



## Conference Call Transcript

GMTN - Q3 2004 GANDER MOUNTAIN CO Earnings Conference Call

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## PRESENTATION

**Operator**

Good morning, everyone, and welcome to the Gander Mountain Company third-quarter earnings release conference call. This call is being recorded. At this time, I would like to turn the call over to the Senior Vice President of Finance and Administration, Ms. Sharon Link.

**Sharon Link - Gander Mountain Company - SVP-Finance & Administration**

Good morning. Welcome to the Gander Mountain third-quarter conference call. Joining us on our call today are Mark Baker, President and CEO of Gander Mountain; Dennis Lindahl, Executive VP and CFO; and Al Dittrich, Executive VP of Merchandising and Marketing. Mark will offer his comments; Al will discuss sales trends; and Dennis will review our financial results. We will take your questions after that. We expect the call to last an hour.

As a reminder, the question-and-answer session is available to all interested parties, although questions will be limited to investors and analysts. We also remind you that the media is attending the call in a listen-only mode. This conference call is being broadcast real-time on the Internet at [www.GanderMountain.com](http://www.GanderMountain.com). We will also offer an Internet replay of the call, which will be available shortly after the call is concluded and remain on our site for approximately 90 days.

Before turning the call over to Mark, let me caution you that our discussion today may include forward-looking statements relating to our estimates and expectations that involve risks and uncertainties. Our actual results could differ materially from those projected in any forward-looking statements. Additional information concerning important factors that could cause our actual results to differ materially from these forward-looking statements are described in the Risk Factors section of the final prospectus relating to our initial public offering as filed with the SEC, as well as in our subsequent reports filed with the SEC. These reports are available at the Investor Relations section of our website and at the SEC's website at [www.SEC.gov](http://www.SEC.gov).

We caution you that forward-looking statements reflect our current views with respect to future events and speak only as of the time they are made and our actual results may differ materially from the present expectations or projections. Given these uncertainties, you should not place undue reliance on these forward-looking statements and we undertake no obligation to update them in light of new information or future events.

I will now turn the call over to Mark.

**Mark Baker - Gander Mountain Company - President, CEO**

Good morning. Welcome to Gander Mountain's third-quarter earnings call. I would like to welcome our shareholders, our analysts, and all other participants. As you know, Gander Mountain is the leader in outdoor lifestyle retailing, with 82 stores today. That is more than the next three competitors combined in the outdoor lifestyle market, which we believe is underserved.

For those of you who are less familiar with our Company, I would like to define the outdoor lifestyle retail sector and Gander Mountain. We are a specialty retailer in the outdoor lifestyle sector, not a traditional sporting goods retailer. Our products appeal to everyone who enjoys participating in the outdoors, whether through hunting, fishing, hiking, kayaking and camping, or just cooking out in the backyard or bird watching. We offer depth and breadth of assortment in value-oriented big-box retailing.

We are growing rapidly through store expansion and taking advantage of the fragmented nature of this retail sector. Today, total sales increased by 24 percent in the quarter as we opened up 19 new stores this year, including two relocations. While we were disappointed in the decline we reported in comparable store sales, we will take a few minutes later in the call to discuss the factors that contributed to the shortfall from our expectations. The decline came after comparable store sales gains of 12.5 percent in the third quarter of 2003, so this two-year average is 2.5 percent gain. Sales growth in the outdoor lifestyle sector can swing significantly from quarter to quarter, especially because of the importance of weather to our business.

I wanted to stress that the shortfall in comparable store sales was not a result of poor retail execution. We have had the right products in the right stores at the right time with the right retail associates to serve our customers. I am particularly proud that while rapidly adding new stores, we did not take our attention off our existing stores and we managed that business to minimize the impact of lower-than-anticipated sales. We managed store labor, gross margins, and inventories effectively. Dennis will go into more detail about these financial metrics later in the call.

While we realize the significance of comparable store sales growth over the long-term, let me remind you that this is not the primary driver of our growth at this stage of our life as a company. Gander Mountain is a growth company based on its leadership position in a highly fragmented retail sector that is ready for consolidation. The outdoor lifestyle market is well in excess of \$30 billion, with no single specialty retailer doing over \$1 billion at retail. We offer outstanding depth, breadth of assortment, products and services for the outdoor lifestyle customer, with price confidence allowing our customers to be confident that our prices are as good or better than

they will find anywhere else. And again, with the best sales associates in the business.

We believe that we will continue to take share in this sector. On that note, we opened 14 new stores in the quarter on time and within budget, achieving our goal of opening 19 stores in fiscal 2004, including the two relocations. We entered four new markets -- Texas, as you recall, the largest state in terms of outdoor equipment sales, Colorado, Virginia and Kentucky. We are comfortable with the early read on these pioneering markets. Our brand is relevant to these customers in these states. We continue to learn as we prepare to increase our penetration in these new markets.

Store associate turnover continues to be at an all-time low in our existing stores. We continue to have strong interest in our new stores, and the ability to attract associates with the highest quality experience and customer service orientation. We have had over 25,000 applications for the 2000 positions we have added in our 19 stores this year. We continue to plan to open approximately 20 new stores in 2005. We will continue to be opportunistic in using recycled real estate where it is available, with visibility and the access we require. On an ongoing basis, we think we will end up with a 50-50 mix of recycled real estate and build-to-suit locations.

As we have opened new stores, there have been some valuable lessons. From the stores we have converted that had outside selling areas, like former garden shops, we have learned that we can make a 65,000-square-foot store function like an 85,000-square-foot store. By using this outside space, lessening the ongoing occupancy costs, displaying more product outside gives us greater curb appeal, allows us to display some of our bigger items -- ATVs, canoes, kayaks and ice houses -- more efficiently and sell them more efficiently. As a result, the availability of this outside selling area will influence our decision on the amount of four-wall space required for a store, possibly lowering our fixed cost.

We also learned how to staff these stores to achieve a better labor mix rate by increasing the part-time ratio to full-time associates, thus speeding up our response to seasonal changes in our labor needs. We were able to increase our reliance on part-time labor because we have such a tremendous turnout of highly qualified applicants whenever we are hiring.

2004 stores opened with a lower ratio of inventory per square foot than 2003 stores. We look for continued improvement through our supply chain initiatives. We have streamlined our pre-opening costs and have reduced the cost per new store by approximately 20 percent this year.

In addition to growing by opening new stores, we continue to look for new products and category extensions for both products and services to offer our customers. We have said before that we believe the marine market is a natural fit and provides an excellent opportunity for us. We recently hired an experienced marine

products merchant and organized a team that is targeted at building this part of our business. We anticipate expanding our assortment of boats, outboard motors and marine accessories to better support our boating customers.

