cause us to adjust these plans. Additional needs for capital include funding seasonal inventory levels, including foreign purchases and seasonal losses from operations.

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.

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.

Other future capital requirements may include an investment for an expansion into another distribution channel in addition to our retail channel. We can provide no assurances at this time as to the timing of such an expansion, or whether such an expansion will occur.

We intend to satisfy our capital requirements in fiscal 2007 with cash flows from operations, funds available under our credit facility and equipment financing leases. However, if capital requirements for our business strategy change or other factors change our capital requirements, we may need to seek additional debt or equity financing in the public or private markets. There is no assurance that financing will be available to us on acceptable terms. Beyond fiscal 2007, we anticipate needing additional financing to grow our business.

Interest Rate Risk

Our earnings are affected by changes in interest rates due to the impact those changes have on our interest expense on borrowings under our credit facility. Our floating rate indebtedness was \$168.5 million at February 3, 2007 and \$174.9 million at January 28, 2006. If short-term floating interest rates on our average fiscal 2006 and fiscal 2005 variable rate debt had increased by 100 basis points, our annual interest expense would have increased by approximately \$2.1 million and \$1.8 million, respectively, assuming comparable borrowing levels. These amounts are determined by considering the impact of the hypothetical interest rates on our average amount of floating rate indebtedness outstanding for each of the respective fiscal years. We have not contracted for any derivative financial instruments. We have no international sales, however, we import certain items for sale in our stores. Substantially all of our purchases are denominated in U.S. dollars.

Impact of Inflation

We believe that inflation has not had a material impact on our results of operations for each of our fiscal years in the three-year period ended February 3, 2007. We cannot assure you that inflation will not have an adverse impact on our operating results and financial condition in future periods.

Off-Balance Sheet Arrangements, Contractual Obligations and Commitments

The following table contains supplemental information regarding our total contractual obligations as of February 3, 2007:

	Payments due by pay period (in thousands)				
	Total	Less than 1 year	1-3 years	3-5 years	More than 5 years
Operating leases(1)	\$684,029	\$56,586	\$119,000	\$116,460	\$391,983
Purchase obligations(2).....	12,567	11,820	707	40	—
Capital lease obligations(3)	15,537	1,975	3,075	1,772	8,715
Long-term debt(4)	7,296	581	1,162	1,162	4,391
Total.....	<u>\$719,429</u>	<u>\$70,962</u>	<u>\$123,944</u>	<u>\$119,434</u>	<u>\$405,089</u>

- (1) Includes store-operating leases, which generally provide for payment of direct operating costs, primarily common area costs and real estate taxes, in addition to rent. These obligation amounts include future minimum lease payments and exclude direct operating costs. In accordance with U.S. generally accepted accounting principles, these obligations are not recorded in our financial statements.
- (2) In the ordinary course of business, we enter into arrangements with vendors to purchase merchandise in advance of expected delivery. Because these purchase orders do not contain any termination payments or other penalties if cancelled, they are not included in this table of contractual obligations. In accordance with U.S. generally accepted accounting principles, these obligations are not recorded in our financial statements.
- These obligations include standby and documentary letters of credit outstanding in connection with the importing of merchandise, as well as for insurance purposes. Also includes other obligations for miscellaneous goods and services acquired, related primarily to marketing, advertising and information technology obligations. In accordance with U.S. generally accepted accounting principles, these obligations are not recorded in our financial statements.
- (3) Includes the payment obligation associated with the capital lease of one of our stores, which provides for a maximum \$150,000 payment quarterly for 20 years from lease inception. The payment obligation is reflected herein with interest to be paid. This obligation will be reduced by allowable sales tax credits as defined in the related development agreement. We can not estimate the amounts of these future credits, and accordingly, have not reduced payment obligations by any allowable credits. These obligations also include capital leases for certain information technology equipment.
- (4) In July 2006, we completed the purchase of an aircraft and financed \$5.3 million of the \$5.7 million purchase price with a term note. The term note matures in seven years and has a 7.26% fixed annual interest rate. The payment obligation is reflected herein with interest to be paid.

Impact of Recent Accounting Pronouncements

2006 Adoptions:

SFAS No. 123R—Effective January 29, 2006, we adopted the fair-value recognition provisions of the Financial Accounting Standards Board's Statement No. 123 (revised 2004), *Share-Based Payment*, which requires the measurement and recognition of compensation expense for all stock-based payment awards made to employees and directors including employee stock option awards and employee stock purchases made under our employee stock purchase plan. We adopted the provisions of SFAS No. 123R, using the modified-prospective transition method. Under this transition method, stock-based compensation expense was recognized in our financial statements for granted, modified, or settled stock options and for expense related to our employee stock purchase plan. The provisions of SFAS No. 123R apply to new stock options and stock options outstanding, but not yet vested, on the effective date of January 29, 2006. In accordance with the modified-prospective transition method, results for prior periods have not been restated.

The amount of compensation expense for stock-based awards to be recognized during a period is based on the portion of the awards that are ultimately expected to vest. We estimate option forfeitures at the time of grant and revise those estimates in subsequent periods if actual forfeitures differ significantly from those estimates. Cost is recognized using a straight-line amortization method over the requisite service period, which typically is the vesting period. As a result of adopting SFAS 123R, our income from operations and net loss for fiscal year 2006 were negatively impacted by \$1.3 million. Basic and diluted loss per share for fiscal year 2006 is \$.09 higher than under Accounting Principles Board Opinion No. 25, *Accounting for Stock Issued to Employees*. There was no impact on cash flows.

As of February 3, 2007, there was approximately \$2.4 million of total unrecognized stock-based compensation expense related to unvested option awards. Unrecognized stock-based compensation is expected to be recognized over a weighted-average period of 2.4 years.

EITF No. 06-3—In March 2006, the Financial Accounting Standards Board's Emerging Issues Task Force released Issue 06-3, *How Sales Taxes Collected From Customers and Remitted to Governmental Authorities Should Be Presented in the Income Statement*. A consensus was reached that entities may adopt a policy of presenting sales taxes in the statement of operations on either a gross or net basis. If taxes are significant, an entity should disclose its policy of presenting taxes and the amount of taxes if reflected on a gross basis in the income statement. EITF 06-3 is effective for periods beginning after December 15, 2006. We present sales net of sales taxes in our statement of operations and have adopted to continue that policy.

SAB No. 108—In September 2006, the Securities and Exchange Commission issued Staff Accounting Bulletin No. 108, *Considering the Effects of Prior Year Misstatements when Quantifying Misstatements in Current Year Financial Statements*, which provides interpretive guidance on the consideration of the effects of prior year misstatements in quantifying current year misstatements for the purpose of a materiality assessment. SAB No. 108 was effective for fiscal 2006. The adoption of this statement did not have a material impact on our results of operations, cash flows or financial position.

2007 and Future Adoptions:

FIN 48—In June 2006, the Financial Accounting Standards Board issued Interpretation No. 48, *Accounting for Uncertainty in Income Taxes*, an interpretation of Statement of Financial Accounting Standards No. 109, *Accounting for Income Taxes*. FIN 48 clarifies the accounting for uncertainty in income taxes by prescribing a recognition threshold for tax positions taken or expected to be taken in a tax return. FIN 48 is effective for fiscal years beginning after December 15, 2006. We do not believe the adoption of FIN 48 will have a material impact on net earnings, cash flows or financial position.

SFAS No. 157—In September 2006, the Financial Accounting Standards Board, issued Statement of Financial Accounting Standards No. 157, *Fair Value Measurements*. SFAS No. 157 defines fair value, establishes a framework for measuring fair value in generally accepted accounting principles and expands disclosures about fair value measurements. SFAS No. 157 applies to other accounting pronouncements that require or permit fair value measurements, as the Financial Accounting Standards Board previously concluded in those accounting pronouncements that fair value is the relevant measurement attribute. Accordingly, SFAS No. 157 does not require any new fair value measurements. SFAS No. 157 is effective for fiscal years beginning after November 15, 2007. We plan to adopt SFAS No. 157 beginning in the first quarter of fiscal 2008. We are currently evaluating the impact, if any, the adoption of SFAS No. 157 will have on our financial position and results of operations.

SFAS No. 159—In February 2007, the Financial Accounting Standards Board issued Statement of Financial Accounting Standards No. 159, *The Fair Value Option for Financial Assets and Financial Liabilities*. SFAS 159 permits entities to choose to measure many financial instruments and certain other items at fair value. SFAS 159 will be effective at the beginning of fiscal 2008. We are currently evaluating the impact, if any, the adoption of SFAS 159 will have on our financial position and results of operations.

Critical Accounting Policies and Use of Estimates

Our financial statements are prepared in accordance with U.S. generally accepted accounting principles. In connection with the preparation of the financial statements, we are required to make assumptions, make estimates and apply judgment that affect the reported amounts of assets, liabilities, revenue, expenses and the related disclosures. We base our assumptions, estimates and judgments on historical experience, current trends and other factors that we believe to be relevant at the time the financial statements are prepared. On a regular basis, we review the accounting policies, assumptions, estimates and judgments to ensure that our financial statements are presented fairly and in accordance with U.S. generally accepted accounting principles. However, because future events and their effects cannot be determined with certainty, actual results could differ from our assumptions and estimates, and such differences could be material.

Our significant accounting policies are discussed in Note 2 to our financial statements included elsewhere in this report, and readers should review those policies for additional information. We believe that the following accounting policies are the most critical to aid in fully understanding and evaluating our reported financial results.

Inventory Valuation

We maintain inventory at the lower of cost or market. We reduce inventory costs for estimates of vendor allowances, as described below. Valuation reserves are established based primarily on forecasted consumer demand, inventory aging and obsolescence. If our estimates regarding consumer demand are inaccurate or other changes impact demand for certain products in an unforeseen manner, we may be exposed to losses in excess of our established reserves that could be material.

We also establish inventory shrink reserves. We estimate a provision for these losses based on independent, periodic physical inventory counts. We accrue for anticipated physical inventory losses on a location-by-location basis, based on a number of factors, including historical results. If our estimates regarding inventory losses are inaccurate, we may be exposed to losses in excess of our established reserves that could be material.

We are not aware of any events or changes in demand or price that would indicate to us that our inventory valuation may be too high or too low at this time.

Vendor Allowances

We receive allowances in the form of reductions to amounts owed and/or payments from vendors related to volume rebates, new store purchases, cooperative advertising allowances and other purchase discounts. Amounts to be received from a vendor are estimated on a monthly basis and are recognized as a reduction of costs of goods sold as the merchandise is sold. We record an estimate of earned allowances based on actual and estimated volumes of merchandise purchased from these vendors. The majority of these vendor allowances are based on specific contract terms with our vendors.

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 have been 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.

Valuation of Long-Lived Assets

Long-lived assets and certain identifiable intangibles are reviewed for impairment whenever events or changes in circumstances indicate that the carrying amount of an asset may not be recoverable. Recoverability of assets to be held and used is measured by a comparison of the carrying amount of the

assets to future, undiscounted net cash flows estimated by us to be generated by these assets. If such assets are considered to be impaired, the impairment to be recognized is the amount by which the carrying amount of the assets exceeds the fair value of the assets.

Our impairment loss calculation contains uncertainty because management must use judgment to estimate future cash flows and asset fair values and to determine the useful lives of the assets. Using this impairment review methodology, we recorded a long-lived asset impairment charge of \$0.2 million in fiscal 2004. If actual results are not consistent with our assumptions and estimates regarding these factors, we may be exposed to losses that could be material.

Costs Associated with Exit Activities

The calculation of our location-closing liability requires us to make assumptions and to apply judgment regarding the timing and duration of future vacancy periods, the amount and timing of future lump sum settlement payments and the amount and timing of potential future sublease income.

When making these assumptions, we consider a number of factors, including historical settlement experience, the owner of the property, the location and condition of the property, the terms of the underlying lease, the specific marketplace demand and general economic conditions. If actual results are not consistent with our assumptions and judgments, we may be exposed to additional charges that could be material. We are not aware of any events or changes in circumstances that would require calculation of a location closing liability at this time.

Insurance

We retain a portion of the risk related to certain general liability, workers' compensation, property loss and employee medical and dental claims. Liabilities associated with these losses are calculated for claims filed, and claims incurred but not yet reported, at our estimate of their ultimate cost, based upon analysis of historical data and actuarial estimates. Our expected loss accruals are based on estimates, and while we believe the amounts accrued are adequate, the ultimate loss may differ from the amounts provided.

ITEM 7A. QUALITATIVE AND QUANTITATIVE DISCLOSURES ABOUT MARKET RISK

Our earnings are affected by changes in interest rates due to the impact those changes have on our interest expense on borrowings under our credit facility. Our floating rate indebtedness was \$168.5 million at February 3, 2007 and \$174.9 million at January 28, 2006. If short-term floating interest rates on the average fiscal 2006 and fiscal 2005 variable rate debt had increased by 100 basis points, our annual interest expense would have increased by approximately \$2.1 million and \$1.8 million, respectively, assuming comparable borrowing levels. These amounts are determined by considering the impact of the hypothetical interest rates on our average amount of floating rate indebtedness outstanding for each of the respective fiscal years. We have not contracted for any derivative financial instruments. We have no international sales, however, we import certain items for sale in our stores. Substantially all of our purchases are denominated in U.S. dollars.

ITEM 8. FINANCIAL STATEMENTS AND SUPPLEMENTARY DATA

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All other schedules are omitted because they are not applicable or the required information is shown in the financial statements or notes thereto.

Management's Report on Internal Control Over Financial Reporting

Our management is responsible for establishing and maintaining adequate internal control over financial reporting as defined in Rule 13a-15(f) under the Securities Exchange Act of 1934. Our internal controls are designed to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles.

