



## Conference Call Transcript

### GMTN - Q3 2005 GANDER MOUNTAIN CO Earnings Conference Call

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## CORPORATE PARTICIPANTS

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*Gander Mountain Co. - Director of IR*

**Mark Baker**

*Gander Mountain Co. - President & CEO*

**Dennis Lindahl**

*Gander Mountain Co. - CFO & EVP*

## CONFERENCE CALL PARTICIPANTS

**Bob Simonson**

*William Blair - Analyst*

**Mitch Kaiser**

*Piper Jaffray - Analyst*

**Chris Svezia**

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**Steve Martin**

*Slater Asset Management - Analyst*

**Steve Denault**

*Northland Securities - Analyst*

**Brett Hendrickson**

*Bonanza Capital - Analyst*

## PRESENTATION

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### 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 our Director of Investor Relations, Ms. Shannon Burns.

Please go ahead, ma'am.

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### Shannon Burns - Gander Mountain Co. - Director of IR

Good morning. I'm Shannon Burns, Director of Investor Relations at Gander Mountain. Welcome to the Gander Mountain third-quarter conference call. Joining us on the call today are Mark Baker, President and CEO of Gander Mountain and Dennis Lindahl, Executive VP and CFO. Mark will discuss business trends and Dennis will review our financial results. We'll 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 will remain on our Web site for approximately 90 days. The transcript of this call will be posted under "Archives" in the Investor Relations section of our Web site.

Please remember that our discussion today may include forward-looking statements relating to our estimates and expectations that involve risks and uncertainties. Our actual results could differ materially from those projected in any forward-looking statement. Additional information concerning important factors that could cause our actual results to differ materially from these forward-looking statements are described in the "Risks and Factors Affecting Current and Future Results" section of the annual report on Form 10-K, as filed with the Securities and Exchange

Commission, as well as in our subsequent reports filed with the SEC. These reports are available at the Investor Relations section of our Web site at [www.GanderMountain.com](http://www.GanderMountain.com) and at the SEC's Web site 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. 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, I would just like to remind you that we will not comment on certain pending legal matters.

And now, I'll turn the call over to Mark.

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**Mark Baker - Gander Mountain Co. - President & CEO**

Good morning, and welcome to Gander Mountain's third-quarter call. I'd like to welcome our shareholders, analysts and all other participants.

As you know, Gander Mountain is the leading outdoor lifestyle retailing with over 98 stores today and is the fastest-growing retailer in this category, with more stores than the next three competitors combined in the underserved Outdoor Lifestyle market.

This was a disappointing quarter. Store sales were impacted by several factors.

- The economic uncertainty that has resulted from high energy costs has put a damper on our consumer spending, especially for our discretionary items.
- Once again, we have experienced extraordinarily warm temperatures in many of our markets. This unusual weather causes customers to postpone their purchases of high margin cold-weather apparel and footwear. Toward the end of October, we began to see more normal temperatures across our markets and the impact of comparable store sales was encouraging. This trend continued into November.
- We believe we may have negatively impacted sales in September due to issues around implementing the new materials handling system at our distribution center. These flow issues were resolved and the full assortments of these products were in the stores by mid-October.
- One of the other factors leading to the shortfall in sales is that a couple of our markets that we opened stores in the past twelve months are not yet meeting our expectations.

However, there were events in the third quarter that gave us confidence in our business.

- This quarter, we had on all accounts our most successful new store openings ever. We opened nine new stores and they all opened on schedule and below cost expectations. They were also opened to great customer enthusiasm and with strong sales. We have improved our store opening process so we can open the stores with reduced opening costs and lower inventory. We are also making these grand openings into family events, drawing more women and children into our stores, and we have seen this impact on our lifestyle apparel and footwear.
- We have increased our penetration of own-brand merchandise and our Guide Series apparel is a major driver of our success in the casual apparel and outerwear. We are now sourcing most of this product directly to improve our margins.
- While competition and cannibalization will always have an impact on comp store sales, this was not an unusual factor in contributing to the results in this recent quarter.