As an extension of the services we provide to our customers, in the third quarter we began to offer adventure travel packages, such as hunting trips to South Dakota or fishing expeditions in Canada. We will be expanding this program to all of our stores in the coming year.

We are confident in the growth potential of our business. Over the past 18 months, we have continued to fine-tune our new store model and we have continued to build the profitability of our business as we gain scale. Our sales associates are enthusiastic participants in the outdoor lifestyle and eager to share their knowledge to enhance the customers' experience.

And now Al Dittrich, our Executive VP of Merchandising, will give us an update on some of the trends of the third quarter.

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**Al Dittrich - Gander Mountain Company - EVP-  
Merchandising & Marketing**

Thank you, Mark. I'd like to take a few minutes to discuss some of the factors that led to the shortfall in sales. Several of the key factors were unseasonably warm weather, a negative comp for our firearms business, and the impact of new competition on a few stores. We underestimated the degree of these factors in how they would impact sales in the third quarter. Let me discuss these in more detail.

Weather is an important factor in the outdoor lifestyle business, and it impacts Gander Mountain in different ways depending on the season. For example in hunting season, we want cold, wet weather. While we always consider the impact of weather when we forecast our sales, we did not anticipate the weather would be as unseasonable as it was for so long during the third quarter. Two regions of the country that are important to us, the North Central region and the Rust Belt states, especially experienced unusually warm weather in each of the months of September and October.

Sales of hunting licenses at this point are level with last year, so it is not the case of fewer people going hunting, but less demand for cold weather apparel and footwear. Comparable store unit sales of insulated boots, for example, fell 29 percent in the quarter and sales of insulated jackets dropped 44 percent. As an example of the unusual weather here in Minnesota, last year, we had a high of 24 degrees and a low 14 for the deer opener with two inches of snow. This year, the high was 66 degrees. As a local weatherman reported in his column the next day, I quote, "Amazingly, deer hunters headed out on Saturday were more concerned about sunburn than frostbite, as temperatures were almost 20 degrees above normal."

Obviously a positive result of the geographic diversity we get from our store expansion is that the weather of any one area will have less impact on our total sales, reducing the sales volatility.

Another factor that affected our sales results, particularly our comp store sales, was firearms. There are three incidents that caused the negative comp. First, we introduced our co-branded credit card in the third quarter of 2003 with a promotion that offered customers a one-time 10 percent discount and up to 11 months of deferred billing for any purchase using the card. The greatest impact was on higher ticket items, and particularly firearms. The promotions we offered this year were not as successful in driving firearms sales.

In addition, this year's sales of firearms suffered from two price increases related to higher steel costs and the weakness of the dollar on several of our higher-end brands. Sales of firearms as a high-ticket, discretionary purchase may have also disproportionately been impacted by general economic factors that depressed consumer confidence and retail spending in the quarter. Firearms are an important category in bringing customers into our stores, and we derive a significant amount of accessory sales.

For several of our new stores, new competition entered the market. This historically has had a short-term impact on sales. Clearly, these entertainment-based stores draw customers for an occasional visit to see the attractions. However, we have demonstrated over time our customers return because of our selection, service, value, and convenience. In particularly our new large format stores, we feel we can compete head-to-head with any competitor.

I will now turn the call over to Dennis Lindahl, our CFO, who will go into more details on the financials.

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**Dennis Lindahl - Gander Mountain Company - EVP, CFO**

Thanks, Al. Good morning, everyone. I'm going to assume that you have seen our release and don't need me to read all the numbers, so I can use this time to discuss some of the drivers behind the financials. But first, a brief overview.

Our success in opening new stores enabled Gander Mountain to achieve 24-percent sales growth despite softness in comparable store sales. During the third quarter, the opening of 14 new stores added 877,000 square feet and brought our total store count to 82. We have now achieved our goal of adding 19 new stores for the year, including two relocations, which increased our total square footage by about 1.2 million square feet, or 49 percent, over the square footage as of the end of fiscal 2003. As Mark indicated earlier, we opened these stores on time and within budget.

In the third quarter of 2004, three stores that opened in the summer of 2003 joined the comparable store base, so there are now five of our 2003 stores in the comp base.

Pretax income for the quarter was \$2.1 million compared with \$4.4 million in the 2003 quarter. However, it is important to note that the 2004 quarter was impacted by a \$3.2 million increase in pre-opening expense as we opened more stores; and \$1.2 million in vendor co-op money for the quarter is sitting on the balance sheet as an asset instead of running through the income statement due to a vendor contract change from last year.

For the nine months, sales increased 32 percent on new store openings and a comparable store sales decline of 0.7 percent. The loss for the nine-month period was \$15.2 million compared with \$11.2 million for the first nine months of fiscal 2003. For the year-to-date, pre-opening expenses increased 2.7 million over the 2003 period, and the vendor co-op funds on the balance sheet today total \$4.5 million.

Before I go into the details, let me comment overall on the previously discussed change in vendor contract. Under the system in effect last year, vendor co-op funds resulted in a reduction in store level advertising expense as they were received. Earlier this year, Gander Mountain worked with its vendors to eliminate proof of performance on substantially all of its contracts. Therefore, when we purchase from these vendors today, associated vendor co-op funds go onto our balance sheet until we sell the product, at which time they are accounted for as a reduction in cost of goods sold.

There are two results of this change. Recognition of these benefits is deferred as compared with last year, and in addition, both gross margin and store operating expenses are affected by classification of these vendor-related items. Vendor co-op funds are now accounted for as a reduction in cost of goods sold, thus positively impacting the gross margin. Previously, they had been accounted for as an offset to advertising expense, so the change has a negative impact on the operating expense rate. I will discuss the actual impact later.

Turning to store productivity metrics, just to reiterate, we expect our stores to be profitable on a four-wall basis for the year, with two or three exceptions. In fact, this year we have a higher percentage of stores making money through three quarters than we had last year.

Total square footage for the third quarter increased 52 percent from last year to 3.8 million square feet. The average store is now 46,000 square feet, compared with 39,000 last year. Our average store size will continue to increase, as we expect most new stores to be in the 60- to 65,000-square-foot range.

Customer transactions totaled 3.1 million for the quarter compared to 2.5 million last year. Transactions were down about 4 percent in the comp stores. Our average customer ticket held steady at \$56 for the quarter. For the year-to-date, it has increased from \$50 to \$51. The average ticket at our comp stores declined about 4 percent. The average ticket at our larger stores is almost \$10 higher than at

our smaller stores. Sales per square foot for the trailing 12 months ending this quarter was \$208 versus \$218 last year as a result of the various factors already discussed.