All internal controls, no matter how well designed, have inherent limitations. Therefore, even those controls determined to be effective can provide only reasonable assurance with respect to financial statement preparation and presentation. Because of its inherent limitations, internal control over financial reporting may not prevent or detect misstatements. Also, projections of any evaluation of effectiveness to future periods are subject to the risk that controls may become inadequate because of changes in conditions, or that the degree of compliance with the policies or procedures may deteriorate.

Under the supervision and with the participation of our management, including our chief executive officer and chief financial officer, we assessed the effectiveness of our internal control over financial reporting as of February 3, 2007. In making this assessment, management used the criteria set forth by the Committee of Sponsoring Organizations of the Treadway Commission (COSO) in *Internal Control—Integrated Framework*.

Based on our evaluation under the framework in *Internal Control—Integrated Framework*, our management concluded that our company's internal control over financial reporting was effective as of February 3, 2007.

Management's assessment of internal control over financial reporting as of February 3, 2007 has been audited by Ernst & Young LLP, an independent registered public accounting firm, as stated in their report, which follows.

/s/ MARK R. BAKER

Mark R. Baker
Chief Executive Officer and President

/s/ ROBERT J. VOLD

Robert J. Vold
Senior Vice President, Chief Financial Officer and Treasurer

April 16, 2007

Report of Independent Registered Public Accounting Firm

The Board of Directors and Shareholders,
Gander Mountain Company

We have audited management's assessment, included in the accompanying Management's Report on Internal Control over Financial Reporting, that Gander Mountain Company maintained effective internal control over financial reporting as of February 3, 2007, based on criteria established in *Internal Control—Integrated Framework* issued by the Committee of Sponsoring Organizations of the Treadway Commission (the COSO criteria). Gander Mountain Company's management is responsible for maintaining effective internal control over financial reporting and for its assessment of the effectiveness of internal control over financial reporting. Our responsibility is to express an opinion on management's assessment and an opinion on the effectiveness of Gander Mountain Company's internal control over financial reporting based on our audit.

We conducted our audit in accordance with the standards of the Public Company Accounting Oversight Board (United States). Those standards require that we plan and perform the audit to obtain reasonable assurance about whether effective internal control over financial reporting was maintained in all material respects. Our audit included obtaining an understanding of internal control over financial reporting, evaluating management's assessment, testing and evaluating the design and operating effectiveness of internal control, and performing such other procedures as we considered necessary in the circumstances. We believe that our audit provides a reasonable basis for our opinion.

A company's internal control over financial reporting is a process designed to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles. A company's internal control over financial reporting includes those policies and procedures that (1) pertain to the maintenance of records that, in reasonable detail, accurately and fairly reflect the transactions and dispositions of the assets of the company; (2) provide reasonable assurance that transactions are recorded as necessary to permit preparation of financial statements in accordance with generally accepted accounting principles, and that receipts and expenditures of the company are being made only in accordance with authorizations of management and directors of the company; and (3) provide reasonable assurance regarding prevention or timely detection of unauthorized acquisition, use, or disposition of the company's assets that could have a material effect on the financial statements.

Because of its inherent limitations, internal control over financial reporting may not prevent or detect misstatements. Also, projections of any evaluation of effectiveness to future periods are subject to the risk that controls may become inadequate because of changes in conditions, or that the degree of compliance with the policies or procedures may deteriorate.

In our opinion, management's assessment that Gander Mountain Company maintained effective internal control over financial reporting as of February 3, 2007, is fairly stated, in all material respects, based on the COSO criteria. Also, in our opinion, Gander Mountain Company maintained, in all material respects, effective internal control over financial reporting as of February 3, 2007, based on the COSO criteria.

We also have audited, in accordance with the standards of the Public Company Accounting Oversight Board (United States), the balance sheets of Gander Mountain Company as of February 3, 2007, and January 28, 2006, and the related statements of operations, shareholders' equity, and cash flows for each of the three years in the period ended February 3, 2007, of Gander Mountain Company, and our report dated April 16, 2007, expressed an unqualified opinion thereon.

/s/ ERNST & YOUNG LLP

Minneapolis, Minnesota
April 16, 2007

Report of Independent Registered Public Accounting Firm

The Board of Directors and Shareholders
Gander Mountain Company

We have audited the accompanying balance sheets of Gander Mountain Company as of February 3, 2007, and January 28, 2006, and the related statements of operations, shareholders' equity, and cash flows for each of the three years in the period ended February 3, 2007. Our audits also included the financial statement schedule listed in Item 15(a). These financial statements and schedule are the responsibility of Gander Mountain Company's management. Our responsibility is to express an opinion on these financial statements and schedule based on our audits.

We conducted our audits in accordance with the standards of the Public Company Accounting Oversight Board (United States). Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit also includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of Gander Mountain Company at February 3, 2007, and January 28, 2006, and the results of its operations and its cash flows for each of the three years in the period ended February 3, 2007, in conformity with U.S. generally accepted accounting principles. Also, in our opinion, the related financial statement schedule, when considered in relation to the basic financial statements taken as a whole, presents fairly in all material respects the information set forth therein.

As discussed in Note 2, in 2006, Gander Mountain Company adopted Statement of Financial Accounting Standards No. 123 (revised 2004), *Share-Based Payment*.

We also have audited, in accordance with the standards of the Public Company Accounting Oversight Board (United States), the effectiveness of Gander Mountain Company's internal control over financial reporting as of February 3, 2007, based on criteria established in *Internal Control—Integrated Framework* issued by the Committee of Sponsoring Organizations of the Treadway Commission, and our report dated April 16, 2007, expressed an unqualified opinion thereon.

/s/ ERNST & YOUNG LLP

Minneapolis, Minnesota
April 16, 2007

Gander Mountain Company

Balance Sheet

(In Thousands)

	<u>February 3, 2007</u>	<u>January 28, 2006</u>
Assets		
Current assets:		
Cash and cash equivalents	\$ 1,342	\$ 1,580
Accounts receivable	10,337	7,215
Inventories	349,120	308,395
Prepays and other current assets	<u>10,681</u>	<u>4,557</u>
Total current assets	371,480	321,747
Property and equipment, net	144,439	132,447
Other assets, net	5,698	4,736
Total assets	<u>\$521,617</u>	<u>\$458,930</u>
Liabilities and shareholders' equity		
Current liabilities:		
Borrowings under credit facility	\$168,485	\$174,936
Accounts payable	62,868	35,465
Accrued and other current liabilities	48,032	41,082
Current maturities of long term debt	<u>1,677</u>	<u>697</u>
Total current liabilities	281,062	252,180
Unsecured convertible note payable	—	20,000
Long term debt	16,421	10,953
Other long term liabilities	27,343	25,972
Shareholders' equity:		
Preferred stock (\$.01 par value, 5,000,000 shares authorized; no shares issued and outstanding)	—	—
Common stock (\$.01 par value, 100,000,000 shares authorized; 20,027,788 and 14,285,287 shares issued and outstanding)	200	143
Additional paid-in-capital	252,408	192,257
Notes receivable from shareholders	(4,100)	(4,100)
Accumulated deficit	<u>(51,717)</u>	<u>(38,475)</u>
Total shareholders' equity	196,791	149,825
Total liabilities and shareholders' equity	<u>\$521,617</u>	<u>\$458,930</u>

See notes to financial statements

Gander Mountain Company
Statements of Operations
(In thousands, except per share data)

	Fiscal Year		
	53 weeks February 3, 2007	52 weeks January 28, 2006	52 weeks January 29, 2005
Sales	\$911,438	\$804,474	\$644,014
Cost of goods sold	686,722	612,029	479,662
Gross profit	224,716	192,445	164,352
Operating expenses:			
Store operating expenses	167,456	154,542	121,575
General and administrative expenses	40,433	36,049	27,876
Pre-opening expenses	3,245	6,555	8,194
Gain on insurance settlement	(1,400)	—	—
Gain on contract settlement	—	(2,500)	—
Income (loss) from operations	14,982	(2,201)	6,707
Interest expense, net	19,187	11,106	5,137
Debt conversion charge	9,037	—	—
(Loss) income before income taxes	(13,242)	(13,307)	1,570
Income tax provision	—	—	—
Net (loss) income	(13,242)	(13,307)	1,570
Less preferred stock dividends	—	—	4,305
Loss applicable to common shareholders	<u>\$ (13,242)</u>	<u>\$ (13,307)</u>	<u>\$ (2,735)</u>
Basic and diluted loss applicable to common shareholders per share	\$ (0.88)	\$ (0.93)	\$ (0.25)
Weighted average common shares outstanding	15,100	14,257	11,092

See notes to financial statements

Gander Mountain Company
Statements of Cash Flows
(In thousands)

	Fiscal Year		
	53 weeks February 3, 2007	52 weeks January 28, 2006	52 weeks January 29, 2005
Operating activities			
Net (loss) income	\$(13,242)	\$(13,307)	1,570
Adjustments to reconcile net (loss) income to net cash provided by (used in) operating activities:			
Depreciation and amortization	22,829	18,754	12,213
Debt conversion charge	9,037	—	—
Stock-based compensation expense	1,343	319	21
(Gain) loss on disposal of assets	(700)	389	955
Change in operating assets and liabilities:			
Accounts receivable	(5,722)	2,132	(2,737)
Inventories	(40,725)	(44,257)	(83,777)
Prepaid expenses and other assets	(7,940)	(119)	(2,544)
Accounts payable and other liabilities	35,724	5,810	24,135
Net cash provided by / (used) in operating activities	<u>604</u>	<u>(30,279)</u>	<u>(50,164)</u>
Investing activities			
Purchases of property and equipment	(36,488)	(60,320)	(48,532)
Proceeds from insurance settlement	6,097	—	—
Proceeds from sales of assets	2,100	10,843	—
Net cash used in investing activities	<u>(28,291)</u>	<u>(49,477)</u>	<u>(48,532)</u>
Financing activities			
(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	—
Reductions in long term debt	(1,229)	(697)	—
Repayments of notes with affiliates	—	—	(9,840)
Net cash provided by financing activities	<u>27,449</u>	<u>80,303</u>	<u>98,759</u>
Net (decrease) / increase in cash	(238)	547	63
Cash, beginning of period	1,580	1,033	970
Cash, end of period	<u>\$ 1,342</u>	<u>\$ 1,580</u>	<u>\$ 1,033</u>

See Notes to financial statements

Gander Mountain Company
Statements of Shareholders' Equity
(In Thousands, Except Share Data)

	Class A, Class B, and Class C	Class A	Class B	Common Stock	Additional	Notes	Accumulated	Total
	Preferred Stock	Common Stock	Nonvoting	Common Stock	Paid-in	Receivable	Deficit	Shareholders'
	Shares	Shares	Common	Shares	Capital	From		Shareholders'
	\$	\$	Shares	\$		Share-		Equity
	\$	\$	\$	\$		holders		
Balance, January 31, 2004	202,332	544,320	428,928	—	95,325	(4,100)	(26,738)	64,498
Net income	—	—	—	—	—	—	1,570	1,570
Recapitalization	(202,332)	(544,320)	(428,928)	(4)	(65)	—	—	—
Issuance of Common Stock	—	—	—	7,638,175	—	—	—	96,216
Non-employee stock option grant	—	—	—	6,583,750	24	—	—	24
Balance, January 29, 2005	—	—	—	14,221,925	191,434	(4,100)	(25,168)	162,308
Net loss	—	—	—	—	—	—	(13,307)	(13,307)
Exercise of stock options	—	—	—	35,000	290	—	—	291
Common stock issued under employee stock purchase plan	—	—	—	28,362	214	—	—	214
Stock option expense	—	—	—	—	319	—	—	319
Balance, January 28, 2006	—	—	—	14,285,287	192,257	(4,100)	(38,475)	149,825
Net loss	—	—	—	—	—	—	(13,242)	(13,242)
Exercise of stock options	—	—	—	3,637	24	—	—	24
Stock purchase agreement	—	—	—	5,701,255	58,518	—	—	58,575
Common stock issued under employee stock purchase plan	—	—	—	37,609	266	—	—	266
Stock option expense	—	—	—	—	1,343	—	—	1,343
Balance, February 3, 2007	—	—	—	20,027,788	252,408	(4,100)	(51,717)	196,791

See notes to financial statements

Gander Mountain Company
Notes to Financial Statements

Note 1. Nature of Business

Gander Mountain Company operates the nation's largest retail network of stores specializing in hunting, fishing, camping, marine and outdoor lifestyle products and services. Since its origin in 1960, the Company's brand name has had a heritage of strong appeal and relevance to consumers who participate in outdoor sports and recreation activities. The Company's core strategy and focus is to provide its target customer with a unique retail experience founded upon the Company's "We Live Outdoors" culture and theme. The Company is transforming its market position from a traditional specialty store to a large-format, category-focused store by opening large-format stores and increasing the selling space within its existing stores. The large-format strategy has allowed the Company to offer its customers a broader and deeper assortment of merchandise. The Company offers competitively priced hunting, fishing, camping and boating equipment, accessories and related technical apparel and footwear, as well as gunsmith, archery, ATV and marine services. Its stores feature national, regional and local brands as well as its owned brands, and the Company's associates provide knowledgeable customer service.

As of February 3, 2007, the Company owned and operated 105 stores 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.

