FINAL TRANSCRIPT

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GMTN - Q2 2005 GANDER MOUNTAIN CO Earnings Conference Call

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CORPORATE PARTICIPANTS

Sharon Link
Gander Mountain Company - SVP Finance and CAO

Mark Baker
Gander Mountain Company - President and CEO

Dennis Lindahl
Gander Mountain Company - EVP and CFO

CONFERENCE CALL PARTICIPANTS

Adrian Dawes
JM Hartwell - Analyst

Sean McGowan
Harris Nesbitt - Analyst

Brett Hendrickson
Bonanza Capital - Analyst

Steve Denault
Northland Securities - Analyst

Dan Hooper
Peninsula Capital - Analyst

John Pinto
Brightleaf Partners - Analyst

Chris Svezia
Susquehanna - Analyst

Mitch Kaiser
Piper Jaffray - Analyst

Robbie Ohmes
Banc of America Securities - Analyst

Bob Simonson
William Blair & Co. - Analyst

PRESENTATION

Operator

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

Sharon Link - *Gander Mountain Company - SVP Finance and CAO*

Good morning. Welcome to the Gander Mountain second-quarter conference call. Joining us on our call today are Mark Baker, President and CEO of Gander Mountain, and Dennis Lindahl, Executive VP and CFO. Mark will discuss merchandise trends and our new marketing initiatives, 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. We will also offer an Internet replay of the call, which will be available shortly after the call is concluded and will remain on our website for approximately 90 days. The transcript of this call will be posted under Archives in the Investor Relations section of our website.

Please remember that our discussion today may include forward-looking statements relating to our estimates and expectations that involve risks and uncertainties. Our actual results could differ materially from those projected in any forward-looking statement. Additional information concerning important factors that could cause our actual results to differ materially from these forward-looking statements are described in the risk factors affecting current and future results section of the annual report on Form 10-K 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.

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. 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.

Before turning the call over to Mark today I would like to comment on certain pending legal matters. During the quarter we decided to terminate the arbitration proceeding with Cabela's over the use of various trademarks and pursue our remedies in a lawsuit in district court in St. Paul. We have moved for a summary judgment that would terminate our dispute and expect to receive the court's ruling in 60 to 90 days. If our motion is not successful, we will vigorously pursue the litigation.

As for the class action and shareholder derivative lawsuits that have been filed against us, we believe that these lawsuits are completely without merit and we intend to defend ourselves vigorously against them. Beyond these statements, we do not comment and will not take questions on pending legal matters. I will now turn the call over to Mark.

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

Good morning and welcome to Gander Mountain's second-quarter earnings call. I would like to welcome our shareholders, analysts, and all other participants. As you know, Gander Mountain is a leader in outdoor lifestyle retailing. With 91 stores today, it is the fastest-growing retailer in this category.

We are growing rapidly through store expansion, taking advantage of the fragmented nature of this retail sector. We are the largest retailer in the outdoor lifestyle segment, with more stores than the next three competitors combined in this underserved outdoor lifestyle market.

I would like to call your attention to other recent releases. We have been able to add two outstanding members to our leadership team this week. I'm looking forward to working again with Rick Vazquez, our new Executive Vice President of Merchandising, in whom I have great confidence. He has an extensive background in managing retail environments that require localized assortments to best serve our customers.

David Pratt, who I have known professionally for a number of years and who now owns 1.4 million shares of our common stock, is joining our Board of Directors. He brings with him a wealth of experience in managing a fast-growing company. In addition David has expressed his confidence in Gander Mountain by investing an additional $20 million in our Company through a subordinated convertible debt.

Now I will make a few general comments about our second quarter and spend some time telling you about some of the marketing strategies that we have implemented. In the second quarter sales grew nearly 36%. Our Company now has reported quarterly sales gains of over 30% in eight of the nine last quarters. While our business is not one that is expected to show large comparable store sales gains, we are disappointed by the comparable store sales decline for the quarter. We had some misses in terms of product assortment. We were impacted by some external factors as well.

Comps in the camping business suffered from weak assortments in certain camping equipment categories that could not be offset by the strength we saw in water sports, especially kayaks. While camping results were a major factor in the second quarter, camping is not a significant factor in the second half of the year. We have made some changes and our camping area and believe the products and the supplier partners we are currently lining up for this next spring will have a much improved customer acceptance in '06.

The fishing business had a modestly negative comp. However, marine accessories, where we expanded the assortment this year, performed well. Our current tests of boat sales and rentals did not have a significant impact on the results for the quarter. We plan to continue these tests through next year.

Our core businesses, hunting and firearms, remained solid in the quarter. Firearms sales were strong in our new stores, where customers were impressed with our extensive assortment and value pricing.

In our new stores, sales of lifestyle apparel and footwear were strong, including women's and children's, which benefited from our family-oriented grand opening events.

While competition and cannibalization had an impact on comp store sales in the quarter, comps in stores not impacted by cannibalization or new competition were relatively flat, even in regions with softer economies like Michigan.

Looking forward, we are very enthusiastic about the merchandise offerings that are arriving in our stores for the important hunting and holiday seasons. These include the latest innovations in technical apparel and more emphasis on offering a number of pieces designed to layer as temperature changes.

We continue to be excited about the increased amount of owned brand merchandise that we will be offering our customers in the second half. The increased emphasis on owned brand enables us to design products to best meet our customers' needs while offering us the potential to earn significantly higher margins. We have doubled the amount of product that we are sourcing directly from overseas and anticipate that we will see significant margin improvement.

We also continue to be excited about our customers' enthusiastic response to our logo lifestyle. These purchases prove to us that our customers love the Gander Mountain brand.

We opened four new stores in the second quarter, adding a new market with our very first store in Arkansas. All of our new stores this spring have opened on time, and we have made real progress in fine-tuning our store opening process and are opening stores this year with lower preopening costs, reduced inventory, and reduced investments in capital expenditures. As our merchant teams have refined these assortments and our replenishment process to each store, these 10 grand openings have been especially strong. Aided by new marketing initiatives, these stores have opened to a great deal of excitement and enthusiasm on the part of our customers and associates, and the sales have continued to be strong at these stores.

We now have nine stores planned for the third quarter. These stores include three new states -- North Carolina, Maryland, and Kansas -- all of which are great markets for our products and services. We are also opening two additional stores in Texas. With the rest of the new stores we are filling in established markets, including replacing an older 21,000 square foot store in Woodbury, Minnesota, with a 65,000 square foot store to serve our customers better in the Twin Cities.