Gross margin improved 120 basis points in the quarter. Major factors contributing to the improvement were we had 110-basis-point improvement in initial product margin. We continue to pursue gross margin initiatives to increase sales of apparel and footwear, expand our own brand, expand direct sourcing activities, and leveraged increased volume in vendor support. We have not yet seen the increased penetration we anticipated in apparel and footwear, as those product categories were among the weakest in the third quarter. However, we are excited about the product lines we are presenting to our customers and anticipate that apparel and footwear penetration will increase in the fourth quarter. Our own brand penetration has increased approximately 100 basis points, and we expect to see that trend continue as we build our brands.

The shift of the handling of vendor contracts mentioned earlier increased the gross margin rate by approximately 100 basis points for the third quarter. However, at the end of the third quarter, we still had \$4.5 million of vendor co-op monies on the balance sheet that will come into gross margin as we sell the associated product.

Offsetting these improvements, store occupancy costs increased approximately 80 basis points as a percentage of sales as a result of deleverage on lower-than-expected sales.

Turning to expenses, store operating expenses as a percent of sales increased by 220 basis points to 18.7 percent from 16.5 percent last year. Approximately 140 of the 220 basis points of increase are the result of the change in accounting for vendor co-op funds that I mentioned earlier. Payroll expense remained relatively constant as a percent of sales. The balance of the difference came from deleveraging store operating expenses across the board on lower-than-expected sales.

General and administrative expenses for the quarter were 3.9 percent of sales compared to 4.3 percent last year. Many of you have read about our base camp move early next year, and I want to assure you that this is a very attractive deal, part of our dedication to maintaining a low-cost structure at headquarters.

Pre-opening expenses were \$4.6 million for the quarter compared with \$1.4 million last year. We opened 14 stores in the third quarter of this year compared to four in the same period of the prior year. As we continue to gain experience in opening stores, we realize some efficiencies that reduce the cost per store.

Net interest expense was \$1.2 million for the third quarter this year versus 1.4 million in the comparable quarter last year, reflecting lower borrowings and lower effective interest rates. During the third quarter, the Company was able to utilize a portion of its loss carryforwards, so no income taxes were recorded. We expect that this carryforward will eliminate our tax obligations for the year.

GAAP EPS was 14 cents on a fully diluted basis for the quarter against 26 cents per share in the prior year. On a fully diluted pro forma basis, the income per share was 14 cents, compared to 37 cents in the prior year.

The weighted average number of shares in the quarter on a fully diluted basis was 14.9 million, both under GAAP and on a pro forma basis. Under the treasury stock method, the number of shares used to calculate earnings per share varies depending on the number of option shares outstanding and the market price of the shares.

On the balance sheet, inventory per square foot in open stores was \$87, down 5 percent from the prior year. Inventory turnover was 1.7 times for the trailing 12 months compared with 1.9 times for the trailing 12 months last year. Our merchants have done a good job adjusting for slower-than-expected sales growth and have kept inventory levels under control. However, because this is a trailing 12-months metric, it is slow to reflect recent initiatives on the part of the merchants to reduce inventories.

Capital expenditures were \$17 million for the quarter versus \$7 million in last year's quarter and \$33 million for the year 2004 to date, primarily for new store openings. We continue to expect capital expenditures to be in the range of \$35 to \$40 million for the year.

Reiterating our fiscal 2004 guidance, we project sales of 640 to \$670 million, an increase of 31 percent to 37 percent over fiscal 2003, with comparable store sales declining 1 percent to 3 percent for the year. We look for net income to be between \$8 and \$13 million, compared to 1.5 million in fiscal 2003. This guidance obviously assumes the weather is reasonably in line with historical patterns. It also includes the impact of the comparison against the co-branded credit card promotion introduced last year and any changes to that program we make in the fourth quarter.

Now turning to our new store performance. We continue to evaluate our 2003 and 2004 new stores relative to expectations. Now that we have a full year of operations for our 2003 stores, we can report that all of these stores were profitable for the first 12 months.

Sales and margin performance for these stores was somewhat below our expectations for the first year. On the other hand, we believe that the absolute sales levels that we did achieve, approximately twice that of our average smaller stores, provide us the opportunity to improve our performance in these stores over time. This experience enabled us to continue to improve the sizing of our stores and the inventory levels by market and to more effectively staff the stores for the estimated sales levels. We have implemented improvements in these areas for the fall 2004 stores and will continue to learn from their experience.

In summary, based on our experience to date with these new stores, we still believe we are on track to reach our operating margin goal of 5 to 6 percent over time.

Fiscal 2005 comments. We look for an increase in comparable store sales of 2 to 4 percent, and anticipate adding 18 to 22 new stores, including two or three relocations. Most of these stores will be 60- to 65,000-square-foot stores. Some of the new stores will continue to reinforce the Company's penetration of its current markets, including markets the Company entered in 2004, such as Texas and Colorado. Others will be in new markets contiguous to the Company's current markets.

We have previously noted that our distribution center will be near capacity in the fall of 2005. We are currently executing an upgrade that will enable the facility to meet our needs until late 2006 or 2007 at a cost of \$2 to \$3 million. When we move to our new headquarters scheduled for March, we will terminate the remaining shared-service agreements with Holiday Companies. We do not expect this transition to have a meaningful impact on operating costs and it has been factored into our plans, along with the other costs associated with the move.

Capital expenditures should be in the range of \$40 to \$50 million, including new store openings, the upgrade of our distribution center, and our office relocation, as well as normal and recurring store upgrades. We believe that we have the ability to finance our growth plans for 2005.

Now I would like to turn the call back over to Mark.

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**Mark Baker - Gander Mountain Company - President, CEO**

Thank you, Dennis. In closing, I would just like to reiterate a few points. We achieved sales growth of 24 percent in the quarter and 32 percent for the year to date. Growth for this Company will be based on gaining market share, opening big-box, value-oriented retail stores that offer broad, deep assortments of products that enhance our customers' outdoor lifestyles.

We believe that our stores will attract customers in this highly fragmented market. Comparable store sales growth will be variable because of the outside factors that impact demand for our products. However, we look for an average comparable store sales growth in the low single digits over time, with the potential to achieve higher rate by expanding our product assortments.

In the retail business, scale is very important. You can look the track record of other successful retailers and see the improvement in profitability as they achieve the benefit of scale. Taking costs out, adding the value for the customers and shareholders, as we add stores and expand our products and services, we are confident we will realize those benefits of scale.

Despite the softness in comparable store sales, we have improved the product initial margin by approximately 110 basis points. We have demonstrated our ability to manage the business and control costs in a difficult sales environment, keeping labor costs flat as a percentage of sales and reducing inventory per square foot.