Given the economic characteristics of the store format, the similar nature of products sold, and the type of customer and method of distribution, the operations of the Company are one reportable segment. The following table shows the Company's sales during the past three fiscal years by product category:

<u>Category</u>	<u>Fiscal 2006</u>	<u>Fiscal 2005</u>	<u>Fiscal 2004</u>
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	<u>100%</u>	<u>100%</u>	<u>100%</u>

Fiscal Year—The Company's year-end is the Saturday closest to the end of January, electing a 52 or 53 week year. The fiscal year ended February 3, 2007 (fiscal 2006) included 53 weeks. The fiscal years ending January 28, 2006 (fiscal 2005) and January 29, 2005 (fiscal 2004) included 52 weeks.

Reclassifications—Certain prior year amounts have been reclassified to conform to the current year presentation. These reclassifications had no impact on previously reported net income, cash flows, or financial position.

Note 2. Summary of Significant Accounting Policies

Use of Estimates—The preparation of financial statements in conformity with U.S. generally accepted accounting principles requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and the disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Management's estimates relate primarily to the valuation of receivables and inventories and the recorded amounts of certain accrued liabilities. Ultimate results could differ from those estimates.

Cash and Cash Equivalents—Cash equivalents represent short-term investments with a maturity of three months or less from the time of purchase and are carried at cost, which approximates market.

Accounts Receivable—Accounts receivable consist primarily of third-party credit card receivables, earned but unbilled vendor allowances and receivables from landlords. No allowance is needed against these receivables for expected losses.

The Company also has amounts due from vendors for returned products and certain vendor allowances reflected as reductions in accounts payable in the Company's balance sheets because the Company has the right of offset against amounts owed to vendors for merchandise purchases. An allowance is recognized for these receivables in an amount equal to the anticipated future write-offs based on historical experience and other factors. The allowances for these amounts due to the Company were \$150,000, \$970,000 and \$524,000 as of February 3, 2007, January 28, 2006 and January 29, 2005, respectively.

Inventories—Inventories are stated at the lower of weighted average cost (which approximates the first-in, first-out cost) or market. Inventories consist of the direct cost of merchandise including freight. Inventories are net of shrinkage, certain vendor allowances, and other valuation reserves. Valuation reserves are established based primarily on forecasted consumer demand, inventory aging and obsolescence. Cost of sales includes the cost of merchandise, inventory shrinkage, freight, distribution, store occupancy costs and shipping and handling costs.

Property and Equipment—Property and equipment are recorded at cost. Maintenance and repairs are charged to expense as incurred. Major additions, replacements and improvements are capitalized. Depreciation and amortization have been computed using the straight-line method for financial reporting purposes and an accelerated method for income tax reporting purposes.

Leasehold improvements are amortized over the shorter of their useful life or the initial lease term of the lease, without considering renewal periods. The Company will include a renewal period in determining the amortizable life of leasehold improvements in situations where a material investment in a leased property is made substantially after the initial lease term has begun. The Company will consider the number of years remaining on the initial lease term and other circumstances as appropriate. Estimated useful lives by major asset category are as follows:

<u>Asset Category</u>	<u>Life (in years)</u>
Building	40
Furniture and equipment	7-10
Leasehold improvements	Initial lease term
Computer software and hardware	3-8

Long-Lived Assets—All long-lived assets are reviewed when events or changes in circumstances indicate that the carrying value of the asset may not be recoverable. An impairment loss is recognized when estimated undiscounted cash flows to be generated by those assets are less than the carrying value of the asset. When impairment loss is recognized, the carrying amount is reduced to its estimated fair value. Fair value is based on appraisals or other reasonable methods to estimate value. The Company follows the requirements of Statement of Financial Accounting Standards No. 144, *Accounting for the Impairment or Disposal of Long-Lived Assets*.

Goodwill—Goodwill represents the excess of purchase price over fair value of net assets acquired. Statement of Financial Accounting Standards No. 142, *Goodwill and Other Intangible Assets*, prohibits the amortization of goodwill and intangible assets with indefinite useful lives. SFAS No. 142 requires that these assets be tested annually for impairment in the same manner as other long-lived assets. The Company tested its goodwill in the fourth quarters of fiscal 2006, 2005 and 2004 and no impairment recognition was required based on those tests.

Store Closures—In accordance with Statement of Financial Accounting Standards No. 146, *Accounting for Costs Associated with Exit or Disposal Activities*, the Company establishes reserves for closing expenses when these liabilities are incurred. Reserves for store closures are established by calculating the present value of the remaining lease obligation, if any, adjusted for estimated subtenant rental income and any contractual lease buyouts. Expenses associated with these costs are reflected in “Store operating expenses” on the accompanying statement of operations. The remaining lease obligation is inclusive of the net future minimum lease payments plus estimated common area maintenance charges, less any remaining accrual for straight-line rent. Store furniture and equipment are either transferred at historical cost to another location, written down to their net realizable value and sold or written down to zero if the Company does not expect to transfer or sell the assets. When a store is identified for closure, the amortization of store leasehold improvements is accelerated over the estimated remaining life of the store. Charges to store operating expenses totaled \$180,000, \$1,303,000, and \$108,000 in fiscal 2006, 2005 and 2004, respectively.

Gift Cards—Revenues from cash received from gift cards and gift certificates (gift cards) are deferred and are recognized upon redemption. In the fourth quarter of fiscal 2004, the Company made substantial reductions in its outstanding gift card liabilities for the first time, after determining an adequate period of time had elapsed to establish a reasonable current estimate of unredeemable gift cards. In the fourth quarter of fiscal 2005, the Company changed its method of extinguishing unredeemed gift card liabilities pursuant to guidance and views published by the Securities and Exchange Commission (the Commission) in December 2005. The Company now records the extinguishment of unredeemed gift card liabilities based on actual redemptions for the purchase of goods or services. Previously, the Company recorded the extinguishment of unredeemed gift card liabilities at the point of gift card issuance. The difference between these methods was not material and accordingly, there was no material impact on net earnings, cash flows or financial position as a result of the change.

Based on guidance and views published by the Commission, the Company records the extinguishment of unredeemed gift card liabilities as revenue in the accompanying statement of operations. Unredeemed gift cards recorded as revenue as described above totaled \$1,247,000, \$1,035,000 and \$1,874,000 in fiscal 2006, 2005 and 2004, respectively.

Advertising Costs—Advertising costs are expensed as incurred and included in store operating expenses in the accompanying statement of operations. Gross advertising expense was \$23,004,000, \$27,248,000, and \$27,189,000 for fiscal years 2006, 2005 and 2004, respectively. Certain advertising allowances received from non-merchandise vendors are recorded as a reduction to advertising expense and were \$147,000, \$1,033,000 and \$1,080,000 for fiscal years 2006, 2005 and 2004, respectively. Included in “Prepays and other current assets” in the Company’s balance sheet are prepaid advertising expenses of \$1,384,000 and \$1,002,000 as of February 3, 2007 and January 28, 2006, respectively.

Store Pre-opening Expenses—All start-up costs, such as payroll, rent, travel, and marketing costs; associated with the opening of new stores are expensed as incurred.

Income Taxes—Under Statement of Financial Accounting Standards No. 109, *Accounting for Income Taxes*, income taxes are recognized for the amount of taxes payable for the current year and for the impact of deferred tax assets and liabilities, which represent future tax consequences of events that have been recognized differently in the financial statements than for tax purposes. Deferred income taxes are provided for temporary differences between the financial reporting and tax bases of assets and liabilities at currently enacted tax rates. A valuation allowance for deferred income tax assets is recorded when it is more-likely than not that some portion or all of the deferred income tax assets will not be realized.

Fair Value of Financial Instruments—The carrying amounts of the Company’s financial instruments approximate fair value at February 3, 2007 and January 28, 2006.

Software Implementation Costs—The Company capitalizes labor costs associated with the implementation of significant information technology infrastructure projects. This is based on actual labor rates per person including benefits, for all the time spent in the implementation of the software in accordance with Statement of Position (“SOP”) No. 98-1, *Accounting for the Costs of Computer Software Developed or Obtained for Internal Use*. In fiscal 2006, the Company recorded approximately \$967,000 in all costs for its significant software implementation project, including \$78,000 in labor costs. There were no significant software implementation costs in either fiscal 2005 or fiscal 2004.

Recent Accounting Pronouncements—are as follows:

FIN 48—In June 2006, the Financial Accounting Standards Board issued Interpretation No. 48, *Accounting for Uncertainty in Income Taxes*, an interpretation of Statement of Financial Accounting Standards No. 109, *Accounting for Income Taxes*. FIN 48 clarifies the accounting for uncertainty in income taxes by prescribing a recognition threshold for tax positions taken or expected to be taken in a tax return. FIN 48 is effective for fiscal years beginning after December 15, 2006. The Company does not believe the adoption of FIN 48 will have a material impact on net earnings, cash flows or financial position.

SFAS No. 157—In September 2006, the Financial Accounting Standards Board, issued Statement of Financial Accounting Standards No. 157, *Fair Value Measurements*. SFAS No. 157 defines fair value, establishes a framework for measuring fair value in generally accepted accounting principles and expands disclosures about fair value measurements. SFAS No. 157 applies to other accounting pronouncements that require or permit fair value measurements, as the Financial Accounting Standards Board previously concluded in those accounting pronouncements that fair value is the relevant measurement attribute. Accordingly, SFAS No. 157 does not require any new fair value measurements. SFAS No. 157 is effective for fiscal years beginning after November 15, 2007. The Company plans to adopt SFAS No. 157 beginning in the first quarter of fiscal 2008. The Company is currently evaluating the impact, if any, the adoption of SFAS No. 157 will have on its financial position and results of operations.

SAB No. 108—In September 2006, the Securities and Exchange Commission (SEC) issued Staff Accounting Bulletin No. 108, *Considering the Effects of Prior Year Misstatements when Quantifying Misstatements in Current Year Financial Statements*, which provides interpretive guidance on the consideration of the effects of prior year misstatements in quantifying current year misstatements for the purpose of a materiality assessment. SAB No. 108 was effective for fiscal 2006. The adoption of this statement did not have a material impact on the Company’s results of operations, cash flows or financial position.

SFAS No. 159—In February 2007, the FASB issued Statement of Financial Accounting Standards No. 159, *The Fair Value Option for Financial Assets and Financial Liabilities*. SFAS No. 159 permits entities to choose to measure many financial instruments and certain other items at fair value. SFAS No. 159 will be effective at the beginning of fiscal 2008. The Company are currently evaluating the impact, if any, the adoption of SFAS No. 159 will have on its financial position and results of operations.

Noté 3. Credit Facility

Background. To meet the Company's liquidity and capital needs, it entered into a credit facility with Fleet Retail Finance in fiscal 2001. Fleet Retail Finance was subsequently acquired by Bank of America, N.A. As amended in February 2004, this credit facility provided for revolving loans in an aggregate amount of up to \$175 million including up to \$35 million in the form of letters of credit. In February 2005, the Company completed an amendment to the credit facility to increase availability under the facility from \$175 million to \$225 million and extend the maturity date to June 2009. In September 2005, the Company exercised its option to increase the facility to \$275 million. Availability under the facility may be further increased to \$300 million, subject to certain conditions including the absence of default. Other substantive terms of the facility were not materially changed by the February 2005 amendment or the September 2005 increase. In November 2005, the Company amended the credit facility to adjust the level of EBITDA and operating cash flow covenants, as defined in the credit agreement. The November 2005 amendment also specifies quarterly, rather than annual testing of the operating cash flow covenant beginning on January 28, 2006 and continuing each quarter thereafter.

On March 3, 2006, the Company amended and restated its credit facility. The principal purpose of the amendment was to add a \$20 million term loan to the credit facility. Effective May 25, 2006, the Company amended the credit facility to adjust the level of the EBITDA covenants for the months of April 2006 through July 2006. The credit facility continues to specify that testing of the EBITDA covenant is required when our availability is less than 10% of the lesser of (a) the revolving credit facility maximum on any given day or (b) the borrowing base, as defined and adjusted for certain reserves. It also continues to specify quarterly testing of the operating cash flow covenant. Other substantive terms of the agreement were not materially changed in the May 2006 amendment. Effective February 28, 2007, the Company amended the credit facility in order to have the \$30 million of cash received from its December 2006 stock sale taken into consideration in determining EBITDA, for pricing purposes only, to allow the Company to borrow at lower interest rates. At the time of the amendment and based on current EBITDA levels at that time, this change resulted in a reduced interest rate of 50 basis points relative to the revolving credit facility. Pricing also was modified on the \$20 million term loan, with prime borrowings reduced by 75 basis points and LIBOR borrowings reduced by 125 basis points.

The table below summarizes pertinent information regarding the Company's credit facility as of each of the three fiscal years ending February 3, 2007:

	February 3, 2007	January 28, 2006 <small>(in thousands)</small>	January 29, 2005
Revolving credit facility available	\$ 275,000	\$ 275,000	\$ 175,000
Term loan	\$ 20,000	\$ —	\$ —
Outstanding borrowings	\$ 168,485	\$ 174,936	\$ 114,441
Outstanding letters of credit	\$ 9,619	\$ 5,120	\$ 4,926
Borrowing availability	\$ 51,299	\$ 18,960	\$ 45,328
Interest rate at year end	7.3%	6.5%	4.3%
Agreement maturity	June 2009	June 2009	June 2007

Term Loan. In addition to the revolving credit facility, the Company's credit facility includes a \$20 million term loan. The amount of the term loan is not deducted in determining availability under the revolving credit facility, except to the extent that the balance of the term loan exceeds approximately 4% to 5% of the eligible borrowing base. The term loan matures on June 30, 2009 and bears interest at either (a) 1.25% over the higher of (i) Bank of America's prime rate or (ii) the federal funds rate plus 0.5%, or (b) LIBOR plus 2.75%. This additional financing was obtained to maintain the liquidity levels necessary to fund continued growth and seasonal cash flow needs.