I would now like to share with you four marketing initiatives that we believe drive sales in the second half. First we have renewed our emphasis on our position as a value retailer in the outdoor lifestyle sector. We believe that in any retail sector the value provider stands to gain significant market share. To reinforce our value image with the consumer, we have increased our emphasis on our low price guarantee and communicate this message with a new sign package in our stores, our new shopping bags, in our advertising, and in the inserts, radio, and direct mail.

Second, we have a new credit card offer. This program offers several advantages over our previous MasterCard. We will be able to offer a wide range of financing options to our customers, including multiple promotional offers of interest-free financing to drive sales of high-ticket items like firearms and gun safes. Also, Alliance, our new credit card partner, has very sophisticated tools that will help us design loyalty programs to better target our customers.

Third, we have enhanced our new store opening program. This spring we developed a more integrated strategy that combines targeted direct mail pieces, which include attractive offers for potential customers, with exciting events designed to do bring the entire family to Gander Mountain. The new program has demonstrable success, and the new stores opened this spring have showed improved sales penetration and margin compared to stores opened last spring. At the same time we have reduced our cost of these grand openings by 25%.

Finally, we have increased our promotion of localized merchandise assortments with versioned marketing. We are building our targeted marketing programs through both direct mail and outbound email to talk to our customers more directly. I will now turn the call over to Dennis Lindahl, our CFO, who will go in more details on the financials.

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

Thanks, Mark, and good morning to everyone. I'm going to assume that you have seen our release and don't need me to read all of the numbers, so I can spend a little time discussing the drivers behind the financials. In the second quarter, revenue increased 35.5% as a result of new store growth. Comparable store sales declined 4.2% in the quarter, after an increase of 1.8% in the second quarter of 2004. Second quarter, two stores entered the comp store base, and two stores left the comps base because we have announced their closing. We are replacing the 21,000 square foot Woodbury store with a 65,000 square foot store in Woodbury, and closing our Bloomington store as the lease runs out at the end of the year. It did not make sense to renew that lease on this 37,000 square foot store when the Lakeville store is only 10 miles away, and our customers have shown a clear preference for our large format stores with their broader assortment of products and services. Thus, the total number of stores in the comp store base remains at 62, but the number of larger format stores in the comp base increases from 9 to 11.

Pre-tax loss in the second quarter increased to $10.4 million from the $3.9 million pre-tax loss in the 2004 quarter. For the six months, sales increased 36.1% on new store openings and a comparable store sales decline of 2.7%. Pre-tax loss for the six-month period was $27.9 million, compared with a $17.7 million loss for the first six months of fiscal 2004. For the year to date, preopening expenses were $3.8 million to open 10 new stores, compared to $2.7 million to open five new stores in the 2004 period.

Turning to productivity metrics for the second quarter, total square footage at the end of the first quarter increased 53% from last year to 4.4 million square feet. We opened four new stores in the second quarter of 2005m compared to three stores opened in the second quarter of 2004. The average square footage per store was 49,000 square feet at the end of the quarter, compared to 41,000 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. However, we will continue to size our new stores appropriately for each market.

Our average customer ticket increased 6% from $48 to $51 for the quarter. The average ticket at our comp stores increased about 2% for the quarter. The average ticket at our larger stores is nearly $10 higher than at our smaller stores, with our PowerShop, ATVs, boats, etc., accounting for only about $4.00 of the higher average ticket at the large stores.

Sales per square foot from the most recent trailing 12 months was $190 versus $215 for the prior 12-month period, as a result of the decline in comparable store sales and the impact of lower sales per square foot in our less mature new stores.

Gross margin declined 130 basis points to 23.4% in the recent quarter, compared to 24.7% in the second quarter of 2004. The major factors contributing to the decrease were –

• the absence of the cobranded credit card program that was in place in the second quarter of 2004, 80 basis points. This program substantially ended at the end of the third quarter last year. As Mark said, we plan to have a new credit card program in place in the third quarter of 2005.

• We were also impacted by deleverage of store occupancy costs on lower comp store sales and lower sales per square foot at our newer, less mature stores, 60 basis points, and

• higher distribution costs related to onetime costs related to the installation of automated product handling equipment at our distribution center and higher freight costs, partially attributable to higher fuel costs. We are working to offset this cost inflation in fuel through more efficient shipping practices. We expect to see a benefit from the re-layout and automation of the distribution center beginning in the third quarter.

On the other hand, gross margin benefited from an improvement in product margin rate despite aggressive seasonal clearance activity in July.

Turning to expenses, store operating expenses increased from 21.3% to 22.0% of sales. Primary factors were deleverage of labor cost and depreciation caused by the decline in comp store sales and lower sales per square foot at our new stores. On the other hand, advertising expenses declined as a percent of sales, as we became more efficient in the use of these funds.

General and administrative expenses for the quarter were 5.5% of sales, compared to 4.8% last year. The major factors contributing to the increase were higher legal fees and separation pay.

Preopening expenses for the quarter declined to $1 million from 1.3 million in the prior year. As I previously stated, we opened four stores in the recent quarter versus three in last year's second quarter. Preopening costs per store are approximately 20% lower this year than last year. We are opening stores with approximately a 5% reduction in capital expenditures and a 15% lower investment in initial inventory. Overall, these reductions will result in cash savings of approximately $600,000 per location in 2005, or in excess of $11 million compared to 2004.

Net interest expense was $2.3 million for the second quarter, versus $900,000 in the comparable quarter last year, as borrowings on our credit facility increased to $186 million at the end of the period, up from $83 million at the end of the second quarter last year. No income tax benefits were recorded in either year, as the realization of the loss was uncertain for financial reporting purposes.

EPS was a loss of $0.73 per share on a basic and fully diluted basis for the quarter, against the loss of $0.27 per share in the prior year. The weighted average number of shares for the 2005 quarter on a basic and fully diluted basis was 14.3 million.

For the first 26 weeks of 2005, EPS was a loss of $1.96 per share on a basic and fully diluted basis, against a loss of $2.76 per share in the same period of the prior year. Pro forma EPS for the first 26 weeks of 2004, which is more meaningful, was a loss of $1.18 per share. Weighted average number of shares for the 26 weeks on a basic and fully diluted basis was 14.2 million, both under GAAP and on a pro forma basis.