These positives were not enough to offset the softness in sales we experienced in other areas. But we have great confidence in this business and our ability to win. In order to do so, we are working on specific initiatives designed to drive our profitability.

- Our core belief is that we can continue to drive sales growth by offering customers merchandise they want at the lowest price and promoting our selection, our knowledgeable customer service and our value.
- We are fine-tuning our assortment in inventory at store level to improve inventory turns and return on our inventory investment while continuing to offer customers broad assortments across the good, better and best spectrum.
- One of our top initiatives in 2006 will be continued focus and improvements along our supply chain.
- We are focused on better matching store labor hours to current sales trends.
- And we have taken steps to streamline our corporate structure and reduce expenses. We are reallocating resources to those departments that we expect to get the best return on our investment.

We plan to open six to eight stores in 2006, which we believe is appropriate given the economic uncertainty. This level of growth will enable us to devote time and resources to our key initiatives to improve the results in 2006. We continue to see evidence of the potential to have at least 300 stores in the U.S.

We look forward to a profitable fourth quarter. We are committed to our strategy. We believe that the outdoor lifestyle sector is underserved at retail and provides tremendous opportunities for growth. We are confident that our stores are the best assortment, service and value of any of the major competitors in this space. With our base now of over 100 stores or nearly 100 stores, we provide customers the most convenient outdoor lifestyle experience in this business. We firmly believe that we can bring this business to a very attractive level of profitability.

And now, I'll turn the call over to Dennis Lindahl, our CFO, who will give more details on the financials.

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**Dennis Lindahl - Gander Mountain Co. - CFO & EVP**

Thanks, Mark, and good morning, everyone. In the third quarter, revenue increased 20.4% as a result of new store growth while comparable store sales declined 8.5%. In the third quarter, three stores entered the comp store base. The total number of stores in the comp store base increased to 65, but there are still only 13 of our larger format stores in the comp base, up from 11 in the second quarter.

The pretax loss in the third quarter was \$7.5 million versus the restated \$1.7 million pretax profit in the 2004 quarter.

For the nine months, sales increased 29.2% on new store openings and a comparable store sales decline of 5.1%. The pretax loss for the nine-month period was \$35.5 million compared to a restated \$16.0 million loss for the first nine months of fiscal 2004. For the year-to-date, pre-opening expenses were \$6.6 million to open 19 new stores compared to \$7.9 million to open the same number of new stores in the 2004 period.

Turning to store productivity metrics, for the third quarter, total square footage at the end of the third quarter increased 32% from last year to 5.0 million square feet. We opened nine new stores in the third quarter of 2005, including one relocation and closed the Bloomington, Minnesota store, as that lease is expiring, and it is only 10 miles from our Lakeville large-format store.

In the third quarter of 2004, we opened 14 stores, including two relocations. The average square footage per store was 51,000 square feet at the end of the quarter compared with 46,000 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 plus outdoor selling space. However, we will occasionally open larger or smaller stores as we size our new stores appropriately for each new market and take advantage of opportunities to use recycled real estate.

Our average customer ticket increased 5% from \$56 to \$59 for the quarter, while the average ticket at our comp stores was flat versus the third quarter of 2004. The average ticket at our larger stores was nearly \$11 higher than at our smaller stores, with our PowerShop, that's ATVs, boats, etc., accounting for only about \$4 of the higher average ticket at the large stores.

Sales per square foot for the most recent trailing twelve months was \$182 versus \$208 for the prior twelve-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 370 basis points to 23.4% in the recent quarter compared to 27.1% in the third quarter of 2004.

Our base product margin increased 100 basis points in the quarter, but this gain was more than offset by other factors. The major factors contributing to the decrease were –

- Compared to the third quarter of 2004, there were changes in the product mix, which accounted for a 50 basis point decrease, including increased sales of lower-margin categories, such as firearms and ATVs and lower penetration of higher-margin categories such as apparel and footwear.
- We took an aggressive stand to successfully clear inventory in August and September, which resulted in increased product markdowns of 110 basis points.
- We realized 100 basis points lower revenues from the new credit card program compared to our old credit card program. As you recall, the prior credit card program ended in the third quarter of 2004. Our new credit card program, introduced in September, is designed to enhance sales, reward loyalty and provide more deferred financing options compared to our previous program.
- Store occupancy costs were deleveraged and lower comp store sales and lower sales per square foot at our newer, less-mature stores, which resulted in 110 basis point reduction.