Availability. The actual availability under the amended credit facility is limited to 85% of eligible credit card receivables plus the lesser of 68% to 75% of eligible inventory or 85% of the inventory's liquidation value, in each case, net of specified reserves and less any letters of credit outstanding. Interest

on the outstanding indebtedness under the revolving portion of the credit facility currently accrues at the lender's prime commercial lending rate plus 0% to 0.5% depending on the Company's EBITDA, as defined in the credit agreement, or, if the Company elects, at the one, two, three or six month LIBOR plus 1.50% to 2.25% depending on this EBITDA. The Company's obligations under the credit facility are secured by interests in substantially all of its assets.

Outstanding borrowings under the credit facility, including the term loan, as of February 3, 2007 and January 28, 2006, were \$168.5 million and \$174.9 million, respectively. The Company's total remaining borrowing capacity under the credit facility, after subtracting letters of credit, as of February 3, 2007 and January 28, 2006, was \$51.3 million and \$19.0 million, respectively.

Covenants. Financial covenants under the credit facility require that operating cash flow and EBITDA, as defined in the credit agreement, meet certain levels as adjusted over time. The credit facility continues to specify that testing of the EBITDA covenant is required when the Company's availability is less than 10% of the lesser of (a) the revolving credit facility maximum on any given day or (b) the borrowing base, as defined and adjusted for certain reserves. It also requires quarterly testing of the operating cash flow covenant. The February 2007 amendment also provided that the \$30 million raised in the Company's December 2006 stock sale may be utilized in the calculation of the operating cash flow covenant for a 12 month period effective December 2006.

The credit facility also contains other covenants that, among other matters, restrict the Company's ability to incur substantial other indebtedness, create certain liens, engage in certain mergers and acquisitions, sell assets, enter into certain capital leases or make junior payments, including cash dividends. The Company was in compliance with all covenants as of February 3, 2007 and January 28, 2006.

Note 4. Equity Financing

On December 8, 2006, the Company agreed with the holder of its \$20.0 million floating rate convertible subordinated note due August 15, 2010 to amend and restate the note in order to (i) eliminate the right to convert the note into shares of the Company's common stock and to (ii) eliminate the floating rate feature of the note and fix the interest rate at 6.75% per year, a reduction of 25 basis points. The holder of the note was a trust, the annual income beneficiary of which is the Company's chairman, David C. Pratt. Following the amendment of the note, the trust assigned the note to a newly formed limited liability company managed by Mr. Pratt and comprised of certain Pratt family trusts, the current beneficiaries of which are Mr. Pratt or members of his immediate family.

On December 11, 2006, the Company entered into a stock purchase agreement pursuant to which it sold 5,701,255 shares of its common stock to the Pratt LLC for an aggregate purchase price of \$50.0 million, or \$8.77 per share. The per share price of the stock purchase was equal to the closing bid price per share of the Company's common stock on the Nasdaq Global Market on December 11, 2006. The purchase price for the shares was paid by surrendering the note for cancellation of the \$20 million in principal due thereunder and by delivering \$30 million in cash for the balance of the purchase price. The net proceeds from the stock purchase, after deducting the expenses incurred to complete the deal, were approximately \$29.5 million, and were used to reduce outstanding borrowings under the Company's credit facility. The funding of this transaction and issuance of the shares occurred on December 13, 2006.

The modifications to the note and subsequent tendering and cancellation of the note in a short time period, was deemed to be an in-substance conversion and, in effect, represented a modification to the conversion price. Accordingly, the Company recorded a non-cash debt conversion charge in the amount of \$9.0 million. This charge was required because the note was tendered as consideration for equity shares and we issued additional shares beyond the number of shares issuable in the original note agreement. U.S. generally accepted accounting principles require that the resulting incremental 1.03 million shares issued, valued at the \$8.77 fair value, be reflected as a debt conversion charge in the Company's statement of operations.

The shares were not registered under the Securities Act of 1933 upon issuance. The Company is obligated to file a shelf registration

statement for resale of the shares and use its best efforts to cause the shelf registration statement to become effective under the Securities Act of 1933 within 420 days after the closing date of the stock purchase.

Note 5. Placement of Convertible Debt

On August 16, 2005, the Company completed a private offering of a \$20 million subordinated unsecured convertible note in a transaction exempt from registration pursuant to Rule 506 promulgated under the Securities Act of 1933. The note was convertible into common stock at any time by the holder at an initial conversion price of \$16.00 per share. The conversion price had no reset feature and adjusted only for dividends, stock divisions or combinations, recapitalizations and similar occurrences. The note had a maturity date of August 16, 2010 and bore interest at 7.0% per annum for the first two years, payable semi-annually. The proceeds from the note were used to reduce the outstanding borrowings under the Company's credit facility. Transaction costs associated with the placement were approximately \$85,000. This note was canceled in December 2006 as part of the equity financing described in note 4 above.

Note 6. Shareholders' Equity

On April 26, 2004, the Company completed its initial public offering of 6,583,750 shares of common stock, including the underwriters' over-allotment, resulting in proceeds to the Company of \$96.2 million, net of transaction costs of \$9.1 million. The Company used \$9.8 million of the net proceeds to repay all of its debt to Holiday Companies and the remaining \$86.4 million to reduce outstanding indebtedness under its credit facility with a financial institution.

Upon completion of its initial public offering and the filing of its Amended and Restated Articles of Incorporation in connection therewith, the authorized capital stock of the Company consists of 100,000,000 shares of common stock, par value \$.01 per share, and 5,000,000 shares of preferred stock, par value \$.01 per share. The Company's previously outstanding Class A, B and C convertible preferred stock was converted into 6,664,927 shares of common stock and its outstanding Class A and B common stock was recapitalized into 973,248 shares of common stock. All cumulative unpaid dividends to preferred shareholders were eliminated with the conversion to common stock.

Common Stock—Holders of the Company's common stock are entitled to one vote per share in the election of directors and on all other matters on which shareholders are entitled or permitted to vote. Holders of common stock are not entitled to cumulative voting rights. Therefore, holders of a majority of the shares voting for the election of directors can elect all the directors. Subject to the terms of any outstanding series of preferred stock, the holders of common stock are entitled to dividends in amounts and at times as may be declared by the board of directors out of funds legally available. Upon the Company's liquidation or dissolution, holders of common stock are entitled to share ratably in all net assets available for distribution to shareholders after payment of any liquidation preferences to holders of preferred stock. Holders of common stock have no redemption, conversion or preemptive rights.

The Class B non-voting common stock issued in 1998 in exchange for \$4,100,000 of promissory notes receivable was converted to common stock effective with the Company's initial public offering. The notes bear interest at 3.9%, payable monthly, and are due in November and December 2007. Principal is not subject to prepayment.

Preferred Stock—The Company's 5,000,000 authorized shares of preferred stock can be issued in one or more series and with the designation and preferences for each series as are stated in the corporate resolutions providing for these preferences and designations, adopted by the Company's board of directors. The Company's articles of incorporation authorize its board of directors to determine the voting, dividend, redemption and liquidation preferences and limitations pertaining to the series. The board of directors, without shareholder approval, may issue preferred stock with voting rights and other rights that could adversely affect the voting power of the holders of the Company's common stock and could have certain anti-takeover effects. The Company has no present plans to issue any shares of preferred stock.

Note 7. Stock-Based Compensation

Plans—The Company provides to its employees, including executive management and members of the Company's board of directors, stock-based compensation awards as a long-term incentive. The Company has issued options to purchase shares of common stock at various times and under different stock option plan and non-plan programs.

In February 2004, the Company adopted the 2004 Omnibus Stock Plan, which, as amended, authorizes the granting of stock-based awards up to 4,000,000 shares of common stock. This plan was originally approved by shareholders in March 2004 and an amendment and restatement of this plan, including an increase in the number of available shares, was approved by shareholders in June 2005. Under this plan, awards may be made to employees, directors, and consultants. The types of awards that may be granted under the plan include restricted and unrestricted stock, incentive and nonstatutory stock options, stock appreciation rights and other stock awards. Under this plan, as of February 3, 2007, there were 2,906,205 options to purchase common stock outstanding, with a weighted average exercise price of \$10.70 and a weighted average remaining life of 8.3 years. The options granted under this plan, for which the vesting was not accelerated, typically vest in three equal annual increments from the date of grant.

In February 2002, the Company implemented the 2002 Stock Option Plan, a compensatory nonqualified stock option plan for certain store and office management personnel. As of February 3, 2007, there were 141,918 options outstanding under this plan to purchase the Company's common stock with the ability to exercise being contingent upon the attainment of a \$32.06 per share price for its common stock as of the end of a fiscal year based upon the higher of the closing price on the last day of the fiscal year or a five-day trailing average stock price taken at that time. The options have a 10-year life and vest in equal annual increments over three years beginning June 30, 2004, subject to the Company meeting the targeted stock price of \$32.06 per share at a fiscal year end. The exercise price is \$4.47 per share. The Company is no longer authorized to grant any awards under the 2002 Stock Option Plan.

Certain approved awards were granted in fiscal 1998 and fiscal 2002 and were not under a specific option plan program. As of February 3, 2007, the Company has outstanding 897,352 options to purchase common stock from these non-plan awards.

As of February 3, 2007, there were a total of 3,945,475 options to purchase common stock outstanding, under all of the Company's stock option plans and non-plan stock options, with a weighted average exercise price of \$10.16 and a weighted average remaining life of 7.4 years.

Stock-Based Compensation Expense—Under SFAS 123R, the amount of compensation expense for stock-based awards to be recognized during a period is based on the portion of the awards that are ultimately expected to vest. The Company estimates option forfeitures at the time of grant and revise those estimates in subsequent periods if actual forfeitures differ significantly from those estimates. Cost is recognized using a straight-line amortization method over the requisite service period, which typically is the vesting period. As a result of adopting SFAS 123R, the Company's net income from operations and net loss for fiscal year 2006 were negatively impacted by \$1.3 million. Basic and diluted loss per share for fiscal year 2006 is \$.09 higher than under APB No. 25. There was no impact on cash flows.

The table below illustrates the effect on the Company's net loss and net loss per share applicable to common shareholders as if it had applied the fair value recognition provisions of SFAS No. 123R to stock-based employee compensation for each of the three fiscal years in the period ended February 3, 2007 (in thousands, except per share data).

	February 3, 2007	January 28, 2006	January 29, 2005
Net loss applicable to common shareholders, as reported	\$(13,242)	\$(13,307)	\$(2,735)
Add: Stock-based employee compensation expense in reported net loss applicable to common shareholders.....	1,239	242	—
Deduct: Stock-based employee compensation expense determined under the fair value method	<u>(1,239)</u>	<u>(12,862)</u>	<u>(2,973)</u>
Pro forma net loss applicable to common shareholders	<u>\$(13,242)</u>	<u>\$(25,927)</u>	<u>\$(5,708)</u>
Loss per common share:			
Basic and diluted—as reported	\$ (0.88)	\$ (0.93)	\$ (0.25)
Basic and diluted—pro forma	\$ (0.88)	\$ (1.82)	\$ (0.51)
Weighted average common shares outstanding	15,100	14,257	11,092

For purposes of determining the estimated fair value of stock-based payment awards on the date of grant under SFAS 123R, the Company uses the Black-Scholes Model. The Black-Scholes Model requires the input of certain assumptions that involve judgement. Because the Company's employee stock options have characteristics significantly different from those of publicly traded options, and because changes in the input assumptions can affect the fair value estimate materially, the existing models may not provide a reliable single measure of the fair value of the Company's employee stock options. The Company will continue to assess the assumptions and methodologies used to calculate estimated fair value of stock-based compensation. Circumstances may change and additional data may become available over time. These changes could result in modifications to these assumptions and methodologies and thereby materially impact the Company's fair value determination. The fair value of each option grant under the Black-Scholes option-pricing model was based on the following assumptions:

	February 3, 2007	January 28, 2006	January 29, 2005
Average risk-free interest rate.....	4.69%	4.15%	3.59%
Expected dividend yield	0.0%	0.0%	0.0%
Expected stock price volatility.....	50%	50%	50%
Expected life of stock options (years)	5	5	5

A summary of the activity of the Company's stock option plans for each of the three fiscal years in the period ended February 3, 2007 is presented below:

	Fiscal 2006		Fiscal 2005		Fiscal 2004	
	Number of Shares Under Option	Weighted- Average Exercise Price	Number of Shares Under Option	Weighted- Average Exercise Price	Number of Shares Under Option	Weighted- Average Exercise Price
Outstanding—beginning of year ..	3,680,804	\$10.84	2,237,327	\$ 12.53	1,061,837	\$ 7.68
Granted	705,709	6.89	1,799,936	8.95	1,264,678	16.66
Exercised	(3,637)	6.67	(35,000)	8.28	—	—
Forfeited	(437,401)	10.72	(321,459)	12.25	(89,188)	13.38
Outstanding—end of year.....	<u>3,945,475</u>	<u>\$10.16</u>	<u>3,680,804</u>	<u>\$ 10.84</u>	<u>2,237,327</u>	<u>\$12.53</u>
Weighted-average fair value of options granted during the year.		\$ 3.38		\$ 4.22		\$ 7.92
Aggregate intrinsic value of options exercised		\$9,975		\$94,000		\$ —

The following tables summarize information about stock options outstanding, including those issued to management and other executives, as of February 3, 2007:

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All Options Outstanding				
<u>Range of Exercise Prices</u>	<u>Number Outstanding</u>	<u>Weighted-Average Exercise Price</u>	<u>Aggregate Intrinsic Value</u>	<u>Weighted-Average Remaining Contractual Life</u>
\$ 4.47 - 7.99	1,194,572	\$ 5.85	\$5,111,569	8.6 Years
8.00 - 11.99	1,833,175	9.61	1,672,690	6.7 Years
12.00 - 15.99	64,600	12.90	—	7.8 Years
16.00 - 19.99	693,828	16.00	—	7.2 Years
20.00 - 23.99	119,300	21.46	—	7.5 Years
24.00 - 24.40	40,000	24.40	—	7.2 Years
\$ 4.47 - 24.40	<u>3,945,475</u>	<u>\$10.16</u>	<u>\$6,784,260</u>	7.4 Years

Currently Exercisable				
<u>Range of Exercise Prices</u>	<u>Number Outstanding</u>	<u>Weighted-Average Exercise Price</u>	<u>Aggregate Intrinsic Value</u>	<u>Weighted-Average Remaining Contractual Life</u>
\$ 4.47 - 7.99	180,486	\$ 5.63	\$ 812,662	8.8 Years
8.00 - 11.99	1,668,842	9.71	1,399,241	6.4 Years
12.00 - 15.99	64,600	12.90	—	7.8 Years
16.00 - 19.99	693,828	16.00	—	7.2 Years
20.00 - 23.99	119,300	21.74	—	7.5 Years
24.00 - 24.40	40,000	24.40	—	7.2 Years
\$ 4.47 - 24.40	<u>2,767,056</u>	<u>\$11.82</u>	<u>\$2,211,902</u>	6.9 Years

As of February 3, 2007, there was approximately \$2.4 million of total unrecognized stock-based compensation expense related to unvested option awards. Unrecognized stock-based compensation is expected to be recognized over a weighted-average period of 2.4 years.