On the balance sheet, inventory per square foot in open stores at the end of the quarter was $71, down 9% from the prior year. This improvement reflects the lower inventory in recently opened stores and the success of our efforts to reduce inventory in all of our stores.

Capital expenditures were $19.1 million in the 2005 quarter, versus $9.3 million last year. These expenditures include the new store openings as well as costs associated with store remodels and improvements to our distribution center.

Long-term liabilities consisting primarily of deferred rent liabilities increased to $35.7 million at the end of the second quarter, reflecting higher deferred rent related to new store openings.

Regarding the comparable convertible debt financing, as we announced this morning we completed a private placement of a $20 million floating-rate convertible subordinated note. The note has an initial conversion price of $16 per share and bears interest at 7% for the first two years, after which time the note will float with the federal funds rate to a maximum rate of 8.5%. The note matures on August 16, 2010, and may be prepaid without penalty by the Company at any time after August 16, 2007. There are no restrictive covenants, and the Company is pleased to have completed this financing transaction on these terms.

Turning to our guidance for 2005, we anticipate that sales will increase to at least $850 million, driven by new stores and slightly positive comparable store sales in the second half of the year. As Mark mentioned, our 2005 spring store openings were very successful; and we anticipate success with our fall openings. At the end of the year we will have increased our weighted average square footage by nearly 43% with 17 new stores and two replacement stores, as well as the significant upgrade of three of our comparable stores.

While we do not believe that we've experienced any significant impact on sales to date as a result of the weather, economy, or higher fuel prices, we cannot be certain these factors will not impact us in the future.

Regarding comps, it has become more apparent that the continued growth in new stores by us and by our competitors will continue to reduce our comparable store sales by 2 to 3 percentage points for the near future. Our estimate is that the square footage in this industry at the end of this year for the four leading players will be more than double what it was just three years ago. Despite this, assuming normal weather patterns for the remainder of the year, we expect slightly positive comps for the second half of the year. However, given our performance in the first half of the year, we are lowering our comp store sales estimate to flat for the year from our previous guidance of a gain of at least 2%.

Regarding pretax income for the year, we project that pretax income will be at least $16 million.

Gross profit. Despite the decrease we experienced in the first half of the year related to gross profit, we have programs in place whereby our gross profit percent for the entire fiscal year 2005 will exceed that of 2004. We continue to work with our supplier partners to ensure we have the best product at the best prices. We have doubled the amount of foreign sourcing product that we have purchased for this fall. We have reduced our inventory levels and expect that to pay off in less clearance over the course of the second half of the year.

Also impacting gross profit, we have experience some unexpected additional costs in our re-layout and automation of our distribution center. But those are behind us, and we expect improvements over 2004 in the last half of 2005, due to the efficiencies gained at the distribution center in handling product. We also believe we can offset higher fuel prices by the changes we have made in our shipping process.

Store operating expenses. During the second half of the year, we expect significant efficiencies in our marketing program compared to last year and improvements in our labor and productivity as a result of our labor management initiatives. Overall for the year we expect leverage in store operating expenses in 2005 from 2004.

We continue to invest in our infrastructure. Accordingly, for our general and administrative expenses for the year, before consideration of the $2.5 million MBNA payment that we received in the first quarter, our G&A expenses will be relatively consistent with last year as a percentage of sales. Overall, preopening expenses will approximate $340,000 per location.

We anticipate adding 19 new stores, including three store relocations or consolidations. Most of these stores, as we have alluded to, are between 60,000 and 65,000 square foot stores; and we expect them all to have outdoor selling areas.

Our capital expenditures should be in the range of $50 to $55 million including new store openings, the upgrade of our distribution center and our Basecamp relocation, as well as normal and recurring store upgrades. This amount does not include $6 to $8 million of reimbursements from landlords for tenant improvements.

With the recent financing and our ability to open stores with less cash outlay, we now believe we can fund growth through 2006 with cash available under our credit facility and cash from operations. Now we would be happy to take your questions.

QUESTIONS AND ANSWERS

Operator

(OPERATOR INSTRUCTIONS) Mitch Kaiser from Piper Jaffray.

Mitch Kaiser - *Piper Jaffray - Analyst*

Curious about -- I know that you are selling boats. I was just wondering if you could comment on what the success of that was? I know you said it wasn't meaningful. But are there any observations that you could kind of share? Where would you see that maybe balancing out some of the earnings flow across the quarters?

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

Mitch, this is Mark. The boat thing, as we talked about in the last call, is an experiment, a test that we implemented initially in eight stores and rolled out the ninth store midsummer. My expectation around the boat business was that we would learn how to sell boats in a profitable way, and take the time to understand the service requirements, make sure we understand the full cost to be in the boat business.

Obviously as we look at our customers and a fishing customer, we see that customer showing up in our parking lot with boats, whether it's a fishing or a recreation boat. We had a great deal of excitement around some of the water sports and water toys that we have for towables behind the boats.

What I would say is that we will continue to be committed to these eight, nine, 10 stores that we've had with our Genmar partner to figure out how to be meaningful in this business. We have had some expansion in the Yamaha and G3 business, which is more of an aluminum fishing boat and loose motor business. And then had some successes around that business.

But again it is a building area. It is an area that we think that we can be effective with our customer in the front half of the year. But we are going through a cautious, if you will, approach to making sure we understand how to do that business correctly.

Mitch Kaiser - *Piper Jaffray - Analyst*

Okay. I guess then looking at the product categories in the second quarter, I guess, where was your biggest disappointment? It sounded like camping. But I would expect that. Would you have expected fishing to actually be up?

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

Fishing is a business that we hope that last year's kind of a rainy spring in the Midwest, Michigan, and Minnesota, that we would have had a little better fishing business in the Midwest. Certainly as we now become even more coastal and Southern, to understand those fishing businesses, we were disappointed in fishing as an overall category. We thought that the supply-side didn't bring as much in terms of freshness and newness to the marketplace that would have been beneficial for us.

That said, as fishing got into the later in the summer, it became much stronger than it was early on. One of the things that I think we would suggest -- although we don't have the evidence yet to prove -- is fishing has become more of a family activity, centered around more of the recreation in the summertime than it used to be in the Minnesota-Wisconsin-Michigan world of fishing opener kind of event. So the seasonality of fishing is changing a bit.

We are also seeing a much stronger fall fishing than we've had in the past because of muskie fishing and things like that in the September time periods.