At the same time, we met our goal of adding 19 stores on schedule and on budget. We would continue to add stores, both to fill out existing markets and open new markets to our concept. We believe that our extensive assortments, value-priced image and dedicated, knowledgeable sales associates are competitive advantages and will enable us to take market share in the outdoor lifestyle category.

And now we will be happy to take all of your questions.

## QUESTION AND ANSWER

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### Operator

Thank you, sir. (OPERATOR INSTRUCTIONS) Mitchell Kaiser with Piper Jaffray.

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### Mitch Kaiser - Piper Jaffray - Analyst

Curious -- there's a lot of hunting season left in Michigan, Pennsylvania and Ohio. What are your expectations for some of those stores, for the fourth quarter in particular?

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### Mark Baker - Gander Mountain Company - President, CEO

Your question about hunting seasons is very appropriate. As you know, the hunting season moves from, in our case in the deer hunting season, from Minnesota -- the opener in Wisconsin is coming up this weekend. We had Michigan last weekend, and we had the New York season open last weekend as well. But there are a number of other seasons. Pennsylvania is out ahead of us, and some of the other ones -- Ohio. Those are very important to us, obviously, and we look to see, obviously, what the license sales are, make sure the activity is there. The game in terms of the activity has probably never been better. The challenge is for our business to make sure that the weather is normalized so that people need insulated hunting boots and jackets that Al talked about and refresh that inventory of the apparel.

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### Mitch Kaiser - Piper Jaffray - Analyst

Okay, in terms of other categories, obviously you mentioned the impact of firearms and apparel. Were there other categories that experienced weakness or are there any in particular that had some nice strength?

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### Mark Baker - Gander Mountain Company - President, CEO

Al, I think you talked a little about some of the things we saw in, interestingly enough, fishing and camping.

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### Al Dittrich - Gander Mountain Company - EVP- Merchandising & Marketing

Yes, fishing and camping business, because of the warmer weather was strong. Now, it's not as high a penetration to our total at that time. Our marine business was also good. People were out on the water longer, so marine accessories benefited from that part of the business. But it was, again, not as big a part. As well as canoe and kayak business was better; again, a smaller penetration.

So there were some positive business trends. They could not offset the penetration that we have at this time of the year in the insulated and more cold-weather businesses.

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**Mitch Kaiser - Piper Jaffray - Analyst**

Okay. Do you comment a little bit about the boat and marine business, like the number of stores that you're going to put in, the minimum size of that store would have to be, what your expectations for margins and turns would be and then what that would replace?

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**Mark Baker - Gander Mountain Company - President, CEO**

Mitch, what I think we are going to comment on is that we have been in the boat accessory business, and Al and I have talked about it before. And we really have served the fishing boating customer pretty well (indiscernible) for years. What we have seen is with these bigger stores and all the stores, the increased interest in recreational boating, and we're going to more completely fill out in the accessory and the electronics and (indiscernible) and things like that. We've seen some successes in the stores this last year and look to round that out in a bigger way in the marine accessories. And we look to have other discussions about where we are going with the boating business down the road.

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**Mitch Kaiser - Piper Jaffray - Analyst**

Okay, thank you.

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**Operator**

Robbie Ohmes with Banc of America Securities.

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**Robbie Ohmes - Banc of America Securities - Analyst**

Thanks, a couple of quick questions. First, Mark, can you talk about how the fourth quarter has started out for you relative to the difficulties you had in comps in the third quarter? And then can you also talk to us about the comments you made on the new stores versus your model and maybe give us a little more detail on did they behave seasonally differently than you would have thought, or did they sort of perform similar to the smaller stores? What are the differences that you've seen now that you have a bunch of these up have been open a year now?

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**Mark Baker - Gander Mountain Company - President, CEO**

Thanks, Robbie. Part of the early read on the fourth quarter -- obviously, we're very early, we're only 10 or 15 days into it -- and

when we see cold weather, we see a boost in our sales. We know the customer is anticipating it will get cold, but they have not reacted overwhelmingly yet until it gets cold. Right now, sitting here in Minneapolis I think it's 57 degrees and foggy today. It's the third warmest November on record so far. So those are challenges, but yet we all know that the day is coming when it is going to get cold and there will be some reaction then. So right now at this point in time, we are staying with where we are at, but we're keeping an eye on the weather day by day. And then Dennis, you want to talk a little about the new store model?

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**Dennis Lindahl - Gander Mountain Company - EVP, CFO**

Robbie, most of the new stores react very similarly to our smaller stores as it relates to seasonality, penetration. We have obviously got some ATVs in most of these stores and therefore we've got a little penetration there. We think we've indicated that's a little bit lower margin business, so there is an impact with that. But generally, the seasonality (technical difficulty) pretty much in line with our smaller stores and our experience there.

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**Robbie Ohmes - Banc of America Securities - Analyst**

So even in the fourth quarter, the expectation is not that a larger store is going to do disproportionately more -- whatever -- larger percentage of its business in the fourth quarter than -- ?

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**Dennis Lindahl - Gander Mountain Company - EVP, CFO**

No, it would be a small amount, but I don't think we can clearly quantify it from our experience whether it's 2, 3, 4, 5 percent. But the gift part of the business is much larger as it relates to that store. We've probably got 5000 square feet, perhaps, dedicated to the gift area, where in a smaller store we have a very little --. But I wouldn't say that we would say the seasonality was significant. On the other hand, in certain days it certainly makes a difference when we have an after Thanksgiving Day sale like the rest of the world, those stores can ring through a lot more in customers than the smaller stores, so they can in that day or a few days, they can disproportionately do more business. But I would not say that it is out of line substantially.

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**Robbie Ohmes - Banc of America Securities - Analyst**

Just to clarify, so, for the fourth quarter comps, you are sort of tracking right now similar to the way you did in the third quarter but you're looking for things to pick up when the weather turns?

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**Mark Baker - Gander Mountain Company - President, CEO**

That is what our numbers suggested. We got to see a weather turn, but we are kind of forecasting in that range.

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**Robbie Ohmes - Banc of America Securities - Analyst**

Okay, thanks a lot.

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**Operator**

Bob Simonson, William Blair.

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**Bob Simonson - William Blair & Company - Analyst**

Dennis, you gave some thoughts on 2005, but you left out sales and earnings. After you did your preannouncement, the earnings on the street came down very dramatically. I sense that this conversation that you have had on your conference call is to the issue that you believe that the shortfall is from the weather-related issues. What can you qualitatively -- preferably quantitatively -- but qualitatively talk about next year? How have these results impacted your thinking about your profitability for next year?