Accelerated Vesting—On two separate occasions in fiscal 2005, the compensation committee of the Company's board of directors approved the acceleration of vesting for certain outstanding options to purchase common stock, that had exercise prices greater than \$10.53, relative to the March 2005 acceleration, and \$5.69, relative to the November 30, 2005 acceleration, the closing prices of the Company's common stock on those dates. In total, the Company accelerated options to purchase approximately 2,696,000 shares of common stock.

As a result of the accelerations, all of these options became fully exercisable and will remain exercisable through their respective termination dates, which vary, but do not extend past 2015.

noncompetition agreement dated May 16, 1996, made between its 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 the Company to grant Cabela's a license that would preclude the Company's use of certain of its 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 the Company's 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 the Company's motion to file an amended reply to Cabela's counterclaim, in which the Company raised multiple additional issues regarding the validity, enforceability, and interpretation of any trademark rights allegedly possessed by Cabela's, and any limitations upon the Company's 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.

The Company is 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 the Company markets its products in certain distribution channels in the future. An adverse result is not expected to have an affect on any current use that the Company makes of its trademarks or the marketing of its products through its retail stores. Nor would an unfavorable result preclude the Company from engaging in direct marketing activities such as catalog and internet sales. A favorable result would confirm the Company's 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, the Company is not a party to any legal proceedings that are expected, individually or in the aggregate, to have a material adverse effect on its financial condition or results of operations.

Note 12. Employee Benefit Plans

The Company has a profit sharing and 401(k) savings plan that qualifies under Section 401(k) of the Internal Revenue Code covering substantially all full time employees. Under the profit sharing portion of the plan, annual contributions are discretionary and determined by management. The plan's 401(k) feature allows employees to make pretax contributions to their 401(k) accounts, of which the Company matches 100% of the first 3% of a participant's annual salary contributed to their account and 50% of the next 2% of the participant's annual salary contributed to their account. Company contributions to the plan under both the profit sharing feature and 401(k) feature were \$1,054,000, \$688,000 and \$676,000 in fiscal 2006, 2005, and 2004, respectively.

In February 2005, the Company's board of directors approved the establishment of an employee stock purchase plan (ESPP) that enables substantially all fulltime employees to purchase common stock of the Company by contributions through payroll deductions. Purchases of common stock are made from accumulated employee contributions at the end of designated six-month purchase periods. Pursuant to the terms of the ESPP, the Company has currently established a 10% discount from the stock price on the designated purchase date. During fiscal years 2006 and 2005, there were 37,609 and 28,362 shares of common stock, respectively, issued under the plan at an average price of \$7.04 and \$7.38 per share, respectively.

Refer to Note 7. "*Stock-Based Compensation*" for information on employee stock options.

The following tables summarize information about stock options outstanding, including those issued to management and other executives, as of February 3, 2007:

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All Options Outstanding				
<u>Range of Exercise Prices</u>	<u>Number Outstanding</u>	<u>Weighted-Average Exercise Price</u>	<u>Aggregate Intrinsic Value</u>	<u>Weighted-Average Remaining Contractual Life</u>
\$ 4.47 - 7.99	1,194,572	\$ 5.85	\$5,111,569	8.6 Years
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Currently Exercisable				
<u>Range of Exercise Prices</u>	<u>Number Outstanding</u>	<u>Weighted-Average Exercise Price</u>	<u>Aggregate Intrinsic Value</u>	<u>Weighted-Average Remaining Contractual Life</u>
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16.00 - 19.99	693,828	16.00	—	7.2 Years
20.00 - 23.99	119,300	21.74	—	7.5 Years
24.00 - 24.40	40,000	24.40	—	7.2 Years
\$ 4.47 - 24.40	<u>2,767,056</u>	<u>\$11.82</u>	<u>\$2,211,902</u>	6.9 Years

As of February 3, 2007, there was approximately \$2.4 million of total unrecognized stock-based compensation expense related to unvested option awards. Unrecognized stock-based compensation is expected to be recognized over a weighted-average period of 2.4 years.

Accelerated Vesting—On two separate occasions in fiscal 2005, the compensation committee of the Company's board of directors approved the acceleration of vesting for certain outstanding options to purchase common stock, that had exercise prices greater than \$10.53, relative to the March 2005 acceleration, and \$5.69, relative to the November 30, 2005 acceleration, the closing prices of the Company's common stock on those dates. In total, the Company accelerated options to purchase approximately 2,696,000 shares of common stock.

As a result of the accelerations, all of these options became fully exercisable and will remain exercisable through their respective termination dates, which vary, but do not extend past 2015.

Note 8. Selected Balance Sheet Information (in thousands)

	<u>February 3, 2007</u>	<u>January 28, 2006</u>
<i>Property and equipment consists of:</i>		
Building	\$ 6,972	\$ 6,972
Furniture and equipment	112,192	95,746
Leasehold improvements	61,196	52,036
Computer software and hardware	39,688	34,219
	<u>220,048</u>	<u>188,973</u>
Less: Accumulated depreciation and amortization	<u>(75,609)</u>	<u>(56,526)</u>
Property and equipment, net	<u>\$144,439</u>	<u>\$132,447</u>

Depreciation and amortization expense for property and equipment, including property under capital leases, totaled \$21,975,000, \$18,233,000, and \$11,656,000 for fiscal 2006, 2005 and 2004, respectively. As of February 3, 2007 and January 28, 2006, the cost of assets recorded under capital leases was \$13,784,000 and \$11,408,000, respectively, with related accumulated depreciation of \$1,304,000 and \$1,117,000, respectively.

	<u>February 3, 2007</u>	<u>January 28, 2006</u>
<i>Other assets consists of:</i>		
Goodwill	\$ 4,380	\$ 4,380
Deferred loan costs	5,346	4,618
Other	1,099	10
	<u>10,825</u>	<u>9,008</u>
Less: Accumulated amortization	<u>(5,127)</u>	<u>(4,272)</u>
Other assets, net	<u>\$ 5,698</u>	<u>\$ 4,736</u>

As of February 3, 2007 and January 28, 2006, accumulated amortization of goodwill was \$1,543,000. As of February 3, 2007 and January 28, 2006, accumulated amortization of deferred loan costs was \$3,584,000 and \$2,730,000, respectively.

	<u>February 3, 2007</u>	<u>January 28, 2006</u>
<i>Accrued and other current liabilities consist of:</i>		
Gift cards and gift certificate liabilities	\$25,616	\$23,413
Payroll and related fringe benefits	6,456	4,183
Sales, property and use taxes	5,530	3,436
Lease related costs	1,325	1,232
Insurance reserves and liabilities	2,014	1,453
Interest	391	1,235
Due-to-related parties	22	89
Other accruals and current liabilities	<u>6,678</u>	<u>6,041</u>
Accrued and other current liabilities	<u>\$48,032</u>	<u>\$41,082</u>

	<u>February 3, 2007</u>	<u>January 28, 2006</u>
<i>Long term debt consists of:</i>		
Capitalized lease obligations	11,428	10,953
Term note	4,993	—
Long term debt	<u>\$16,421</u>	<u>\$10,953</u>

	<u>February 3, 2007</u>	<u>January 28, 2006</u>
<i>Other long-term liabilities consist of:</i>		
Deferred rent	\$25,310	\$24,288
Insurance reserves and other liabilities	<u>2,033</u>	<u>1,684</u>
Other long-term liabilities.....	<u>\$27,343</u>	<u>\$25,972</u>

Note 9. Self-Insurance Reserves

The Company is self-insured for a portion of its workers' compensation, health, general, auto, and property liability insurance. Liabilities associated with the risks that are retained by the Company are estimated, in part, by considering the frequency and severity of claims, claim development history and settlement practices. The estimated accruals for these liabilities could be affected if future occurrences and claims differ from these assumptions and historical trends. As of February 3, 2007 and January 28, 2006, these reserves were \$2,355,000 and \$1,876,000, respectively, and were included in accrued liabilities and other long term liabilities in the balance sheet. The Company's liability for workers compensation is discounted as payments are projected to be made over an extended period of time. Prior to fiscal 2004, Holiday Companies arranged the Company's insurance coverage and the Company paid Holiday for these services. Beginning in April 2004, the Company obtained insurance policies directly for appropriate areas of risk.

Note 10. Income Taxes

Under SFAS No. 109, "Accounting for Income Taxes", income taxes are recognized for the amount of taxes payable for the current year and for the impact of deferred tax assets and liabilities, which represent future tax consequences of events that have been recognized differently in the financial statements than for tax purposes.

The Company did not record a tax provision for the three fiscal years ending February 3, 2007 due to accumulated operating losses. The Company determined that realization of the tax benefit related to the net deferred tax assets was uncertain. Accordingly, a valuation allowance was recorded for the entire balance of the net current and non-current deferred tax assets as of February 3, 2007 and January 28, 2006.

The Company's effective tax rate differs from the federal statutory rate as follows:

	<u>February 3, 2007</u>	<u>January 28, 2006</u>	<u>January 29, 2005</u>
Federal statutory tax rate	34.0%	34.0%	34.0%
State and local income taxes, net of federal benefit	6.0%	6.0%	6.0%
Valuation allowance	<u>(40.0)%</u>	<u>(40.0)%</u>	<u>(40.0)%</u>
Effective income tax rate	<u>0%</u>	<u>0%</u>	<u>0%</u>

Components of deferred tax assets are as follows: (in thousands)

	February 3, 2007	January 28, 2006
Net current deferred tax assets:		
Compensation-related	\$ 910	\$ 743
Inventory valuation	981	1,014
Insurance	942	751
Gift cards	1,130	550
Deferred revenue	473	329
Sales returns	232	200
Other	444	334
Total current deferred tax assets	<u>5,112</u>	<u>3,921</u>
Valuation allowance	<u>(5,112)</u>	<u>(3,921)</u>
Net current deferred tax assets	<u>\$ —</u>	<u>\$ —</u>
Net noncurrent deferred tax assets:		
Net operating loss carryforwards	\$ 21,830	\$ 19,655
Tax credit carryforwards	77	76
Fixed assets	(18,274)	(15,811)
Rent expense	3,755	3,341
Intangible assets	(539)	(411)
Other	11	12
Total noncurrent deferred tax assets	<u>6,860</u>	<u>6,862</u>
Valuation allowance	<u>(6,860)</u>	<u>(6,862)</u>
Net noncurrent deferred tax assets	<u>\$ —</u>	<u>\$ —</u>

In 2005, the Company determined that a “change in ownership”, within the meaning of Section 382 of the Internal Revenue Code, occurred effective February 8, 2005. This change in ownership imposes a limitation on the amount of the Company’s net operating losses that it may deduct for tax purposes in any given year. The Company has federal and state net operating loss carry-forwards of approximately \$54.5 million expiring between 2016 and 2026. The amount of its net operating loss carry-forwards subject to the Section 382 limitation was \$10.9 million at February 3, 2007. Unrestricted net operating losses carry-forwards were \$43.5 million. The Company does not expect this limitation to materially impact its future tax provision for financial reporting purposes.

Note 11. Commitments and Contingencies

Term Note—In July 2006, the Company completed the purchase of an aircraft and financed \$5.3 million of the \$5.7 million purchase price with a term note. The term note matures in seven years and has a 7.26% fixed annual interest rate. The note is collateralized by the aircraft.

Operating Leases—The Company leases retail, distribution center and corporate office properties under operating leases that have initial or remaining noncancellable terms exceeding one year. Most of the leases contain escalation clauses and require payment of real estate taxes, utilities and common area maintenance costs. Most of the retail store property leases typically include one or more renewal options of typically 5 year periods each. Lease expense under these agreements was \$54,003,000, \$45,698,000 and \$32,974,000 in fiscal 2006, 2005 and 2004, respectively. The Company recognizes rent expense beginning on the earlier of the commencement date of the lease or the date when it takes possession of the building for construction of leaseholds or the initial setup of fixtures and merchandise, and recognizes the excess of this expense over the cash payments as deferred rent in the “Long term liabilities” caption in the accompanying balance sheets.