Then clearly camping was an internal miss. We had some misses in product assortments that frankly got passed over. It became clear to us too late in the game to be able to replenish to the levels that were satisfactory for our customers. So we internally take that as our issue.

Mitch Kaiser - *Piper Jaffray - Analyst*

Okay. Then when you talk about localized merchandising, is that a place where you could maybe improve the fishing? Because the fishing sport trends so differently kind of across your markets. Is that kind of what you are alluding to on that?

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

Yes, we are in the early stages -- and again because of the scale we are at, we now have a fishing merchant based in Texas. We will continue to have fishing merchants. We have our fly fishing merchant in Colorado. We have an opportunity to take a look at even merchandising the East Coast differently. And again I think the magic of our business is being very, very localized in understanding that customer. We think we've done a really good job. We know we have a long way to go to be really tight to the time period of some of these seasons, which in some of these markets are eight or 10 days of a particular fishing opportunity.

Mitch Kaiser - *Piper Jaffray - Analyst*

And then just lastly, I think the second quarter was probably a little bit below your expectations. When you think towards next year, would you continue to probably open the 18 to 20 stores? Is that the number we should be thinking about?

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

We haven't made any comment on that yet, Mitch. We will give you updates on that as we get through the year.

Mitch Kaiser - *Piper Jaffray - Analyst*

Okay, thank you. Good luck.

Operator

Robbie Ohmes, Banc of America Securities.

Robbie Ohmes - *Banc of America Securities - Analyst*

Just two quick questions. The first, I just wanted to get a little more detail on the pretax income guidance of $16 million for the year. It implies that you guys are going to hit sort of $46 to $47 million of pretax income in the back half at least. Can you help us? Is this really a gross margin driven situation? You are sort of saying you are not going to be leveraging G&A. If it's going to be store expense leverage, how are you achieving that? Are you reducing store hours? I am just kind of confused on how you hit those numbers, given that you are taking your comp forecast for the back half down.

Then just a second question on the convert, I just wanted to understand. You said it was a $16 initial conversion price. Can you give us the terms on the conversion price? Is that subject to change? Thanks.

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

Let me answer the second one first. The only change in the conversion price would result from splits, dividends, and those types of things. There are no performance measures. There's no other way that the $16 conversion price would change. So that is that question.

On the first question regarding guidance for the year and the income for the second half of the year, one of the things we all have to recognize in our stores is that at least 60% to 65% of the sales of the stores are done in the second half of the year. In most cases, we would at that point in time obviously leverage all of the store occupancy costs; and in fact in most cases we are running -- we do not have to increase labor at the same rate as we increase sales, because we had minimum staffing in the first half of the year.

When I say we won't leverage G&A, that was related to the entire year. Obviously we have significant leverage in the second half of the year over the first half of the year. In some of the cases, for example, G&A -- the absolute expense for the second half of the year will be very close to the absolute expense for the first half of the year. So you end up with significant leverage on that.

The same thing takes place with store occupancy where, except for the opening of the additional stores, the store occupancies for our stores that have been opened the full year stay the same as they were in the first half. And the sales are up 1.5 times what they were in the first half.

We also, if you look at our sales that are in comp sales, where perhaps we have around $500 to $600 million of our sales, taking our comp sales increase from greater than 2 to around flat is probably a total impact of $10 to $15 million on a sales impact, if you were using between 2% and 3%. So you've got a $10 or $15 million sales impact. It isn't as significant as it may seem for the entire course of the year.

But on the other hand, Robbie, margin is a big factor. We believe that with what we've got in place with our vendors, what we've got in place with our foreign sourcing, what we've got in inventory levels, so that we can reduce our clearance inventory as we get out of the season in January next year, we believe that we will have a significant improvement in margin in the second half of the year.

We also believe that we have the ability, with the additional scale, that we will get leverage with our marketing expenses as we go forward in the second half of the year. In some of the markets where we continue to add and cannibalize ourselves we actually get efficiencies there in such things as margin.

We also expect to have, going back to margin for a minute, we would expect to have some improvement in mix. We are very optimistic about the owned brand apparel and the other apparel and footwear that we are bringing into our stores for this fall. If you recall, last year we had some very unseasonable weather as it related to cold weather apparel and footwear. We have not planned to recover all of that at this point in time. But we certainly plan on having a little bit colder weather than we did last year. I think those are some of the comments. Mark, do you want to add anything to that?

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

I think, Robbie, as we all understand, our seasonal part of our business -- as Dennis pointed out, 65% of our business or more is in that back half of the year -- and that is when people are buying the field wear and footwear, whether it is as cold as we want it or not. It is obviously a significant impact to our business. These margin expectation rates are not dissimilar to what we've had in the past.

Robbie Ohmes - *Banc of America Securities - Analyst*

Great, thank you very much.

Operator

Bob Simonson from William Blair.

Bob Simonson - *William Blair & Co. - Analyst*

First a couple little questions. Dennis or Sharon how much tax loss carryforward is left or is there?

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

For financial reporting purposes there is, I believe in the 20s or some range. So there will be -- for this year there will be no -- around $16 million of pretax income or larger. There will be no tax provision in the financial statement this year.

Bob Simonson - *William Blair & Co. - Analyst*

Okay. Do you have a guesstimate as to what your option expense might be next year?

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

Not at this point in time.

Bob Simonson - *William Blair & Co. - Analyst*

Is that a function of determining how you want to do it or (multiple speakers) how you are going to structure it?

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

At this point in time, when you say that, Bob, we obviously, when we actually come up with an estimate for next year we will have to make some assessments and determination as to what kind of stock options we might grant. Even in 2006, not only what we granted in 2005 and prior to that point in time. So until we bundle that all together I don't think we are prepared to comment on what we think it might be.

Bob Simonson - *William Blair & Co. - Analyst*

Okay. You talked, Dennis, about that there were some incremental distribution costs to make some changes at the distribution center. Can you quantify that?

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

My best guess is it cost us between 30 and 40 basis points for the quarter. So that would be $5000,000 to $700,000 of expenditures as it related to additional labor and transportation costs, as we were going through the automation and as we were going through the re-layout of what we had there.

Bob Simonson - *William Blair & Co. - Analyst*

That obviously does not include the incremental, what you have mentioned in your CapEx.

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

No, this would be over and above the --

Bob Simonson - *William Blair & Co. - Analyst*

This is through the income statement?