- We incurred higher freight and distribution costs of 60 basis points, primarily as a result of higher fuel costs and some inefficiencies at our distribution center.

Turning to expenses, store operating expenses increased from 18.7% to 20% of sales. The primary factors were deleverage of labor costs, 50 basis points, and depreciation and utilities, 30 each, caused by the shortfall in sales.

General and administrative expenses for the quarter were 4.1% of sales compared to 3.9% last year, as we had built an infrastructure to support a higher level of sales than we achieved. As Mark mentioned, we have adjusted staffing levels in line with our actual growth of sales.

Pre-opening expenses for the quarter declined to \$2.8 million from \$5.2 million the prior year. We opened nine stores in the recent quarter, including one relocation, versus 14 in last year's third quarter, including two relocations.

Pre-opening costs per store on a year-to-date basis are approximately 20% lower this year than last year, and we've been opening stores with approximately a 7% reduction in equipment and fixtures and a 20% lower investment in inventory.

Net interest expense was \$3.2 million for the third quarter this year versus \$1.2 million in the comparable quarter last year, as borrowings under our credit facility increased to \$228 million at the end of the period, up from \$127 million at the end of the third quarter of 2004. In addition, we received \$20 million in funding from the placement of convertible debt in August 2005. Overall, our average interest rate increased approximately 2 percentage points from a year ago.

No income taxes were recorded in either year, as the realization of the loss was uncertain for financial reporting purposes.

The EPS was a loss of \$0.53 per share on a basic and fully diluted basis for the quarter against a restated profit of \$0.12 per share basic and \$0.11 per share fully diluted in the prior year.

The weighted average number of shares for the 2005 quarter was 14.3 million basic and fully diluted.

For the first 39 weeks of 2005, the loss per share was \$2.49 for the 39 weeks on a basic and fully diluted basis, against a restated loss of \$2.02 per share in the same period of the prior year.

Pro forma earnings per share for the first 39 weeks of 2004, which is more meaningful, was a loss of \$1.06 per share on a basic and fully diluted basis.

The weighted average number of shares for the 39 weeks was 14.3 million basic and fully diluted.

On the balance sheet, despite our sales shortfall, inventory per square foot in open stores at the end of the quarter was \$78, down 11% from \$87 per square foot the prior year. This improvement reflects our more effective targeting of inventory in recently opened stores and the success of our efforts to reduce inventory at all of our stores. We continue to be confident of the quality of our inventory.

Capital expenditures were \$15 million in the 2005 quarter versus \$22 million last year. These expenditures include the new store openings, as well as costs associated with store remodels. We opened nine stores this fall and 14 stores last fall. Our capital expenditures for the year are substantially complete.

Long-term liabilities, consisting primarily of the convertible debt financing of \$20 million, capital lease obligations and deferred rent liabilities, increased to \$56 million at the end of the third quarter.

As of October 29th, 2005, and as of today, the Company has in excess of \$40 million of availability under its credit facility.

We recently revised some of the covenants of our credit agreement. The requirements for EBITDA and operating cash flow, as defined in the agreement, have been adjusted, and operating cash flow will be tested quarterly. The Company is confident that it will have the liquidity it needs to execute its plans in 2006. A copy of the amendment to our credit agreement was filed with our 8-K this morning, so you will have an opportunity to review the changes.

On the subject of guidance, we have determined that we will not give earnings guidance for fiscal 2005. We will continue to communicate with the investment community the long-term strategy of our Company and the key steps we are taking to successfully execute that strategy.