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**Dennis Lindahl - Gander Mountain Company - EVP, CFO**

I will start with that and then I'm sure I will turn it over to Mark. I think that we believe that a significant amount of this is kind of a one-time in nature type of thing. But on the other hand, it certainly concerns us as to what has happened and we're taking actions to deal with it. I think as we look out into 2005, we've had an operating margin last year of about 1.3 percent. This year, if we are in our zone, we will be slightly above 2 percent. And we continue to believe that we will have that grow again in 2005 and be able to, over a period of time, achieve a 5 to 6 percent operating margin. So we are still thinking that we will have significant improvement in that in 2005.

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**Mark Baker - Gander Mountain Company - President, CEO**

Bob, filling that out, we have looked at the opportunity to communicate. We have decided as a policy in the Company we are going to go out and perform and deliver the numbers and go with that kind of guidance in terms of the numbers of stores that we're going to open, what we expect in the general business environment, and that is going to be our policy from here on out.

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**Bob Simonson - William Blair & Company - Analyst**

When you think internally in your own budgets for next year, have they changed a lot from what they were three months ago for next year?

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**Mark Baker - Gander Mountain Company - President, CEO**

Not a lot, no. We are thinking very optimistic. Let me back up a second. We are very optimistic about our ability to consolidate this business. The strength of this brand in Houston or in Denver or Fredericksburg or in upstate New York or Paducah, Kentucky or Fargo -- we have been to all the grand openings; we just finished last grand opening in Houston last Friday, Saturday and Sunday. And the warmth of that reception in Houston, Texas, where we have not had a store within 500 miles and no brand recognition, if you will, at all, has been significant.

So we feel very good about our brand and our ability to attract customers, very good. And we got a little kick in the shins, obviously, here with this last 90-day weather pattern, which we know will pass. But we are committed to growing our business by approximately 20 stores next year. We are committed to add the product assortments. We believe every one of the 6000 people that wear a Gander vest believes we can win this business.

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**Bob Simonson - William Blair & Company - Analyst**

Thank you.

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**Operator**

Rick Leggott with of Arbor Capital.

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**Rick Leggott - Arbor Capital - Analyst**

It is impressive to me that you managed your inventory on a per square foot basis down. With the quarter you had, I presume vendors absorbed some excess that is not being sold. If that is correct, as they absorb this, are there obligations that you have to take on with regard to forward commitments that we should be aware of?

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**Mark Baker - Gander Mountain Company - President, CEO**

Let me handle that first and I'll turn it over to Al, because he can give you some examples of categories. We've got great vendor support. Our suppliers that supply Gander Mountain are very excited about the growth. As you can imagine, they have seen nearly a 30 percent growth in their business on average as they have supported us through our growth this year. They are not finding that growth anywhere else. They are working with us on the flexibilities of the short swings in terms of this product or that product. And I couldn't be more pleased with the level of vendor support that we have. The recognize that it grew 25 or 30 percent last year, 30 percent this year, and on obviously, into next year, they see the opportunity of working with Gander Mountain as the most important opportunity that they may see in retail relationships.

**Al Dittrich - Gander Mountain Company - EVP-  
Merchandising & Marketing**

I would echo what Mark said on the relationships we have with our resource partners. At the same time, we managed our business going in this year, and particularly on the apparel side, we always manage that with reserve open to buy. And so we, on every season like this, and I have been doing this for a lot of years, we did not buy it at all upfront. So some of it came out of reserved open to buy that we had in place that we didn't spend. And certainly our resources partnered with us.

We don't have any forward obligations that anyone would need to be worried about with any of our resources. And I do think our team did a very good job of managing their open to buy throughout the season and keeping enough reserves in there so we could absorb part of it and work with our resources on the other part of it and keep our inventories in control.

**Rick Leggott - Arbor Capital - Analyst**

So where would be with regard to firearms, specifically, and what opportunities do you have with vendors there?

**Al Dittrich - Gander Mountain Company - EVP-  
Merchandising & Marketing**

Firearms is a business where we have a lot of dating from our resources and there is a lot of opportunity down the pipeline with our resources to change some of the projections that we've got out with our resources. So our firearms inventory is a little bit higher. I don't see that as what we call perishable inventory. We don't need to take markdowns seasonally on that business. We can get some extension on the dating for the payables on that inventory and be able to flex back into the flow that we had originally planned.

**Dennis Lindahl - Gander Mountain Company - EVP, CFO**

It also allows us to absorb some of the inventory (indiscernible) of our new stores. We can transfer some of it around if we feel like we've got a degree of imbalance as we open up stores last year.

**Rick Leggott - Arbor Capital - Analyst**

Last question. Regarding firearms, if we were to attribute whatever the shortfall was that you know about internally within firearms, how much do you attribute just to the difficult comp that related to the credit card program you had in place last year versus soft weather? Because it seems to me if you have the warm weather, people are still hunting, so the demand for firearms is still there. It is unlike your insulated wear stuff.

**Mark Baker - Gander Mountain Company - President, CEO**

I think you're on the right track, Rick, is that the weather had much less of an influence, obviously, on the firearms side of the business. The co-branded credit card piece -- and we're not going to run off and talk about discretionary income too much and consumer confidence -- but certainly buying your seventh or eighth shotgun is probably a discretionary spend, and some of our customers in the Rust Belt -- probably, if you read that Michigan consumer confidence index, it has fallen off. And to the degree when they're spending \$800, \$900, \$1550 on a shotgun, you can delay that purchase, particularly compared to the promotions that we had a year ago. We thought we had promotions that would double the points and things that would get people off the couch. We were not able to get them as excited about spending \$1000.

**Rick Leggott - Arbor Capital - Analyst**

So I'll add one more last question and I'll turn it back over. Are there any promotions that you've done over the latest 12 months that we should recall or be aware of so as we look at the next 12 months we don't get surprised?

**Al Dittrich - Gander Mountain Company - EVP-  
Merchandising & Marketing**

We're always testing promotions.

**Rick Leggott - Arbor Capital - Analyst**

Anything that was material, such as the firearms.

**Unidentified Company Representative**

No, the big issues that we have had -- and obviously we don't want to telegraph to our competitors all of these issues -- but we have had this MBNA thing last year, which obviously you saw draw huge comps in the third quarter, which we disclosed last year. And we obviously thought we could, through double the points and offering some specials, drive at least that kind of volume. But for whatever reasons, we were not able to do that. That was that biggest promotion that we had by far throughout the course of the year; that was extraordinary.

**Rick Leggott - Arbor Capital - Analyst**

Okay, thanks.

**Operator**

Reed Anderson, Friedman Billings Ramsey.