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

Yes, that is what went through the income statement (indiscernible).

Bob Simonson - *William Blair & Co. - Analyst*

Last question and maybe it's going to go nowhere. But the pretax loss in the second quarter was somewhere between two and three times what I think most people were thinking you were going to have. But you have maintained your expectations for the full year. Did you think that this second quarter was going to be like this? Or have you become more positive on your profit potential for the second half, despite what happened in the second quarter?

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

Bob, obviously we were disappointed with the loss; so it was somewhat larger than our expectations for the quarter. On the other hand, some of the items that are in this quarter, whether we had some aggressive clearing of seasonal inventory, we probably moved up some of that from the third quarter to the second quarter. We incurred some closing costs for Woodbury in the second quarter that perhaps somebody might not have anticipated happening in the second quarter. So we had some costs that I think you may not have anticipated being in the second quarter.

I don't think that we had increased our expectations for the second half from where we were when we gave the original guidance. I think that if you were to look at it, we talked about more than $16 million of income when we gave the original guidance. I think we are still saying more than $16 million. Was this quarter a little bit more of a loss than we had expected and anticipated, and are we disappointed in that? Yes.

Bob Simonson - *William Blair & Co. - Analyst*

So a good deal of -- I shouldn't say a good deal; that is something for you to say. An important part of an incremental or larger loss in the second quarter was the distribution cost, the shifting of markdowns and of store closing costs from the third to the second quarter. Is that correct?

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

We also did comment on we probably accelerated or had some legal fees that perhaps, as it related to some of the litigation we were talking about. And I think in the G&A I made a comment about separation payment.

Bob Simonson - *William Blair & Co. - Analyst*

Okay. Thank you.

Operator

Adrian Dawes from Hartwell.

Adrian Dawes - *JM Hartwell - Analyst*

Just following up on Bob's question, can you give a little more granularity in terms of the variance within the quarter as related to both separation payments and legal fees? Kind of provide some framework for how we should think about ongoing legal expenses as we look out, given your opening comments on potential litigation.

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

I will quantify the separation pay as being about 30 basis points. As it relates to the legal expenses, we anticipate continuing to incur legal expenses that perhaps are at a level somewhat higher than last year. But I do not believe that it is a number that is easily quantifiable as it relates to the overall impact. It will not be a significant change over a period of time when we have over $850 million of sales. We will be talking about very small basis points as it impacts for the year. Maybe talking about 10 to 20 basis points kind of impact on an overall basis.

At some point in time if indeed we do get involved in the securities and the derivative lawsuit we obviously have D&O coverage to cap out our exposure.

Adrian Dawes - *JM Hartwell - Analyst*

Okay, great. Looking to the second half of the year, can you give us or just refresh our memories as to the percentage category mixes? And what proportion of those mixes are now -- you know, have the highest exposure to own label?

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

I'll just start generally, while Dennis kind of looks up some of the details of that. But obviously as we move into the fall seasons, and which are really hunting seasons and holiday seasons, our apparel and footwear mix climbs very significantly as we go into the back half of the year. As well as a significant percentage of our particularly apparel and logo wear is our private and owned brand product. So that is probably the biggest shift. Obviously our camping businesses and fishing businesses go down very significantly in the back half as well. Dennis?

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

We've always indicated that, obviously, in the second half, as we get out into the hunting and the Christmas season, that our apparel and footwear penetration continues to increase. It probably -- the mix probably moves up somewhere in the 10% range of mix, as it relates to that. So there is a significant change there of penetration from apparel and footwear. Obviously the fishing would decrease significantly; hunting would increase into the fall. But there is some significant increase in mix into the apparel and footwear area, which is where we have significant amounts of our own brand.

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

And the foreign sourcing, that was --.

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

I think the other thing that -- and maybe we haven't reiterated it this time -- one of the things that we are doing with foreign sourcing is we've added more hard-line products into some of our foreign sourcing for the fall also. So we are bringing in not just apparel and footwear for the fall season, but a number of other products.

Adrian Dawes - *JM Hartwell - Analyst*

Okay, great. Just a couple of quickies. As you look at the estimates of the second half, you talked about the credit card; you talked about the opportunity for increasing sales in both firearms and gun safes. Have you assumed a significant change in that category year-over-year in the estimates that you have given?

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

No, I don't think that we have. I think for us to estimate in general that our comps are going to be flat, when we've got two-thirds of our comp still to take place too, we are obviously -- we think we are being reasonably conservative in that. We have not moved the mix significantly for those areas. We are expecting a pop from things like that. But we haven't said we're going to change the mix significantly.

Adrian Dawes - *JM Hartwell - Analyst*

Okay, great. Last question. Why the financing now?

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

I think that we have always talked about that this Company continues to be a fast growth retailer. We are always looking for financing on the right terms and conditions. When you look at the terms and conditions of this convertible note -- fixed-rate for two years at 7, maximum interest rate at 8.5%, prepayable by us after two years. You look at those terms and conditions, we found it a very favorable and attractive piece of financing that we felt is appropriate to take advantage of at this point in time.

Adrian Dawes - *JM Hartwell - Analyst*

How that rate compare to your current bank line?

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

Our current bank line on current LIBOR would probably be in the 5.25 range at this point in time.

Adrian Dawes - *JM Hartwell - Analyst*

Okay, thank you.

Operator

Sean McGowan, Harris Nesbitt.

Sean McGowan - *Harris Nesbitt - Analyst*

Just questioning what is the biggest surprise you have seen in terms of your competitor actions out there? Is there anything going on with competitors that you didn't expect? Or is it better or worse than you were looking for?

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

This is Mark. Obviously the industry has ignited a couple of years ago, where the square footage, as Dennis pointed out, has more than doubled in the last three years with this level of competition. I think that speaks to the significance of the size of this market, and how fragmented it is. Frankly as we pointed out, we have been as aggressive as everybody in terms of opening new stores and entering new markets, some of which are all by ourselves and some of which are in very competitive markets.

I think the run to be the first to serve obviously still is important in retail. And the first to market does have somewhat of an advantage. Although I would also tell you that we have seen now and have had experience now for five or seven years -- whether these entertainment type stores and our ability to compete with those things, after the initial look and go see kind of response to the customer happens, and then these stores come back into a normalized comp basis -- continues to be the case.

We think that we have the most portable format and ability to compete and also be the low-cost guy in these markets, as two primary competitors continue to be around the entertainment based retailing. It's going to be an exciting time in this business. We think we are well suited to take on the competition and primarily serve our customer.