During fiscal 2005 and 2004, the Company had certain involvement in the build-to-suit construction of three of its new stores. In accordance with SFAS No. 98, *Accounting for Leases: Sale-Leaseback*

Transactions Involving Real Estate, Sales-Type Leases of Real Estate, Definition of the Lease Term, and Initial Direct Costs of Direct Financing Leases and EITF 97-10, *The Effect of Lessee Involvement in Asset Construction*, the Company's involvement, and the resulting lease arrangements, qualified for sales-leaseback treatment. During fiscal 2005 and 2004, the Company expended \$10,859,000 for the cost of construction for the new stores, increasing property and equipment, and received \$10,843,000 for amounts reimbursed from landlords, reducing property and equipment. The resulting difference, net for the three stores, is recognized as a loss and amortized on a straight-line basis over the initial term of the lease agreements. The Company records rent expense for these three stores under operating lease treatment in accordance with its stated policy. The Company does not have any retained or contingent interests in the properties nor does it provide any guarantees in connection with the sale and leaseback of properties.

Capital Leases—The Company leases certain technology equipment and leasehold improvements under leases that have been accounted for as capital leases. The leases vary from four to 15 years in term and require monthly payments of principal and interest. The Company also entered into a lease agreement in fiscal 2004 for a retail store that requires a maximum \$150,000 quarterly payment obligation for 20 years from lease inception. The agreement also provides a bargain purchase option at the end of the lease term, as defined. The required payment obligation is reduced by allowable sales tax credits that the Company earns under a related site development agreement. The Company can not estimate the amount of these future credits and accordingly, has not reduced the obligations disclosed in the table below.

Aggregate minimum lease and debt obligations as of February 3, 2007, under the Company's operating leases, capital leases and term note, are as follows (in thousands):

	<u>Total</u>	<u>Operating Leases</u>	<u>Capital Leases</u>	<u>Term Note</u>
Fiscal 2007	\$ 59,142	\$ 56,586	\$ 1,975	\$ 581
Fiscal 2008	61,823	59,551	1,691	581
Fiscal 2009	61,414	59,449	1,384	581
Fiscal 2010	60,179	58,692	906	581
Fiscal 2011	59,215	57,768	866	581
Thereafter.....	405,089	391,983	8,715	4,391
	<u>\$706,862</u>	<u>\$684,029</u>	<u>\$15,537</u>	<u>\$ 7,296</u>
Less: Interest	(4,735)	—	(2,643)	(2,092)
Outstanding principal obligations.....	<u>\$702,127</u>	<u>\$684,029</u>	<u>\$12,894</u>	<u>\$ 5,204</u>

Purchase commitments—In the ordinary course of business, the Company utilizes standby and documentary letters of credit in connection with the importing of merchandise, as well as for insurance purposes. The Company also contracts for the purchase of various other goods and services, related primarily to marketing, advertising and information technology. These commitments are not recorded in the Company's financial statements in accordance with U.S. generally accepted accounting principles, as the goods or services under these commitments have not been received or consumed. As of February 3, 2007 and January 28, 2006, these outstanding commitments totaled \$12.6 million and \$8.5 million, respectively.

The Company typically enters into arrangements with vendors for the purchase of merchandise. Because these purchase orders do not contain any termination payments or other penalties if cancelled, they are not included in the amount of outstanding commitments described above. In accordance with U.S. generally accepted accounting principles, these obligations are not recorded in the Company's financial statements.

Legal Proceedings

Trademark Litigation—On July 2, 2004, the Company 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 its 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 the Company to grant Cabela's a license that would preclude the Company's use of certain of its 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 the Company's 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 the Company's motion to file an amended reply to Cabela's counterclaim, in which the Company raised multiple additional issues regarding the validity, enforceability, and interpretation of any trademark rights allegedly possessed by Cabela's, and any limitations upon the Company's 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.

The Company is 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 the Company markets its products in certain distribution channels in the future. An adverse result is not expected to have an affect on any current use that the Company makes of its trademarks or the marketing of its products through its retail stores. Nor would an unfavorable result preclude the Company from engaging in direct marketing activities such as catalog and internet sales. A favorable result would confirm the Company's 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, the Company is not a party to any legal proceedings that are expected, individually or in the aggregate, to have a material adverse effect on its financial condition or results of operations.

Note 12. Employee Benefit Plans

The Company has a profit sharing and 401(k) savings plan that qualifies under Section 401(k) of the Internal Revenue Code covering substantially all full time employees. Under the profit sharing portion of the plan, annual contributions are discretionary and determined by management. The plan's 401(k) feature allows employees to make pretax contributions to their 401(k) accounts, of which the Company matches 100% of the first 3% of a participant's annual salary contributed to their account and 50% of the next 2% of the participant's annual salary contributed to their account. Company contributions to the plan under both the profit sharing feature and 401(k) feature were \$1,054,000, \$688,000 and \$676,000 in fiscal 2006, 2005, and 2004, respectively.

In February 2005, the Company's board of directors approved the establishment of an employee stock purchase plan (ESPP) that enables substantially all fulltime employees to purchase common stock of the Company by contributions through payroll deductions. Purchases of common stock are made from accumulated employee contributions at the end of designated six-month purchase periods. Pursuant to the terms of the ESPP, the Company has currently established a 10% discount from the stock price on the designated purchase date. During fiscal years 2006 and 2005, there were 37,609 and 28,362 shares of common stock, respectively, issued under the plan at an average price of \$7.04 and \$7.38 per share, respectively.

Refer to Note 7. "*Stock-Based Compensation*" for information on employee stock options.

Note 13. Supplemental Cash Flow Information

Interest paid under all debt instruments as well as capitalized lease obligations was \$18,903,000, \$9,470,000 and \$4,541,000 for fiscal 2006, 2005 and 2004. Income taxes paid were \$0 for all years presented.

During fiscal 2006, the Company purchased information technology equipment totaling \$2.4 million financed through capital lease transactions. During fiscal 2004, the Company purchased property and equipment totaling \$11.7 million financed through capital lease transactions. For one particular store location, the Company entered into a lease containing a bargain-purchase option that is exercisable upon the cancellation of a note obligation by the economic development authority in the region. The Company capitalized this lease obligation, resulting in the recording of building and equipment of \$9.0 million with a corresponding lease obligation of \$9.0 million. These capital lease purchases are excluded from the caption "purchases of property and equipment" in the Company's statements of cash flows for fiscal 2006 and fiscal 2004 as they did not require the use of cash.

Note 14. Related-Party Transactions

The Company has had significant transactions with Holiday Companies for various services that reflect prices and rates that the Company believes are representative of market prices. On March 17, 2005, the Company amended the Shared Services Agreement dated as of February 2, 2004 by and between Holiday Companies and the Company. The amendment substantially reduced the number of services provided by Holiday Companies as the Company either provides for these services internally or independently secures these services from third party providers. The Shared Services Agreement was terminated on February 3, 2006. The principal transactions with Holiday include:

- The Company previously leased office and retail space and continues to lease retail space in one store location from Holiday Companies at current market rates. Total occupancy charges paid to Holiday Companies were \$345,000, \$739,000 and \$1,474,000 in fiscal 2006, 2005 and 2004, respectively.
- Holiday Companies provided certain administrative, information systems, legal, income tax, systems support, treasury, insurance, and human resources services to the Company. Charges for these services were \$0, \$159,000 and \$2,054,000 in fiscal 2006, 2005 and 2004, respectively. Beginning in April 2004, the Company secured independent insurance policies for all areas of risk, which reduced the Holiday charges for these services.
- Holiday Companies guarantees certain future lease obligations totaling \$28,127,000 and \$33,245,000 as of February 3, 2007 and January 28, 2006, respectively. The Company does not pay a fee for these guarantees.
- In November 2005, the Company assigned its rights in an aircraft purchase contract to Erickson Petroleum Corporation, an affiliate of Holiday Companies. In exchange for the assignment, the Company received a payment of \$1,450,000, including the refund of the \$1,250,000 deposit previously paid to the aircraft manufacturer.
- The Company had amounts due to Holiday of \$22,000 and \$89,000 at February 3, 2007 and January 28, 2006, respectively.

In December 2006 and August 2005, the Company engaged in transactions with entities controlled by the Company's current chairman of the board. These transactions are described in more detail in Notes 4 and 5.

The Company subleased hangar space from an entity one-third owned by the Company's chief executive officer at an annual rate of \$33,000.

During fiscal year 2006, we paid Rex Realty, Inc., a company owned by our chairman of the board, approximately \$160,000 for aircraft fuel and other expenses related to our use of Rex Realty Inc.'s corporate aircraft.

The Company believes that the terms of any of these related party arrangements are no less favorable to the Company than would be the terms of comparable arrangements conducted at arms-length between unrelated parties.

Note 15. Earnings Per Share

Basic and diluted loss applicable to common shareholders per share is based upon the weighted average number of shares outstanding. All potentially dilutive stock options and convertible securities to purchase shares of the Company's common stock have been excluded from the calculation of weighted average shares outstanding for all years presented because their inclusion would have an anti-dilutive effect on loss per share. These shares of common stock subject to potential issuance as a result of these securities totaled 3,945,475, 4,930,804 and 2,237,327 as of February 3, 2007, January 28, 2006 and January 29, 2005, respectively. The potential shares issuable as of January 28, 2006 included 1,250,000 shares that were issuable upon conversion of the convertible notes. This convertible note was no longer outstanding as of February 3, 2007.

The Company continued to reflect the accretion of cumulative unpaid dividends on its previously outstanding Class A, B and C convertible preferred stock, in accordance with U.S. generally accepted accounting standards, until the closing of its initial public offering. No such dividends were paid and any unpaid cumulative dividends were extinguished with the changes in capital structure completed in connection with the Company's initial public offering. Accordingly, no such obligation or reduction to net income (loss) is reflected in the Company's results of operations after May 1, 2004.

Note 16. Involuntary Conversion of Property and Equipment

In June 2006, the Company incurred significant flood damage to the Company's Binghamton, New York store. The building was damaged and its contents were essentially declared a total loss. The Company was adequately insured to enable it to recover the retail value of its merchandise inventory and replace all of its property and equipment that was destroyed. For the third quarter ended October 28, 2006, the Company recorded a gain from this involuntary conversion of assets of \$1,400,000. As of February 3, 2007, the Company has received cash proceeds of approximately \$6.1 million and has recorded in accounts receivable approximately \$750,000 in costs remaining to be reimbursed by the Company's insurance company. Proceeds were reinvested in the store which re-opened on September 29, 2006.

Note 17. Subsequent Event

Effective February 28, 2007, the Company amended its credit facility in order to have the \$30 million of cash from the Company's December 2006 stock sale be taken into consideration in determining EBITDA, for pricing purposes only, primarily to allow the Company to borrow at lower interest rates. At the time of the amendment and based on current EBITDA levels at that time, this change resulted in a reduced interest rate of 50 basis points relative to the revolving credit facility. Pricing also was modified for the \$20 million term loan with prime borrowings reduced by 75 basis points and LIBOR borrowings reduced by 125 basis points. Other substantive terms of the credit facility agreement were not materially changed in the February 28, 2007 amendment.

Note 18. Summary of Quarterly Results (Unaudited)

The following tables present selected quarterly financial data for the periods ended as indicated (in thousands, except stores, comparable sales, and per share data). The Company's fourth quarter in fiscal

year 2006 includes 14 weeks, whereas in fiscal year 2005 the fourth quarter includes 13 weeks. All other fiscal quarters presented include 13 weeks. The Company's fiscal quarters end on the Saturday closest to the end of April, July, October and January.

	Fiscal 2006				
	First Quarter	Second Quarter	Third Quarter	Fourth Quarter	Total
Sales	\$ 155,581	\$ 182,482	\$ 246,491	\$ 326,885	\$ 911,438
Gross profit	\$ 26,992	\$ 44,074	\$ 62,897	\$ 90,754	\$ 224,716
Operating income (loss)	\$ (18,981)	\$ (2,712)	\$ 7,482	\$ 29,193	\$ 14,982
Net income (loss)	\$ (22,967)	\$ (7,559)	\$ 2,026	\$ 15,258	\$ (13,242)
Income (loss) applicable to common shareholders per share:					
Basic	\$ (1.61)	\$ (0.53)	\$ 0.14	\$ 0.88	\$ (0.88)
Diluted	\$ (1.61)	\$ (0.53)	\$ 0.14	\$ 0.85	\$ (0.88)
Stores open at quarter end	99	99	105	105	105
Comparable store sales increase (decrease)	(10.4)%	(6.7)%	7.4%	0.4%	(1.1)%
Total square feet at end of period	5,085	5,104	5,489	5,483	5,483

	Fiscal 2005				
	First Quarter	Second Quarter	Third Quarter	Fourth Quarter	Total
Sales	\$ 135,259	\$ 173,787	\$ 214,606	\$ 280,822	\$ 804,474
Gross profit	\$ 25,310	\$ 40,856	\$ 50,405	\$ 75,873	\$ 192,445
Operating income (loss)	\$ (15,904)	\$ (8,032)	\$ (4,304)	\$ 26,038	\$ (2,201)
Net income (loss)	\$ (17,568)	\$ (10,381)	\$ (7,540)	\$ 22,182	\$ (13,307)
Income (loss) applicable to common shareholders per share:					
Basic	\$ (1.23)	\$ (0.73)	\$ (0.53)	\$ 1.55	\$ (0.93)
Diluted	\$ (1.23)	\$ (0.73)	\$ (0.53)	\$ 1.45	\$ (0.93)
Stores open at quarter end	87	91	99	98	98
Comparable store sales decrease	(1.0)%	(4.2)%	(8.5)%	(7.4)%	(6.0)%
Total square feet at end of period	4,148	4,444	5,037	5,000	5,000

ITEM 9. CHANGES IN AND DISAGREEMENTS WITH ACCOUNTANTS ON ACCOUNTING AND FINANCIAL DISCLOSURE

None.