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Clearly, our business has not performed up to our plans or our expectations. I want to reiterate Mark's comments that we remain confident in our ability to make an attractive profit in this business and to continue to grow. We plan to give you concrete evidence to back that belief in the coming quarters.

And now we would be happy to take your questions.

## QUESTION AND ANSWER

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### Operator

(Operator Instructions). Bob Simonson, William Blair.

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### Bob Simonson - William Blair - Analyst

Dennis, I'm looking at the balance sheet and it says at the end of the quarter, you had \$228 million of borrowings under the facility and that you have \$40 million available, but that's short of \$300 million. Was the limit on the facility changed?

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### Dennis Lindahl - Gander Mountain Co. -- CFO & EVP

Bob, when we increased our line of credit, we technically increased it to \$275 million. If you recall, we had an opportunity to increase it to \$300 million. We didn't think we had a need to go to \$300 million, so we only increased it to \$275 million. We have a few million dollars of letters of credit outstanding and that would be the difference then between the borrowings that were outstanding, the availability I talked about and the limits of \$275 million.

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### Bob Simonson - William Blair - Analyst

Okay. And obviously it depends on whether you do six or eight stores and what else is planned for other CapEx, but can you offer a CapEx estimate for next year?

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### Dennis Lindahl - Gander Mountain Co. -- CFO & EVP

Bob, I think I can do that in general terms. If you take a midpoint there of seven stores, and you look at what we spent this year, you would see we spent \$1.5 to \$2 million in general on a new location and we would have -- we do not have any significant plans for capital expenditures for upgrading those stores or for other. We would just have maintenance capital expenditures, so I don't think it would be inappropriate to say we would be plus or minus \$20 million.

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### Bob Simonson - William Blair - Analyst

About \$20 million, not much more than that. Okay. Can you talk a little bit about the markdown trends? Dennis, you said that you were confident the inventories were clean at this point. Mark, could you talk about markdown risk in this current quarter and how you view your inventories, the level and the quality?

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### Mark Baker - Gander Mountain Co. - President & CEO

Well, the inventory that we have marked down through August, obviously, we had a disappointing front half, as you recall. We wanted to make sure that we were clean as we approached the fall selling season. I think the merchants and the replenishment groups have done a superb job in managing to the expectation and where we've had a shift to orders and reconciled it. The early fall that we always hoped to have at least occur did

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not occur the way we anticipated and we were able to back off those orders. And our inventories in terms of where we are at today, weeks of supply, even as you saw, the inventory per square foot is down. In terms of perishable inventory, we don't see anything at this point in time that we are uncomfortable with.

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**Bob Simonson - William Blair - Analyst**

Okay. And you alluded to cooler weather arriving in late October and continuing. Last year, that happened and the comps improved fairly dramatically when you had some cold weather. Can you comment on whether that is true this year as well?

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**Mark Baker - Gander Mountain Co. - President & CEO**

Well, the comment I'd like to make is that what's interesting when we look at the week-by-week comparable store sales, as we look through August, September and October, there were three significant weeks of real shortfall, all of them in and around -- whatever you want to call it -- the CNN effect or the effect of the hurricanes. And some of them, which we were directly affected with in the case of Rita in Houston and Beaumont, where we lost the Beaumont store for a very short couple of weeks, and the Houston stores, which were interrupted. Although, to tell you the truth, in some cases, we found out we also can be a relief house for cots and camp fuel and gas cans and generators, we did see these three very significant sales gaps in comparable and all stores during those weather phenomena. Now I can't explain exactly why our customer seems to tune into that more than anybody else, but they do. And yet when the weather and the phenomena, even as late as Wilma went away, the business improved dramatically over what it was, from a very significant decline in sales all around in expectations from September to a much more improved trend in the end of October, which continues through the beginning of November. We're not going to go into exactly what that number is at this moment, but it's much improved from what it was in the middle of September.

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**Bob Simonson - William Blair - Analyst**

Can you comment on whether it's a positive number?

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**Mark Baker - Gander Mountain Co. - President & CEO**

I would say that on the comparable store side, we are still seeing single-digit declines right now, but smaller than we had seen in the past, much more.