Sean McGowan - *Harris Nesbitt - Analyst*

Have there been more stores opening than you had thought, or fewer?

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

If you had asked me three years ago how many stores are opening, most of our competitors are opening one or two stores a year. This last year I think between all of our competitors you are seeing something closer to 25 stores a year between the three other competitors opening.

Sean McGowan - *Harris Nesbitt - Analyst*

Okay, thank you.

Operator

Brett Hendrickson from Bonanza Capital.

Brett Hendrickson - *Bonanza Capital - Analyst*

Just really quick, I missed -- what was the square footage at the end of the quarter?

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

Dennis is looking that up as you say that. If we don't get it to you right now, we will get back to you in a second on that.

Brett Hendrickson - *Bonanza Capital - Analyst*

Okay. Then I just had one other question, probably also for Dennis. Is there any kind of pay-in-kind provision with the convertible debt, or is it interest cash every quarter (multiple speakers)?

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

The interest is currently set up as cash on a semi-annual basis and arrears.

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

We will have that on the 8-K; will be out sometime at the end of the week, which will have all of the details in it.

Brett Hendrickson - *Bonanza Capital - Analyst*

Okay, Dennis. But no pick, right? You are going to be paying the cash every --

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

Yes (multiple speakers). Square footage is 4.4 million square feet.

Brett Hendrickson - *Bonanza Capital - Analyst*

Okay. What was that last year? I don't have it in front of me.

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

I think it was up -- it was 2.9.

Brett Hendrickson - *Bonanza Capital - Analyst*

Okay. Thanks, guys.

Operator

Steve Denault from Northland Securities.

Steve Denault - *Northland Securities - Analyst*

What should we anticipate from a teaser promotional standpoint on the credit card offering this fall?

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

Well, Steve, we can't tell you that. I think we've got an exciting program, we think. With the Gander Mountain credit cards that exist out there with MasterCard, the conversion to get those customers served first and get them to continue with the loyalty that they have with the Gander Mountain program, we will take care of those customers first.

There will be some premiums offered that encourage customers for the initial use and the continual use of that credit card. Our new partner Alliance has got some very good tools, as I pointed out, to be able to help us speak to those customers more frequently and cause the conversion more often. We are very excited about that, as well as our 45th anniversary celebration of the 45th anniversary of the Gander Mountain brand this fall, which we will be kicking off as well.

Steve Denault - *Northland Securities - Analyst*

So it is probably safe to assume it looks something like it did two years ago?

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

Not exactly like it did two years ago. But it will certainly have some promotional activities around it.

Steve Denault - *Northland Securities - Analyst*

Okay. When you referenced doubling your foreign sourced merchandise, what percentage does that go to? If you are willing to share that.

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

The foreign sourced purchasing, I'm not sure I know that number right off the top of my head. I know that it is double what we were back -- do you have that, Dennis?

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

I think that we would expect it to be more in the 12% to 15% of our sales for the last half of the year.

Steve Denault - *Northland Securities - Analyst*

Okay. Any update on how things are progressing with Cabela's as it relates to opportunities on an online or catalog basis?

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

We have continued to say and make our commitment clear that we plan to be able to serve that customer in some form or fashion, hopefully by the end of late next year, in one form or another.

Steve Denault - *Northland Securities - Analyst*

Okay, thank you.

Operator

Dan Hooper, Peninsula Capital.

Dan Hooper - *Peninsula Capital - Analyst*

I just want to get back to the pretax income question. Can you just tell us, you blew (ph) out $28 million pretax through the first two quarters, so that the $44 million of pretax income that you are earning in the second half -- can you break that down between the third quarter and the fourth quarter for us?

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

We don't -- haven't given quarterly estimates.

Dan Hooper - *Peninsula Capital - Analyst*

Okay. Can you give us a rough percentage?

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

No, in our guidance our practice is not to give any quarterly guidance.

Dan Hooper - *Peninsula Capital - Analyst*

I guess I don't understand if last quarter you gave $16 million pretax income guidance; and then now you are about $6 million worse than you thought you would be this quarter. Was does that $6 million increase come from? I think that is what everyone is trying to get at. Are you implying that your fourth quarter is going to be $6 million better in pretax income than last year, or than your guidance less quarter?

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

In response to that, we did not indicate that we were $6 million worse than any of our internal expectations, because we didn't give any guidance for the second quarter. We indicated that we came off of our expectations for the second quarter. But we certainly didn't give an indication that we were either endorsing or have given guidance for the second quarter as to what a result (ph) would be out that (multiple speakers) --

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Dan Hooper - *Peninsula Capital - Analyst*

So the analysts were way too high for the second quarter?

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

We didn't give guidance for the second quarter.

Dan Hooper - *Peninsula Capital - Analyst*

So the analysts were way too high?

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

I think we just prefer to say that we are comfortable continuing to reference $16-plus million for the year.

Dan Hooper - *Peninsula Capital - Analyst*

Are they way too low for the fourth quarter then? Is that what you are saying?

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

We are not going to go onto those quarterly numbers. I appreciate the question, but we are just not going to do that.

Dan Hooper - *Peninsula Capital - Analyst*

But every quarter it seems that you miss the estimates by $0.40, $0.50. I mean they are not even remotely close.

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

We are staying dive (ph) for our year-end numbers; and I appreciate the question.

Operator

John Pinto from Brightleaf Partners.

John Pinto - *Brightleaf Partners - Analyst*

I'll follow up, not necessarily on the last caller's questioning, but maybe on the previous one. But they are kind of around the same function. I guess one is on the $860 million. I guess the same type of following. There is about $15 million less that you are expecting now from the comp stores. You said that a little earlier in the call. Did that $15 million that is now going -- you are expecting less from the comp stores, is that being picked up from the new stores? Is there that much better in your own forecasting from the new stores?

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

I think that when I made the reference, you picked up on $15, I said $10 to $15 million.

John Pinto - *Brightleaf Partners - Analyst*

Right, 10 to 15. I'm, you know --

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

I understand. (multiple speakers) I'm just saying we said $10 to $15 million.

John Pinto - *Brightleaf Partners - Analyst*

Sure.