ITEM 9A. CONTROLS AND PROCEDURES

Disclosure Controls and Procedures

As of the end of the period covered by this report, our management conducted an evaluation, under the supervision and with the participation of our chief executive officer and chief financial officer of the effectiveness of our disclosure controls and procedures (as defined in Rule 13a-15(e) and 15d-15(e) under the Securities Exchange Act of 1934). Based on this evaluation, the officers concluded that our disclosure controls and procedures are effective to ensure that information required to be disclosed by our company in reports that we file or submit under the Securities Exchange Act of 1934 is recorded, processed, summarized and reported within the time periods specified in Commission rules and forms. Furthermore, our chief executive officer and chief financial officer concluded that our disclosure controls and procedures are also effective to ensure that information required to be disclosed in the reports that we file or submit under the Securities Exchange Act of

1934 is accumulated and communicated to our management, including our chief executive officer and chief financial officer, to allow timely decisions regarding required disclosure.

Management's Report on Internal Control Over Financial Reporting

Management's report on internal control over financial reporting and the report of our independent registered public accounting firm relating thereto included in Item 8 of this Form 10-K are incorporated herein by reference.

Changes in Internal Controls over Financial Reporting

Our management, with the participation of the chief executive officer and chief financial officer, performed an evaluation as to whether any change in the internal controls over financial reporting (as defined in Rules 13a-15 and 15d-15 under the Securities Exchange Act of 1934) occurred during the period covered by this report. Based on that evaluation, the chief executive officer and chief financial officer concluded that no change occurred in the internal controls over financial reporting during the period covered by this report that materially affected, or is reasonably likely to materially affect, the internal controls over financial reporting.

ITEM 9B. OTHER INFORMATION

None.

PART III

ITEM 10. DIRECTORS, EXECUTIVE OFFICERS AND CORPORATE GOVERNANCE

Information required by this Item 10 relating to our directors is incorporated herein by reference to the section titled "Proposal 1—Election of Directors" in our proxy statement, which will be filed no later than 120 days after February 3, 2007. The information required by this Item 10 relating to our executive officers is set forth under the heading "Executive Officers" in Item 1 of this report. The information required by this Item 10 under Item 405 of Regulation S-K is incorporated herein by reference to the section titled "Section 16(a) Beneficial Ownership Reporting Compliance" of our proxy statement, which will be filed no later than 120 days after February 3, 2007. The information required by this Item 10 under Item 407(d)(4) and (d)(5) of Regulation S-K is incorporated herein by reference to the Section titled "Proposal 1—Election of Directors—Committees of Our Board of Directors—Audit Committee" of our proxy statement, which will be filed no later than 120 days after February 3, 2007.

We have adopted a code of business conduct and ethics for the guidance of our directors, officers, and partners, including our principal executive, financial and accounting officers and our controller. Our code of business conduct and ethics, along with other corporate governance documents, is posted on our website at www.GanderMountain.com. We intend to post on our website any amendments to, or waivers from, our code of business conduct and ethics within five business days of the amendment or waiver.

ITEM 11. EXECUTIVE COMPENSATION

Information required by this Item 11 is incorporated herein by reference to the sections titled "Executive Compensation," and "Proposal 1—Election of Directors—Compensation Committee Interlocks and Insider Participation," of our proxy statement, which will be filed no later than 120 days after February 3, 2007.

ITEM 12. SECURITY OWNERSHIP OF CERTAIN BENEFICIAL OWNERS AND MANAGEMENT AND RELATED STOCKHOLDER MATTERS

Information related to security ownership required by this Item 12 is incorporated herein by reference to the section titled "Security Ownership of Principal Shareholders and Management" of our proxy statement, which will be filed no later than 120 days after February 3, 2007.

The following table provides information as of February 3, 2007 for our compensation plans under which securities may be issued:

<u>Plan category</u>	<u>Number of securities to be issued upon exercise of outstanding options, warrants and rights</u> (a)	<u>Weighted-average exercise price of outstanding options, warrants and rights</u> (b)	<u>Number of securities remaining available for future issuance under equity compensation plans (excluding securities reflected in column (a))</u> (c)
Equity compensation plans approved by security holders(1)	3,945,475	\$10.16	1,093,795
Equity compensation plans not approved by security holders ..	—	—	—
Total	<u>3,945,475</u>	<u>\$10.16</u>	<u>1,093,795</u>

(1) Consists of our 2002 Stock Option Plan, 2004 Omnibus Stock Plans, Employee Stock Purchase Plan and options to purchase 897,352 shares of common stock that were not granted under any of our plans.

ITEM 13. CERTAIN RELATIONSHIPS AND RELATED TRANSACTIONS, AND DIRECTOR INDEPENDENCE

Information required by this Item 13 is incorporated herein by reference to the sections titled "Certain Relationships and Related Party Transactions," "Proposal 1—Election of Directors—Directors and Director Nominees" and "Proposal 1—Election of Directors—Director Independence" of our proxy statement, which will be filed no later than 120 days after February 3, 2007.

ITEM 14. PRINCIPAL ACCOUNTANT FEES AND SERVICES

Information required by this Item 14 is incorporated herein by reference to the sections titled "Proposal 2—Ratification of the Independent Registered Public Accounting Firm—Fees Billed By Ernst & Young LLP" and "Proposal 2—Ratification of the Independent Registered Public Accounting Firm—Approval of Independent Registered Public Accounting Firm Services and Fees" of our proxy statement, which will be filed no later than 120 days after February 3, 2007.

PART IV

ITEM 15. EXHIBITS AND FINANCIAL STATEMENT SCHEDULES

(a) The following documents are filed as part of this report:

1. Financial Statements

The following described financial statements are included in this report under Item 8:

- Report of Independent Registered Public Accounting Firm on Financial Statements
- Balance Sheets as of February 3, 2007 and January 28, 2006
- Statements of Operations for the fiscal years ended February 3, 2007, January 28, 2006 and January 29, 2005
- Statements of Cash Flows for the fiscal years ended February 3, 2007, January 28, 2006 and January 29, 2005
- Statements of Shareholders' Equity for the fiscal years ended February 3, 2007, January 28, 2006 and January 29, 2005
- Notes to Financial Statements

2. Financial Statement Schedule

The following financial statement schedule is filed herewith:

- Schedule II—Valuation and Qualifying Account

**Gander Mountain Company
Schedule II
Valuation and Qualifying Accounts
(in thousands)**

<u>Description</u>	<u>Balance at Beginning of Period</u>	<u>Additions Charged to cost, expense</u>	<u>Deductions</u>	<u>Balance at end of period</u>
Accounts Receivable Reserves(1):				
2006	\$ 970	\$ 150	\$ 970	\$ 150
2005	524	1,046	600	970
2004	304	791	571	524
Inventory Reserves:				
2006	1,702	1,563	1,293	1,972
2005	1,762	1,454	1,514	1,702
2004	\$1,629	\$1,090	\$ 957	\$1,762

(1) Represents reserves for doubtful accounts related to amounts due from vendors that are reflected as reductions in accounts payable in our balance sheets as we have the right-of-offset against amounts owed to vendors for merchandise purchases.

3. Exhibits

<u>Exhibit No.</u>	<u>Description</u>
3.1	Amended and Restated Articles of Incorporation of the Registrant(1)
3.2	Amended and Restated Bylaws of the Registrant(2)
4	Specimen of common stock certificate(3)
10.1	Stock Purchase Agreement, dated November 11, 2006, among the Registrant and the investors named therein(4)
10.2	Second Amended and Restated Loan and Security Agreement, dated March 3, 2006, among the Registrant, Bank of America, N.A., as administrative agent, Bank of America Securities, LLC, as the lead arranger, Foothill Capital Corporation, as the syndication agent, The CIT Group/Business Credit, Inc., as collateral agent, General Electric Capital Corporation, as documentation agent, and the lenders named therein(5)
10.3	Amendment Agreement No. 1 to Second Amended and Restated Loan and Security Agreement, dated March 3, 2006, among the Registrant, Bank of America, N.A., as administrative agent, Bank of America Securities, LLC, as the lead arranger, Foothill Capital Corporation, as the syndication agent, The CIT Group/Business Credit, Inc., as collateral agent, General Electric Capital Corporation, as documentation agent, and the lenders named therein(6)
10.4	Amendment Agreement No. 2 to Second Amended and Restated Loan and Security Agreement, dated March 3, 2006, among the Registrant, Bank of America, N.A., as administrative agent, Bank of America Securities, LLC, as the lead arranger, Foothill Capital Corporation, as the syndication agent, The CIT Group/Business Credit, Inc., as collateral agent, General Electric Capital Corporation, as documentation agent, and the lenders named therein(7)
10.5	Intercreditor Agreement among Fleet Retail Finance, Inc., in its capacity as agent, Holiday Companies and the Registrant dated as of December 19, 2001(8)
10.6	Trademark Collateral Security and Pledge Agreement between the Registrant and Fleet Retail Finance, Inc. dated as of December 19, 2001(9)
10.7	Noncompetition Agreement between the Registrant and Cabela's Incorporated dated May 16, 1996(10)
10.8†	Employment Agreement, dated March 1, 2006, by and between the Registrant and Mark R. Baker, the Registrant's Chief Executive Officer(11)
10.9†	Form of Employment Agreement for the Registrant's Executive Vice Presidents(12)
10.10†	Form of Employment Agreement for the Registrant's Senior Vice Presidents(13)
10.11†	Amendment to Employment Agreement, dated January 24, 2007, by and between the Registrant and Dennis M. Lindahl(14)
10.12†	Revised Director Compensation Program(15)
10.13†	Executive Stock Option Agreement between the Registrant and Mark R. Baker effective as of January 10, 2003(16)
10.14†	Executive Stock Option Agreement between the Registrant and Dennis M. Lindahl effective as of February 2, 2004(17)

- 10.15† 2002 Stock Option Plan(18)
- 10.16† Amendment No. 1 to 2002 Stock Option Plan(19)
- 10.17† Amended and Restated 2004 Omnibus Stock Plan(20)
- 10.18† Form of Incentive Stock Option Agreement under 2004 Omnibus Stock Plan(21)
- 10.19† Form of Non-Statutory Stock Option Agreement (Employee) under 2004 Omnibus Stock Plan(22)
- 10.20† Form of Non-Statutory Stock Option Agreement (Director) under 2004 Omnibus Stock Plan(23)
- 10.21† Employee Stock Purchase Plan(24)
- 10.22 Registration Rights Agreement among the Registrant and the shareholders listed in the schedule thereto dated March 11, 2004(25)
- 10.23† Executive Transfer and Repurchase Agreement between the Registrant and Mark R. Baker effective as of January 10, 2003(26)
- 10.24† Executive Transfer and Repurchase Agreement between the Registrant and Dennis M. Lindahl dated February 2, 2004(27)
- 14 Code of Conduct of the Registrant (as amended through June 7, 2005)(28)
- 23 Consent of Ernst & Young LLP*
- 24 Powers of Attorney*
- 31.1 Rule 13a-14(a)/15d-14(a) Certification by Principal Executive Officer*
- 31.2 Rule 13a-14(a)/15d-14(a) Certification by Principal Financial and Accounting Officer*
- 32.1 Section 1350 Certification by Principal Executive Officer*
- 32.2 Section 1350 Certification by Principal Financial Officer*

† Management compensatory plan or arrangement.

* Filed herewith.

- (1) Incorporated by reference to Exhibit 3.3 to Amendment No. 1 to the Registrant's Registration Statement on Form S-1 (Registration No. 333-112494), filed with the Commission on March 15, 2004.
- (2) Incorporated by reference to Exhibit 3.4 to Amendment No. 1 to the Registrant's Registration Statement on Form S-1 (Registration No. 333-112494), filed with the Commission on March 15, 2004.
- (3) Incorporated by reference to Exhibit 4 to Amendment No. 1 to the Registrant's Registration Statement on Form S-1 (Registration No. 333-112494), filed with the Commission on March 15, 2004.
- (4) Incorporated by reference to Exhibit 10 to the Registrant's Current Report on Form 8-K (File No. 0-50659), filed with the Commission on December 13, 2006.
- (5) Incorporated by reference to Exhibit 10.1 to the Registrant's Current Report on Form 8-K (File No. 0-50659), filed with the Commission on March 8, 2006.
- (6) Incorporated by reference to Exhibit 10 to the Registrant's Current Report on Form 8-K (File No. 0-50659), filed with the Commission on May 31, 2006.