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**Bob Simonson - William Blair - Analyst**

Okay. And lastly, you talked a little bit about a supply chain problem, the distribution problem. What was that and is it fixed and what did you do?

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**Mark Baker - Gander Mountain Co. - President & CEO**

The distribution center, as we had talked about earlier, we had spent a couple, \$3 million on capital improvements to make sure we had the capacity, capability to move all this product through the DC without adding on to additional square footage. The machinery went in place and as you know, until you test it with the real volumes, you really don't know all the intricacies of what's in the install, and we did run a lot of freight. And as you know, the ten new stores that we opened this fall or 90 stores, caused a little bit of a jam in the end of August and the first part of September. And we would say that it might have cost us a point or 2 in in-stocks that we were not happy about in some key quick seasons. We were able to get that stuff to the stores but it cost us a little more, and we may have lost a couple of days of sales opportunities. Since that point in time, since the end of September, I would say we are very, very satisfied and the distribution process has gone more smoothly.

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**Operator**

Mitch Kaiser, Piper Jaffray.

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**Mitch Kaiser - Piper Jaffray - Analyst**

Just a quick question on the credit facility. I guess this is for Dennis. You said you have the ability to expand that to \$300 million under the new credit facility; is that still intact?

**Dennis Lindahl - Gander Mountain Co. - CFO & EVP**

Yes. The only amendment to the credit facility really revolves around the covenants as it related to EBITDA and operating cash flow.

**Mitch Kaiser - Piper Jaffray - Analyst**

Okay, good, good. And then in terms of the gross margins, the credit card program, is that going to have the same impact on the next three quarters then, given kind of the year-over-year compares?

**Dennis Lindahl - Gander Mountain Co. - CFO & EVP**

Let me try to clarify what I must have not clarified earlier. When we had the old credit card programs, we had a very significant revenue recognition from it because we earned significant amounts of money for each card that we obtained. That was the income that was flowing through October 30th of last year. After October 30th of 2004, we no longer had any of that revenue, so actually the comparison, the whole 100 basis points of change that we had this year, will go away starting the fourth quarter of 2005.

**Mitch Kaiser - Piper Jaffray - Analyst**

Okay, okay. That helps clarify it then. And then just in terms of weather, economy and then competition, how would you break that out in terms of -- have you seen variability amongst your store base? Could you just shed a little light on, were there areas that experienced some colder weather or not really? And then just in terms of competition, as well, because I know Cabela's had disappointing results. Their catalog business was flat and Dick's said that they were kind of flat on a year-over-year basis on hunt, fish, camp.

**Mark Baker - Gander Mountain Co. - President & CEO**

On the question about geography, it's interesting, as we looked at end of August and as the first hurricane, Katrina, and then the next one, Rita and then further, Wilma, the impact on those was widespread in terms of not just the affected areas, but anybody who was tuned into that, those particular weeks were very significant shortfalls in sales expectations. And I can tell you that those are real peaks and then they came back. Obviously, the fuel pricing that we saw after the first hurricane affected us through the month of September very significantly and that was very widespread. As it did seem to come back down to the \$2 range in fuel, strange enough, sales came back pretty strongly. So from a weather effect, it was everywhere and from a fuel cost, we can tell you, it was everywhere in the geography, it was widespread.

It is interesting and kind of a paradox, of course, that one of the reasons as we expanded into the South, which was to neutralize some of the weather phenomenon, we got clobbered by some of the weather phenomena with being directly affected in a couple of stores where they were closed.

In terms of competition, this is a good question and I'm glad you brought it up. I think it speaks a lot to the size of this market and how underserved it is. I'm going to give you some numbers here that, if you go back to 2001, in the state of Minnesota, Gander Mountain had 10 stores and it was roughly doing \$65, \$68 million in sales. As we look forward here to 2005 with 13 stores, Gander Mountain will probably do \$125 million in sales in the state of Minnesota.