**Reed Anderson - Friedman Billings Ramsey - Analyst**

Good morning. A question on margins. As you look at the year-over-year trend in the third quarter, both on the gross margin line and then what you had for store operating expenses, is there any reason to think that is going to be radically different in the fourth quarter? For example, that gross margins might be up a little but you would still see a lot of deleveraging at the store operating line?

**Mark Baker - Gander Mountain Company - President, CEO**

Dennis, I think you could handle that question best.

**Dennis Lindahl - Gander Mountain Company - EVP, CFO**

I think we will probably have some deleveraging in the store operating. I hope it is not the same level that we experienced in the third quarter, but there would be some. Obviously, last year we had some 12 comps and whatever as it related to the fourth quarter that had a significant impact on the leverage. To the extent that you'll note that we are projecting slight negative comps when we talked about being at 0.7, and for the year being at -1 to -3, we're obviously projecting a small decrease in comps for the quarter. So that would result in some deleveraging.

**Mark Baker - Gander Mountain Company - President, CEO**

As far as the regular gross margin side of it, in terms of if the apparel kicks in when we finally get cold weather, we obviously look for that to continue to support our margin growth, as well as the private brands and our own brand product growth over time, as we have indicated that we've seen so far -- that should continue as well. So the initial product margin support should continue to grow from here on out.

**Reed Anderson - Friedman Billings Ramsey - Analyst**

Mark, I wonder if you could give us a quick update on the ATV business. I know, given what you are doing in marine, I would suspect you're feeling pretty good about where your ATV business is tracking. Just kind of give us your thoughts on that today and how many stores that might be in and that sort of thing.

**Mark Baker - Gander Mountain Company - President, CEO**

I'm going to have to have Al back me up on this, but I believe we're in 27 stores now in the ATV business. Obviously, we're North America's largest ATV dealer today and enjoy a great deal of support from Arctic Cat and Bombardier in all of our markets. And we think that we've got a great opportunity to continue with

this power sports and the accessories and the growth in that business continues. We've seen this cycling from year-to-year, year-over-year. We continue to grow that business. They have come out with new units; our customers are excited about the new units. Our commitment to this category continues, and we see that the capacity that allows us to be in other power equipment businesses with the mechanics shop that we have and the ability to accessorize these products on-site will allow us future capacity.

**Reed Anderson - Friedman Billings Ramsey - Analyst**

Lastly, in terms of openings for next year, you said 18 to 22. From a timing standpoint, similar to this year or do you think it will be more front-end loaded? Any thoughts?

**Dennis Lindahl - Gander Mountain Company - EVP, CFO**

We're currently looking at 8 to 10 in what we call the spring season, which would run from March out into early June, and then 8 to 10, or whatever works out in the back half, 10ish on the back half. So more split 50-50 this year than in 2004.

**Reed Anderson - Friedman Billings Ramsey - Analyst**

Great, thank you.

**Operator**

Kevin Foll with Next Generation Equity Research.

**Kevin Foll - Next Generation Equity Research - Analyst**

Hi. My biggest concern remains the impact of the competition longer-term. What percentage of your stores are now within a 50-mile radius of one of your big competitors, like a Cabela's or Bass Pro? As you look into next year, what percentage do you expect and what do you see when one of those guys open up or you open up next to one of those stores the impact on that first year or on the comp?

**Mark Baker - Gander Mountain Company - President, CEO**

Let me give you kind of my look at competition and what I really think is going to be differentiated in the long-term. I have said this before, and I generally mean it, that the entertainment type stores are probably inspirational for our customer base. We believe that they have less ability to be convenient to our customer base in all parts of the states that we operate -- you know, Minnesota we have 13 stores and in Wisconsin we have 13 to 15 stores coming along. So the ability to be convenient and satisfy these customers on a

day-by-day, week-by-week basis is what Gander Mountain is about.

And we also further believe that the larger-format warehouse or the value-oriented stores that we have done in last 18 months come back and cycle much quicker. We have seen competition come into the markets from both of those that you mentioned, and our confidence is very high that after the cycling event of 12 months, that we come back into reasonable levels of comp. Certainly, the big stores give us (ph) more confidence on that. And again, the differentiation between our store, which is a value-oriented, we believe we can provide better value, and frankly the services even that we provide with a gun smithy on-site, ATV services on-site, are just different than those of an entertainment store that you might drive 80 or 100 miles to see once.

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**Dennis Lindahl - Gander Mountain Company - EVP, CFO**

Kevin, to be specific, Cabela's, 24 of our 82 stores would be within that range that you're talking about. And as it relates to Bass Pro, at least fifteen our stores would be within that range. So from that standpoint, we obviously already have experienced significant amount of competition from Cabela's and Bass Pro.

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**Kevin Foll - Next Generation Equity Research - Analyst**

Okay, great. And can you reconcile your guidance for the rest of the year then in terms of -- you talked a little bit about margins and operating expense, (indiscernible) leverage there. What about the G&A side? How do you get the leverage on the G&A side in the fourth quarter?

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**Dennis Lindahl - Gander Mountain Company - EVP, CFO**

The fourth quarter, obviously, is very significant in sales, just in total dollars. And you'll note that this quarter we had leverage even with where we were. With the significant number of stores that we opened in the third quarter, the growth in the G&A in the fourth quarter certainly will not grow at the same rate of the sales of those 14 new stores in the third quarter, so we will have leverage there.

On the distribution center, for example a lot of those expenses are actually front-ended a little bit in the sense that we spend a lot of the effort receiving the goods and shipping the goods to the store before we have the sales. So in essence, the fourth quarter in the distribution center is one of the lower expensed and certainly therefore it becomes very low as it relates to leveraging as a percentage of sales.

The margin, like we've said, we've experienced improvements and we see that in the fourth quarter. And as it relates to store operating expenses, we are very comfortable with our estimate to continue in line with our payroll expenses that we've got those managed and

we will keep that line in check. Obviously, if we have some other deleveraging on occupancy or whatever, that might offset it. But I think that we're comfortable with the sales volumes that are going into the fourth quarter. We have that opportunity to produce significant income.

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**Kevin Foll - Next Generation Equity Research - Analyst**

Okay. And then lastly, in marine categories, would you say that's a margin shift as well or a price point shift, or is that kind of in line?

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**Mark Baker - Gander Mountain Company - President, CEO**

I think I would say that we don't look at it as a margin shift, but what we think is that we have in the marine accessory business an opportunity in our first half to satisfy customers that are already in our stores that we recognize, particularly in these bigger stores, are looking for bigger breadth in the marine accessory piece of the business.

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**Kevin Foll - Next Generation Equity Research - Analyst**

Okay. Great. Thanks.

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**Operator**

Steve Denault with Northland Securities.