- (7) Incorporated by reference to Exhibit 10 to the Registrant's Current Report on Form 8-K (File No. 0-50659), filed with the Commission on March 5, 2007.
- (8) Incorporated by reference to Exhibit 10.6 to the Registrant's Registration Statement on Form S-1 (Registration No. 333-112494), filed with the Commission on February 5, 2004.
- (9) Incorporated by reference to Exhibit 10.7 to Amendment No. 1 to the Registrant's Registration Statement on Form S-1 (Registration No. 333-112494), filed with the Commission on March 15, 2004.
- (10) Incorporated by reference to Exhibit 10.9 to the Registrant's Registration Statement on Form S-1 (Registration No. 333-112494), filed with the Commission on February 5, 2004.
- (11) Incorporated by reference to Exhibit 10.1 to the Registrant's Current Report on Form 8-K (File No. 0-50659), filed with the Commission on March 7, 2006.
- (12) Incorporated by reference to Exhibit 10.2 to the Registrant's Current Report on Form 8-K (File No. 0-50659), filed with the Commission on March 7, 2006.
- (13) Incorporated by reference to Exhibit 10.3 to the Registrant's Current Report on Form 8-K (File No. 0-50659), filed with the Commission on March 7, 2006.
- (14) Incorporated by reference to Exhibit 10.1 to the Registrant's Current Report on Form 8-K (File No. 0-50659), filed with the Commission on January 24, 2007.
- (15) Incorporated by reference to the description of this program included in the Registrant's Current Report on Form 8-K (File No. 0-50659), filed with the Commission on March 7, 2006.
- (16) Incorporated by reference to Exhibit 10.16 to the Registrant's Registration Statement on Form S-1 (Registration No. 333-112494), filed with the Commission on February 5, 2004.
- (17) Incorporated by reference to Exhibit 10.17 to the Registrant's Registration Statement on Form S-1 (Registration No. 333-112494), filed with the Commission on February 5, 2004.
- (18) Incorporated by reference to Exhibit 99.2 to the Registrant's Registration Statement on Form S-8 (Registration No. 333-118909), filed with the Commission on September 10, 2004.
- (19) Incorporated by reference to Exhibit 10.14 to the Registrant's Registration Statement on Form S-1 (Registration No. 333-112494), filed with the Commission on February 5, 2004.
- (20) Incorporated by reference to Exhibit B to the Registrant's definitive proxy statement for its 2005 annual meeting of shareholders (File No. 0-50659), filed with the Commission on Schedule 14A on May 6, 2005.
- (21) Incorporated by reference to Exhibit 99.4 to the Registrant's Registration Statement on Form S-8 (Registration No. 333-118909), filed with the Commission on September 10, 2004.
- (22) Incorporated by reference to Exhibit 99.5 to the Registrant's Registration Statement on Form S-8 (Registration No. 333-118909), filed with the Commission on September 10, 2004.
- (23) Incorporated by reference to Exhibit 99.6 to the Registrant's Registration Statement on Form S-8 (Registration No. 333-118909), filed with the Commission on September 10, 2004.
- (24) Incorporated by reference to Exhibit C to the Registrant's definitive proxy statement for its 2005 annual meeting of shareholders (File No. 0-50659), filed with the Commission on Schedule 14A on May 6, 2005.
- (25) Incorporated by reference to Exhibit 10.19 to Amendment No. 1 to the Registrant's Registration Statement on Form S-1 (Registration No. 333-112494), filed with the Commission on March 15, 2004.

- (26) Incorporated by reference to Exhibit 10.22 to Amendment No. 2 to the Registrant's Registration Statement on Form S-1 (Registration No. 333-112494), filed with the Commission on March 26, 2004.
- (27) Incorporated by reference to Exhibit 10.23 to Amendment No. 2 to the Registrant's Registration Statement on Form S-1 (Registration No. 333-112494), filed with the Commission on March 26, 2004.
- (28) Incorporated by reference to Exhibit 14 to the Registrant's Current Report on Form 8-K (File No. 0-50659), filed with the Commission on June 13, 2005.

SIGNATURES

Pursuant to the requirements of Section 13 or 15(d) of the Securities Exchange Act of 1934, the registrant has duly caused this report to be signed on its behalf by the undersigned, thereunto duly authorized, on April 19, 2007.

GANDER MOUNTAIN COMPANY (Registrant)

By: /s/ MARK R. BAKER

Mark R. Baker

Chief Executive Officer and President

Pursuant to the requirements of the Securities Exchange Act of 1934, this report has been signed by the following persons on behalf of the registrant and in the capacities indicated on April 19, 2007.

<u>Name</u>	<u>Title</u>
<u>/s/ MARK R. BAKER</u> Mark R. Baker	Chief Executive Officer, President and Director (Principal Executive Officer)
<u>/s/ ROBERT J. VOLD</u> Robert J. Vold	Senior Vice President, Chief Financial Officer and Treasurer (Principal Financial and Accounting Officer)
<u>/s/ *</u> David C. Pratt	Chairman of the Board
<u>/s/ *</u> Ronald A. Erickson	Vice-Chairman of the Board
<u>/s/ *</u> Karen M. Bohn	Director
<u>/s/ *</u> Marshall L. Day	Director
<u>/s/ *</u> Richard C. Dell	Director
<u>/s/ *</u> Gerald A. Erickson	Director

* Robert J. Vold, by signing his name hereto, does hereby sign this document on behalf of each of the above-named directors of the registrant pursuant to powers of attorney duly executed by these persons.

/s/ ROBERT J. VOLD

Attorney-in-Fact

SHAREHOLDER INFORMATION

EXECUTIVE OFFICERS

Mark R. Baker

Chief Executive Officer and President

Dennis M. Lindahl

Executive Vice President, Strategy and Business Development

Richard J. Vazquez

Executive Vice President, Merchandising and Marketing

Mark A. Bussard

Senior Vice President, Retail Sales

Andrew P. Carlin

Senior Vice President, Store Operations

Eric R. Jacobsen

Senior Vice President, General Counsel and Secretary

Robert J. Vold

Senior Vice President, Chief Financial Officer and Treasurer

ANNUAL MEETING OF SHAREHOLDERS

The Annual Meeting of Shareholders is scheduled for Wednesday, June 13, 2007, at 9:00 a.m. Central Time in the Jerome Hill Theater at 180 East Fifth Street, St. Paul, Minnesota.

STOCK LISTING

Trading Symbol: GMTN
Nasdaq Global Market

SHAREHOLDER INFORMATION

The Investor Relations section on www.gandermountain.com includes all SEC filings, a list of analyst coverage, selected financial information, news releases and biographies of the company's board of directors and executives.

You can contact Investor Relations at investorrelations@gandermountain.com or by calling 651-325-4600.

TRANSFER AGENT

For assistance regarding individual stock records, name or address changes, lost certificates or transfers of ownership, please contact:

Wells Fargo Shareowner Services

P. O. Box 64854

St. Paul, MN 55164-0854

Phone: 800-468-9716 or 651-450-4064

Web site: www.wellsfargo.com

Hearing impaired: 651-450-4144

LEGAL COUNSEL

Faegre & Benson LLP

BOARD OF DIRECTORS

Mark R. Baker

*Chief Executive Officer and President
Gander Mountain Company
Director since 2004*

Karen M. Bohn ^{1,2,3*}

*President
Galeo Group LLC
Interim Managing Director
The Children's Theatre Company
Director since 2004*

Marshall L. Day ^{1*,2}

*Independent Lead Director
Gander Mountain Company
Former Senior Vice President,
Finance and Accounting, Home Depot Inc.
Director since 2004*

Richard C. Dell ^{1,2*}

*Chief Executive Officer, Ames True Temper Inc.
Director since 2004*

Gerald A. Erickson

*Vice President and Vice Chairman of the Board of Directors, Holiday Companies
Director since 1997*

Ronald A. Erickson

*Vice Chairman of the Board of Directors
Gander Mountain Company
Chief Executive Officer and Chairman of the Board of Directors, Holiday Companies
Director since 1997*

David C. Pratt ^{2,3}

*Chairman of the Board of Directors
Gander Mountain Company
Former President and CEO of United Industries
Director since 2005*

¹ Member of Audit Committee

² Member of Compensation Committee

³ Member of Governance and Nominating Committee

*Committee Chair

CORPORATE GOVERNANCE

(see *Investor Relations - Corporate Governance at www.gandermountain.com*)

Principles of Corporate Governance

Code of Business Conduct and Ethics

Director Nominee Selection Policy

Procedures for Contacting the Board

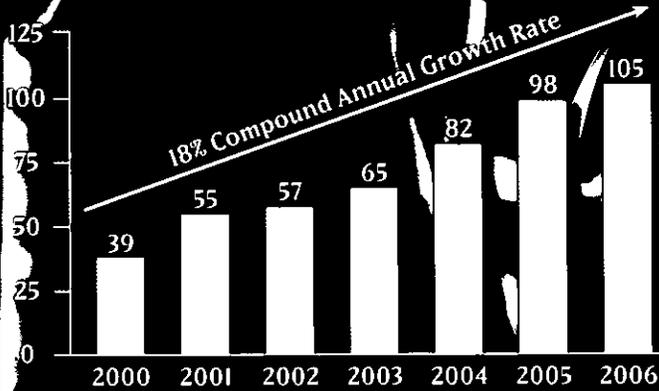
Board Committee Charters

INDEPENDENT AUDITORS

Ernst & Young LLP

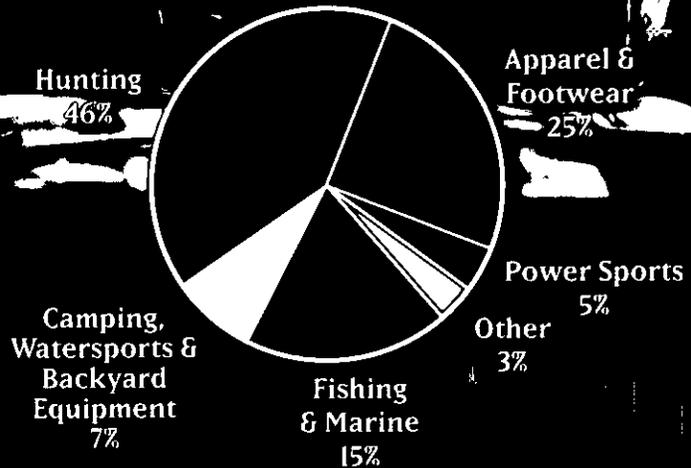


Year-End Stores



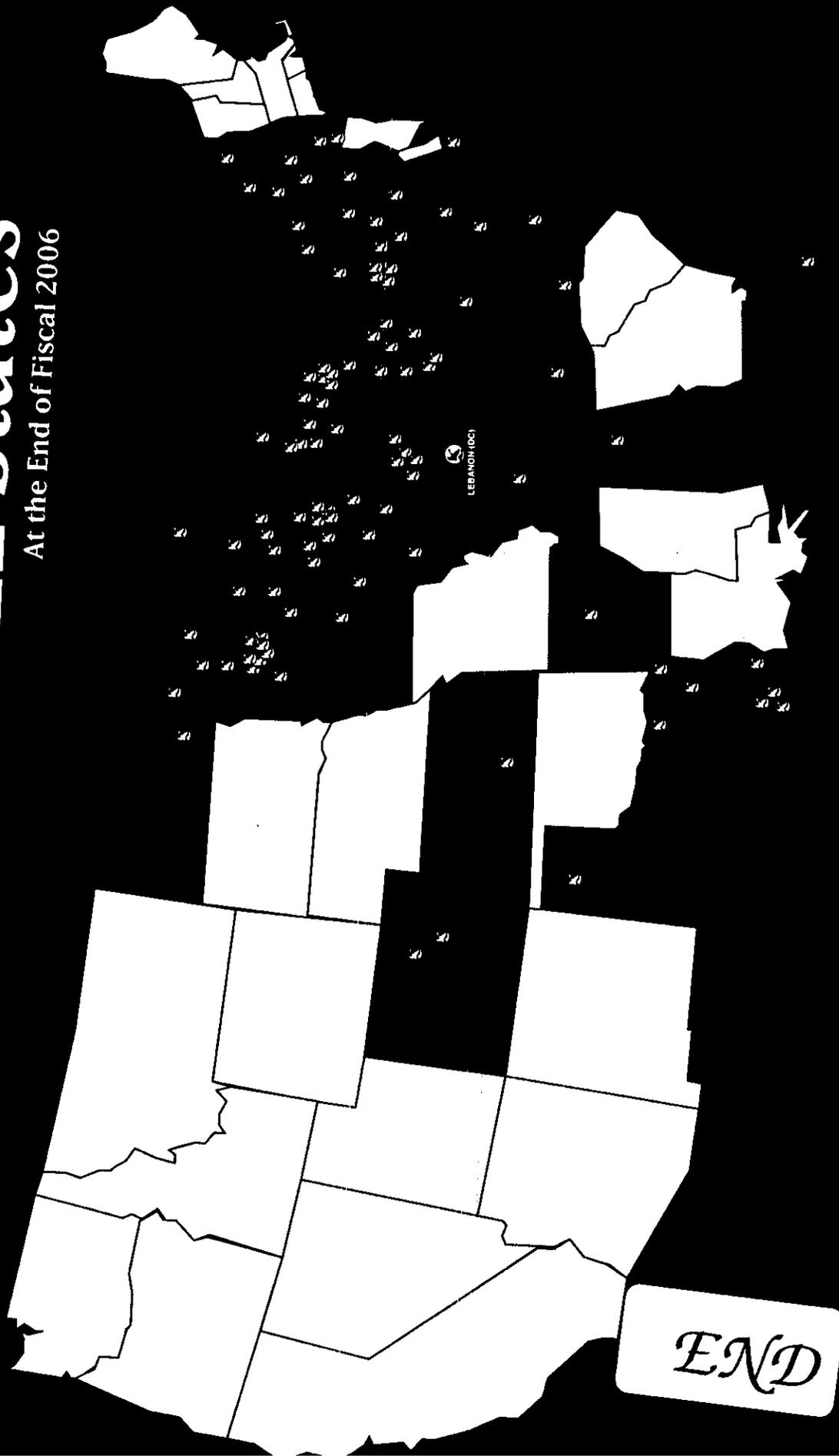
2006 Product Sales

Rounded to whole percentage



105 Stores in 22 States

At the End of Fiscal 2006



Denotes new state in 2006