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

I think that one of the things that we did talk about was the fact that we had given guidance at $850 million -- at least $850 million. We had talked about that, I believe is about 32% increase in sales. That came in right on that number. That would be a 32% increase in sales for the year. We are experiencing sales that are running 35% to 36% over last year for the period of time. So we are comfortable that we will be in excess of $850 million of sales for the year.

John Pinto - *Brightleaf Partners - Analyst*

Okay. So that, again, that is being picked up by the new stores essentially. That is what it sounds like. All right. Then on kind of the second half this year versus last year -- because I think obviously everybody is trying to get at this -- just in general it looks like you need to do about $25 million more in income in this second half versus last year's second half.

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

Yes.

John Pinto - *Brightleaf Partners - Analyst*

Just roughly where is that coming from? Just big picture. Obviously you are comping, you're going to comp modestly up in the comp stores in the back half. So there is going to be very little leverage there. And the new stores are opening, as you said, 10% or whatever the number is below the older, mature stores. So I am not sure what they are contributing.

But where is that $25 million of extra income versus last year coming from? Either give me an idea of whether it is coming from new stores, comp stores, gross margin line, just kind of anywhere to help out.

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

I think as I mentioned before we expect our margin for the year to be higher than it was all of last year. That would be implying that we would have a significant expectation for margin enhancement in the second half of the year over the first half of the year.

That's on the product side, due to working with our vendors, working with our foreign sourcing, better mix of product, and all of the other factors that we talked about. We believe that we have a significant opportunity. We have been experiencing, in most cases, opportunities as it relates to initial and product margin that would be an improvement over last year.

We expect our distribution costs to be better as a percentage of sales than last year with the investments that we've made. We would expect our store operating expenses -- a combination of the labor enhancements and the efficiencies that we are seeing in our marketing capabilities -- to cause us to have store operating expenses that are less than last year. We would expect that in the general and administrative for the second half of the year we would have leverage over last year in general and administrative expenses.

The other factor is in the case of preopening, and when you go through that calculation we will spend less in preopenings in the second half of this year than we did last year. Those would be some of the components. Obviously the other factor is we will be doing significantly more in sales in the second half than we did in the first half, which causes some of this leverage.

John Pinto - *Brightleaf Partners - Analyst*

No, I am just looking second half versus second half. Okay. Then on the product side, just kind of looking into your second-quarter numbers, is it fair to say that you had maybe 100 basis points better product margin than last year?

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

Yes.

John Pinto - *Brightleaf Partners - Analyst*

Okay. It sounds like the credit card was 80 basis points less. Is that going to be wiped out in the whole second half versus prior year?

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

That will not have a significant impact to us in the second half of the year.

John Pinto - *Brightleaf Partners - Analyst*

Okay. So roughly then, if the product side continues, you are saying that maybe 100 basis points of improvement over last year at the gross margin level; is that fair?

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

Plus a mix change as well, as we go into the fall.

John Pinto - *Brightleaf Partners - Analyst*

Yes, but just the product being IMU, mix, markdowns, all that, just all-in. Is that about fair?

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

I think to get to the calculation that I have indicated, that would be an estimate.

John Pinto - *Brightleaf Partners - Analyst*

Okay. All right. Then to reach the positive comps, do think you need to build back some inventory?

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

No. We believe that we have implemented a process for replenishment of significant portion of our goods; and we are very comfortable that we have a better replenishment system in place today than we've had in the past. So we are able to operate with less inventories in the store and rely more on replenishment through our distribution center and from our vendors.

John Pinto - *Brightleaf Partners - Analyst*

Okay, all right.

Operator

Chris Svezia from Susquehanna.

Chris Svezia - *Susquehanna - Analyst*

I have two quick questions. I guess, first, in previous conference calls you had mentioned that you had the necessary funding to support store growth, I think, into the spring of 2006; and then you would look at some options at that point in time in terms of financing. I guess, does this recent $200 million -- excuse me, $20 million in private placement funding, does that push that window further back?

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

Yes. We believe that with what we have been able to do with the inventory levels, what we've got for operating profits, and with this $20 million we would be able to fund our growth for all of 2006.

Chris Svezia - *Susquehanna - Analyst*

Okay. So then I guess that puts us at potential for a financing window into -- it becomes a 2007 issue at that point in time?

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

You always would like to have financing in place before it is required; and therefore we could fund our growth for 2006. But that doesn't mean that we wouldn't have another funding requirement sometime in 2006. As a fast growth retailer, we will always be utilizing capital and continue to make sure that our capital structure, in the form that it is, will support our continued growth.

Chris Svezia - *Susquehanna - Analyst*

Okay. Then I guess secondarily, can you comment at all what percentage of your business at this point, and how you look at the back half of the year, that is kind of your own brand, Gander Mountain branded product, that is currently in your retail stores?

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

I think in the past we've commented that our own brand kind of products were running in that 8 percentage of total sales. We expect that to move into low double digits in the near future.

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

We are seeing obviously a good deal of strength around that. We have reinforced the management teams around that with additional support. As I mentioned earlier, the growth in our logo business, the Gander Mountain brand, and the acceptance of the Gander Mountain brand in these new markets is overwhelming. The ability to get -- whether it is Guide Series, Gander Mountain brand into these customers hands has been -- a great deal of confidence has been built around that in the last six to nine months.

Chris Svezia - *Susquehanna - Analyst*

Okay. That estimate for a low-double-digit percentage, is that just in the back half of the year? Because it seems like seasonally in the back half of the year it picks up. Or is that more of an annual target maybe for next year?

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

We are looking and always talked about being in an annual basis in the not too distant future in the low teens as a percentage of sales over the next year or two. For this year that would be obviously in the back half. We expect we have a -- we are also adding a significant amount of foreign sourcing and owned brand product for the spring of next year too that will be new and different from what we did this last spring.

Chris Svezia - *Susquehanna - Analyst*

Okay. Thank you very much.

Operator

(OPERATOR INSTRUCTIONS) Bob Simonson from William Blair.

Bob Simonson - *William Blair & Co. - Analyst*

Dennis, could you -- I'm sorry I got confused. When you say foreign sourcing and private label, is that the same? Is that the same thing as you are thinking about?

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

I'll turn that back to Mark.

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

Bob, when we talk about foreign sourcing, it generally is private label or owned brand product, typically under the names of Gander Mountain and Guide Series, and some of the other Creekside type products that we put in our stores. We do have some sourcing that is domestic that is private label, although it is a much smaller piece of the business. So I think that when we reference foreign sourcing we are generally talking about private label; but we also have some domestic private.