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**Steve Denault - Northland Securities - Analyst**

Good morning, everybody. When you talk about your long-term 5 to 6 percent operating margin goals, what would your store base need to look like? How many stores would you have to be operating to feel comfortable, assuming you could be in that range?

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**Dennis Lindahl - Gander Mountain Company - EVP, CFO**

I don't think we have fully looked at it from that perspective, but my response would be in the 175 to -- 175ish range. That would be looking out 3, 4 -- obviously, the time frame is we're looking out 3 or 4 or 5 years to really get to that range.

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**Steve Denault - Northland Securities - Analyst**

Okay, three to five years. If I look at the fourth quarter -- mean, we're halfway through it.

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**Mark Baker - Gander Mountain Company - President, CEO**

We're actually only 16 days into it.

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**Steve Denault - Northland Securites - Analyst**

I'm sorry, we are 16 days into it. How much of the sale -- if you were to phase it out, November, December, January, what would be the phasing of the sales per month?

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**Dennis Lindahl - Gander Mountain Company - EVP, CFO**

We would do, on a relative basis, November is a very significant month. December would be much more significant and January is much less significant.

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**Mark Baker - Gander Mountain Company - President, CEO**

I think just to fill it out, we have a unique opportunity. We have a lot of hunting seasons here in November that drive a significant amount of traffic and business into our stores. Obviously, our opportunity to capture that depends a bit on the temperatures and how much apparel that they need and equipment that they need. And then as we shift after the Thanksgiving holiday -- although the Pennsylvania deer hunt, which is a very big deer hunting season, starts shortly thereafter -- we move into a gift giving season that is very, very significant to us and we compete for all the consumable dollars out there. Obviously, it still helps us if it's colder.

As we move into January, we have an ice fishing business and we expect -- by the way, there has to be ice to have ice fishing -- and it's very important part of our business, but yet it's a very smaller part of the time of the year. As we move into the middle part of January, there are not as many outdoor activities, if you will.

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**Steve Denault - Northland Securites - Analyst**

Right. I guess the point I'm getting at is you have a gift-giving season that happens regardless of the weather. You have ice fishing that we know there will be ice.

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**Mark Baker - Gander Mountain Company - President, CEO**

You do? We hope so.

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**Steve Denault - Northland Securites - Analyst**

We hope so. Yet you're talking about a negative 3, 4, 5 percent comp in the fourth quarter. Are we being conservative?

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**Mark Baker - Gander Mountain Company - President, CEO**

I am not going there. We have a responsibility to make sure we can run this business. We drive our metrics on making sure we can control our labor, making sure that we have the right amount of labor in our stores, the right amount of inventory in our stores for our customers. And we're pretty comfortable saying, you know what, we still have to have the weather to work to get to these numbers. We can't have 65-degree weeks in the upper Midwest and get to these kinds of numbers. So we've got some challenges, and if you could give me the absolute forecast, I can tell you a lot closer to where we will be. But for right now, that's where we want to be.

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**Steve Denault - Northland Securites - Analyst**

Okay. I know you have got a very passionate bunch of store associates. Do you have any data at the store management level turnover?

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**Mark Baker - Gander Mountain Company - President, CEO**

I am glad you asked that, Steve. The thing that makes me the most proud about Gander Mountain, and the thing that ultimately allows us to add the capacity to grow this business, is we get the best associates in this business. We have people from all the significant retailers that might have been district managers, but come to us as assistant managers because they want to be part of this business. And knock on wood here, we've never lost any of our management people to another type of retail. They come to this business because they have a passion for it, they enjoy it, and they take it very seriously about how to grow this business. So I couldn't be more proud about the people I work with here.

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**Steve Denault - Northland Securites - Analyst**

Okay, but no data at the store management level in terms of turnover?

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**Mark Baker - Gander Mountain Company - President, CEO**

Store manager turnover -- off the top of my head, I can tell you it's been nearly zero. I know all the store managers personally.

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**Steve Denault - Northland Securites - Analyst**

Thank you.

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**Operator**

Sean McGowan with Harris Nesbitt Investments.

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**Sean McGowan - Harris Nesbitt - Analyst**

A couple of questions, if I can. First, you made a comment earlier in the call regarding inventory per square foot on new stores, I think, being lower than inventory per square foot on existing stores. How does that comparison relate to sales per square foot in the newer stores? Do you see a similar kind of trend?

**Mark Baker - Gander Mountain Company - President, CEO**

You are talking about the sales per square foot in the newer stores versus the sales per square foot in the older stores? What we talked about specifically was we have lowered the inventory investment in our '04 class compared to the '03 class of stores by our learnings about what we needed to support the sales. And from an '03 and '04 classification in sales, they are pretty close, but we are continuing to learn from what those things are. Dennis, do you have any thoughts?

**Dennis Lindahl - Gander Mountain Company - EVP, CFO**

We do have lower per square in our larger stores. We are able to manage that. We really don't comment on sales per square foot, on the size of the stores or anything else. So obviously, we are working on all of those areas to improve our inventory levels and our turns.

**Sean McGowan - Harris Nesbitt - Analyst**

Okay, two other questions. What is the level of sales done in private-label vendors? What is that percentage? You talked about it going up, but what is the absolute level?

**Al Dittrich - Gander Mountain Company - EVP-  
Merchandising & Marketing**

Our penetration has continued to increase in our own brands. And we have said over time that we will get that into the double-digit range, and we are continuing to proceed on that track.

**Dennis Lindahl - Gander Mountain Company - EVP, CFO**

Last year, it was in the 7 percent range, I think is what we indicated. Year-to-date, we've made about 100 -- I think about 100-basis-point improvement. So if we can make some more improvement, we will be north of 8 as it relates to for the year.

**Sean McGowan - Harris Nesbitt - Analyst**

Thank you. And last question, can you talk about what the experience is when one of these other entertainment-based competitors opens? How does it go? How long does it take before

you see some kind of bounce back or what you do specifically to deal with it?

**Mark Baker - Gander Mountain Company - President, CEO**

We talked about that a little bit. We believe that after the first 12 months, we start to see ourselves return to a normal and improving sales trend. And we particularly believe with the newer, larger formats or warehouse formats we have, we return to that even sooner, in the early evidence that we've seen. Clearly, people are going to go see these stores. I think they are interesting. I can they are worth seeing. But I do also believe that the services, the value, and the convenience ultimately play in to consumers' shopping behaviors, and we feel comfortable with that.

**Operator**

John Bossler, Dominick & Dominick.