Now, since that point in time, we've obviously then added a competitor, we've seen a lot of square footage growth in the category from other competitors. So what I'm very excited about the long-term prospects about this business is that how underserved it is, and in fact in the Twin Cities market, in the last four weeks since our competitor has shown up in town, our sales in the Twin Cities are actually up. And I'm not saying how much we've had an effect on them. I think it speaks to how underserved the market is and how strongly we believe we can continue to gain

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share in this marketplace. So we are proving to ourselves and gaining ever more confidence about our ability to serve a customer and for our brand to have its position as being the low-cost value leader in this business.

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**Mitch Kaiser - Piper Jaffray - Analyst**

Okay, okay, sounds good. It's snowing here today in Minneapolis, as you guys now.

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**Mark Baker - Gander Mountain Co. - President & CEO**

It's the color of money, Mitch. That's actually the color of money.

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**Mitch Kaiser - Piper Jaffray - Analyst**

I'm glad to see it. Just in terms of the seasons, I think we have a few days left of deer season, and I think it comes later in some of the other states. Can you just tell us where we're at relative to that? And is the cold weather, did it come fast enough for some of those other states, I guess?

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**Mark Baker - Gander Mountain Co. - President & CEO**

Yes, just reporting across the country, you know, Minnesota had their deer opener and you might have seen that there were a number of deer hunters that showed up at the last minute to get their licenses, as it was reported. What's interesting is Wisconsin will be opening up their deer hunting season this Saturday. Michigan opened up yesterday and Pennsylvania will be opening up after the Thanksgiving holiday, and Texas, of course, started a week ago, but it goes for a couple of months. We are pretty excited about the game and the game activity. As you know, was a record year for pheasants, continues to be, continues to be a very strong hunting season for deer. Unfortunately, waterfowl was negatively affected early on and continues to be from a population. But from an overall hunting aspect and the continued growth of archery, we still continue to be excited about that prospect of that business growth.

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**Operator**

Chris Svezia (ph), Susquehanna Financial Group.

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**Chris Svezia - Susquehanna Financial Group - Analyst**

I just have a couple of quick questions. I guess first, you made a reference to the level of cannibalization or some reference to the cannibalization during the quarter. I was just wondering if you can maybe just quantify on your comp, what level of cannibalization negatively impacted the comp number, if any?

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**Dennis Lindahl - Gander Mountain Co. - CFO & EVP**

On an overall basis, we see with the competition and the cannibalization, which we to a certain extent lumped together, we view that as having a 1% to 2% impact on our comps on a going-forward basis, and we need to overcome that each quarter to get back to zero in comps. But we think it's a 1% to 2% impact.

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**Chris Svezia - Susquehanna Financial Group - Analyst**

Okay. There hasn't been any change in that 1% to 2% as we've seen throughout the --

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**Dennis Lindahl - Gander Mountain Co. - CFO, CAO, EVP**

Not in the last six to nine months. It's kind of run in that area.

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**Chris Svezia - Susquehanna Financial Group - Analyst**

Okay. Can you give us any idea roughly what percentage of your stores I guess compete with either a Bass Pro or Cabela's or a Sportsman's Warehouse in the markets you serve?

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**Mark Baker - Gander Mountain Co. - President & CEO**

We'll look into that. If you have another question, somebody can take a quick look at that.

I think one of the things that's interesting about our store base is that we were able to adapt stores in markets where, frankly, there are no competition and not likely to be any of the entertainment stores and some of these smaller markets like Salisbury, Maryland or Paducah, Kentucky. And we were also able to adapt onto larger markets, as you know, Chicago on the south side and Joliet around the Detroit markets. I think we can take a quick look here and --

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**Dennis Lindahl - Gander Mountain Co. -- CFO & EVP**

Chris, let me try to summarize -- of our 98 stores, we define 25 of them currently being in a Cabela's market; 20 to 23 of them, depending on -- we got 23 of them now that Bass Pro is open in November, with Bass Pro; 14 or so overlap with Sportsman's Warehouse; and about two-thirds of our stores compete in a marketplace where Dick's exists. That would be today.