Bob Simonson - *William Blair & Co. - Analyst*

Okay. The last little question. You have I believe a growing used firearm business. Can you update how the firearms breaks down, new versus used? Also I think you have been doing something on improving your datings with the vendors?

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

Bob, we won't comment about the new versus used breakout. We believe we are the largest used firearm dealer in the country, as we are the largest gunsmith employer in the country, and therefore are probably best positioned to bring used product into the market and refurbish it and get it back out there, as well as do the warranty work.

Our firearm business continues to be through the last year, even with all the challenges we have had, one of our shining stars of our business. It's a strength of ours. It is one that, as we point out, these new bigger stores of ours really do consolidate that business very, very quickly. We are very proud of our position in the firearms business and serving that hunting customer and shooting customer.

Bob Simonson - *William Blair & Co. - Analyst*

Are you still doing more work on the datings to (multiple speakers)?

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

As a retail merchant for my whole life, we are never done with that.

Bob Simonson - *William Blair & Co. - Analyst*

Very good. Thanks a lot.

Operator

Dan Hooper from Peninsula Capital.

Dan Hooper - *Peninsula Capital - Analyst*

I just wanted to ask a little bit more about some of the margin improvements that you are talking about for the second half versus last year. If you do the $850 million plus in sales, it seems to imply that you are going to do kind of an 8% operating margin in the second half of the year, which is significantly higher than last year. Can you just talk a little bit more about where most of that is coming from?

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

Sure. Let me go back through the same kind of comments before. We obviously have what we believe to be significant opportunities in our margin, product margin. We will have leverage in our distribution; plus we will have leverage in our store operating expenses, in the labor, and in the marketing areas; we will have leverage in our G&A expenses; and we will have leverage in our preopening expenses compared to last year. In all of those categories, without adding them up to 3 to 4%, it's the combination in those categories that would cause us to improve our operating margin by 3% to 4%

Dan Hooper - *Peninsula Capital - Analyst*

Okay, thanks.

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

I think it is just important to continue to recognize that we are so significant to the back half. Rent is a straight line item month by month, 12 months in a row. But when you do a significant more part of your business in the back half, obviously there is leverage in all parts of our activity, as well as we are getting the scale. Our journey here is from a couple, $300 million retailer just a couple of years ago to in excess of $850 this year. There's all kinds of scale things that fall through.

Dan Hooper - *Peninsula Capital - Analyst*

So we are thinking about that right then; an 8% operating margin in the back half is not unreasonable.

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

Correct.

Dan Hooper - *Peninsula Capital - Analyst*

Okay, thanks.

Operator

Mitch Kaiser from Piper Jaffray.

Mitch Kaiser - *Piper Jaffray - Analyst*

Just want to make sure that I'm clear on the private-label credit card. There should be some modest impact on margin, gross margin, in the third quarter, maybe, Dennis?

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

In the third quarter because of -- Mitch, maybe you could ask the question, or maybe I need to (multiple speakers).

Mitch Kaiser - *Piper Jaffray - Analyst*

I think -- didn't -- I guess the question is, when did the private-label -- I'm sorry, yes; your private-label credit card, when did that cease, I guess? Wouldn't there be some degradation on margin because of that, on a year-over-year basis?

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

In the third quarter, we -- the cobranded credit card program that we had with MBNA ended on November 1 of last year.

Mitch Kaiser - *Piper Jaffray - Analyst*

(multiple speakers) But you will have the other one up and running now, so it's kind of neutral then.

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

-- although, so there will be some impact, obviously. We will be introducing the new card in September. The new card is primarily for driving sales, and impacting sales, and growing sales. But there obviously are at least some limited financial benefits surrounding it also.

Mitch Kaiser - *Piper Jaffray - Analyst*

Okay. Then I guess on the full-year guidance, is it fair to assume that you are assuming something significantly higher than the $850 in sales and maybe the $16 million in EBIT? So you can still kind of comfortably say that you are within that? You are still guiding to that range?

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

Well, Mitch, we use the term at least; because there is always a certain degree of uncertainty when your biggest half of your business lays in front of you. Obviously we have said with confidence the $850 is something that we at least expect; and we at least expect $16 million. We have a lot of unknowns in front of us. We've got a great deal of excitement about the back half. But that is that kind of number we felt comfortable building communication around.

Mitch Kaiser - *Piper Jaffray - Analyst*

Okay. I tried. Thanks.

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

Yes. Nice try.

Operator

Sean McGowan from Harris Nesbitt.

Sean McGowan - *Harris Nesbitt - Analyst*

Question about taxes. I assume if you are expecting $16 million pretax income you will be a taxpayer at a 40% rate.

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

We have loss carryforwards for financial reporting purposes in excess of $16 million; and for tax purposes we have larger tax loss carryforwards. So for 2005 we will have no income tax provision in our financial statements for 2005. We will have no tax provision.

Sean McGowan - *Harris Nesbitt - Analyst*

Okay, thank you.

Operator

And with no further questions in the queue at this time, I would like to turn back over to Mr. Mark Baker for any additional or closing comments.

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

We would like to give you a preview of the subjects we will be discussing further in our third-quarter call. We believe that our dedicated and knowledgeable associates are our greatest asset. In order to maximize their effectiveness, we are working with our stores on key customer service standards and initiatives. We believe that our associates' ability to share knowledge and deliver value to our customers will continue to be a key to our success.

I read every customer email, and overwhelmingly the majority praise our associates. We want to make sure every customer at every store receives that high level of service.

Further I want to reiterate a couple of key points. • We believe that our stores offer the best assortments and best value in the outdoor lifestyle segment. • We expect to see margin improvements as a result of our initiatives begun in '04 in the areas of direct foreign sourcing, higher penetrations in footwear and apparel, leverage from our investments in upgrading our distribution center, reduced cost of store openings, continued leverage in advertising and marketing expense. • Our associates have proven their ability to facilitate our growth while assuring that all of our customers get the service and attention they deserve.

In closing, I have seen this opportunity before. As Gander Mountain is ready to celebrate its 45th anniversary of the Gander Mountain brand, we are proud to serve this large underserved market as being the leading retailer, Gander Mountain, with the highest growth, the best knowledgeable associates, and a service culture. This is a great opportunity that we are excited to continue to embark on and look forward to our success. Thanks for your support.

Operator

This does conclude today's conference. We thank you for your participation and you may disconnect at this time.