**John Bossler - Dominick & Dominick - Analyst**

Just trying to clarify on the guidance here -- I'm, I guess, a little confused. You said in your remarks that you're seeing the same trends in Q4 as Q3, and I guess you're guiding to a negative comp. And I guess you said you're banking on weather improving. So in other words, from the disappointing results of Q3, we need a weather improvement to do better in Q4. Is that what you're telling us?

**Mark Baker - Gander Mountain Company - President, CEO**

No, no -- it is sometimes difficult understand. But what happened in Q3 in terms of the very abnormal weather patterns across all of our markets -- and we believe that weather ultimately does get colder in the Northern Hemisphere at some point in time. Obviously, we have planned for a generally normalized weather pattern to get to these numbers. And yet, weather is one of the most unpredicted events and phenomena of all time.

And we believe that on top of our -- I think we had a 12.5 comp last year in the fourth quarter -- we're going to be a little bit challenged to beat, to best that number, and we need a normalized weather pattern to get to the results or the projections we've given you for the fourth quarter. We only have 15 days or sixteen days of evidence so far, and when we have had a cold day or two, we get quite a bit of confidence around it. When we don't have cold days, as we don't today, we get nervous. Because every day counts here in the next 60 days.

**John Bossler - Dominick & Dominick - Analyst**

Can you tell me then, obviously, the weather should not have been an impact in a large portion of your stores, where it was not specific to the opening of a hunting season or preparing for the immediate opening of a hunting season, for example, in Minnesota. So how did the other stores do in the most recent time frame, that were not weather impacted?

**Mark Baker - Gander Mountain Company - President, CEO**

I would take difference with that. When people prepare to go hunting in September and October, the season, whether -- by the way, there's waterfowl seasons, there's (indiscernible) game seasons, there's all types of different seasons. If their feet are not cold and wet, whether they are out duck hunting or pheasant hunting or preparing to go deer hunting, they don't purchase. And those phenomena and weather pattern from the Midwest across the Rust Belt were generally the same. And you can go on Planalytics and look at it; it was a lot warmer and a lot drier than the third warmest November and October on record so far.

So those are phenomena that drive the business. It was generally all the same. The only state stay that we don't see the phenomenon in are we have one store in Denver and a couple stores in Texas, and the rest of them all have the same general weather patterns.

**John Bossler - Dominick & Dominick - Analyst**

And just finally, on a couple of balance sheet items. It looked like from my calculations that sequentially the borrowings went up by \$43 million, Accounts Payables were up by \$44 million, and Accounts Receivable were up by \$5 million. And it looked like we had probably negative operating cash flow of \$27 million in the quarter. Are those numbers pretty much in line?

**Dennis Lindahl - Gander Mountain Company - EVP, CFO**

I think I will have to take that call -- maybe you could call in to go through those numbers, specifically, if you could talk to Sharon. I don't have those specific numbers right in front of me. But it would be clear that our payables would go up. Our debt would go up. We had the capital expenditures for the quarter, and they sound in the zone, but I am not going to be able to confirm them. I don't have them right in front of me.

**John Bossler - Dominick & Dominick - Analyst**

I guess just then the follow-on to that is with the stock price at the depressed levels that it's at and with the balance sheet getting more and more levered, how does this impact your view going forward, as far as will you continue to lever the balance sheet further for the early store rollouts next year?

**Dennis Lindahl - Gander Mountain Company - EVP, CFO**

We believe that we will do that. We have the capacity under our asset-based lending facility. We are continuing to work with them. We are looking at other financing alternatives. So we are -- in the short-term, it will probably be leveraging the balance sheet, either through asset-based lending or some other kind of financing.

**John Bossler - Dominick & Dominick - Analyst**

And how much do you have available under the borrowing agreement?

**Dennis Lindahl - Gander Mountain Company - EVP, CFO**

The borrowing agreement currently provides for \$175 million. We have the opportunity at our right to move it to \$200 million. And then we are currently talking to our asset-based lender about whether or not it makes sense to try to expand that facility from that \$200. Under the terms in the borrowing conditions, we have the ability to cover more than 175 or \$200 million with the inventory levels that we have.

**John Bossler - Dominick & Dominick - Analyst**

Great, thank you.

**Operator**

Justin Thomas with Acharne Capital.

**Justin Thomas - Acorn Capital - Analyst**

Just a couple of questions. Going to that facility, are there any specific covenants on that facility that we should be aware of?

**Dennis Lindahl - Gander Mountain Company - EVP, CFO**

There are covenants. There are one or two covenants. I don't think that we are concerned about any compliance with those covenants. So I think the answer to your question is no, I don't think at this point in time there is anything for you to be concerned about.

**Justin Thomas - Acorn Capital - Analyst**

Very good. The other is on store productivity. Can you give us a sense for how those stores that are within the competitive trade zone are performing, the new store productivity -- if you can give us any numbers around those versus maybe the average of the group.

**Mark Baker - Gander Mountain Company - President, CEO**

In a more generic way, Justin, what I would say is that we have stores that operate within very close distances of our competitors, that operate on an income level at the four walls that are as good or better than any of our stores. So we have ranges of operating results that, from a competitive point of view, we know we can make money in those markets without question. We obviously have new stores that come in and out of a comparable base as they've been opened up and are competitive, and even cannibalization has affected a number of our stores.

Normally, we knew we were going to cannibalize these stores. We opened up -- our toughest competitor is ourselves, and we opened up a big-box market in the Twin Cities, and the customer gravitates towards the Gander Mountains that they feel have the best selection, the biggest assortments. So we are aware of what those things and how each one of those things impact a four-wall profitability, and we are very comfortable we can, as Dennis said earlier, drive to that 5 to 6 percent operating margins in the future.

**Justin Thomas - Acorn Capital - Analyst**

Great. One last question is on the inventory at the end of the fourth quarter. Give us a sense for maybe what we should be looking for, either maybe in an aggregate amount or on a per square foot basis, what you might be trying to manage that to.

**Dennis Lindahl - Gander Mountain Company - EVP, CFO**

You know, we really don't -- at this point in time, are in the business -- we don't really just disclose that information. Obviously, we think that our inventory per square should be lower than it was last year at the end of the year. But I don't think that we are in a position we will comment on a very specific number.

**Justin Thomas - Acorn Capital - Analyst**

Okay. Thank you very much.

**Mark Baker - Gander Mountain Company - President, CEO**

Okay. Thank you all for tuning in today to Gander Mountain's third-quarter call. I can tell you that with a great deal of confidence the management and the team at Gander Mountain feel good about our prospects for the future and appreciate your staying with us and your support as partner investors in this business. Look forward to talking to you in the fourth quarter. Thank you.

**Operator**

Thank you. Once again, everyone, that does conclude today's teleconference. We do appreciate you disconnecting at this time.

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