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**Chris Svezia - Susquehanna Financial Group - Analyst**

Okay. I guess when you look out further, do you see that cannibalization, I mean as these guys continue to grow at the rate that they're growing and yourselves, I mean do you see that level of cannibalization increasing as you move further out and look out to next year?

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**Dennis Lindahl - Gander Mountain Co. -- CFO & EVP**

I think as I look out and Mark can also comment on that, if you look at where a number of the announced openings are for Cabela's in 2006 and 2007 and you look out where Bass Pro is and Sportsman's Warehouse, we don't -- and with the base of our stores now being 98, I don't think we see that as having any more significant impact over the next year or two than it's had over the last year or two.

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**Mark Baker - Gander Mountain Co. - President & CEO**

That would be correct, Dennis. You know, as we look at who's breathing the freshest air with our hundred stores, we actually feel that we are actually in the most envious position of having markets that we've already encountered the competition, survived and not only survived but gained share, continue to gain share in the markets that we operate in. And from a perspective of who goes forward with the most likely competitive hits, we actually feel very good about our position in the marketplace.

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**Chris Svezia - Susquehanna Financial Group - Analyst**

Fair enough. And then I just have a balance sheet question. Just looking at your balance sheet, Accounts Payable, both in second quarter and third quarter, in terms of gross dollar, it looks like continues to climb somewhat relative to your inventory build and the number of stores you are opening up. Obviously, square footage growth is increasing pretty significantly. I'm just wondering, is there anything that's going on there that would cause the Accounts Payable to decline? Are you guys funding a little bit more your inventory for new stores or is there something else that's going on in the Accounts Payable decline?

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**Dennis Lindahl - Gander Mountain Co. -- CFO & EVP**

Are you looking at comparing this year to last year?

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**Chris Svezia - Susquehanna Financial Group - Analyst**

Yes.

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**Dennis Lindahl - Gander Mountain Co. - CFO & EVP**

The primary factor for that would be some additional global sourcing and direct importing that we're doing, where we would be bringing in a few more products without the 30 to 60 dating that we would have on domestic products.

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**Mark Baker - Gander Mountain Co. - President & CEO**

Actually, it's a very significant initiative we've been talking about, as the Guide Series products and the scale that has allowed us now to buy full containers and go directly to the Orient with our merchandising teams. Obviously, those have different payable terms and whether they are letter of credit or in most cases, we've been able to negotiate or pay at dock.

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**Chris Svezia - Susquehanna Financial Group - Analyst**

Right. I think I (multiple speakers)

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**Dennis Lindahl - Gander Mountain Co. - CFO & EVP**

Chris, if your question really is are we seeing significant changes in the terms from our vendors, which is causing us to have less payables, the answer to that is no.

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**Chris Svezia - Susquehanna Financial Group - Analyst**

Okay. That's good to know. Thank you very much, gentlemen.

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**Operator**

(Operator Instructions). Steve Martin, Slater Capital.

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**Steve Martin - Slater Asset Management - Analyst**

Most of my questions have been answered. Just one more question on the credit line. The \$40 million of availability, is that versus the maximum on the line, or is that versus the borrowing mix?

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**Dennis Lindahl - Gander Mountain Co. - CFO & EVP**

As of today, that would be the maximum on the line. (multiple speakers) base would exceed the maximum on the line.

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**Steve Martin - Slater Asset Management - Analyst**

The borrowing base exceeds it?

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**Dennis Lindahl - Gander Mountain Co. - CFO & EVP**

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Yes.

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**Steve Martin - Slater Asset Management - Analyst**

Okay. Thank you very much.

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**Operator**

(Operator Instructions). Bob Simonson, William Blair.

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**Bob Simonson - William Blair - Analyst**

This is one of those questions if I had four wheels I'd be a wagon. Can you talk about or guesstimate what the comps would have been this quarter? A lot of restaurants, a lot of retailers talked about that CNN effect in September and that it was material. Can you, if you took the first two or three weeks out of your quarterly comp, what would it have looked like?

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**Mark Baker - Gander Mountain Co. - President & CEO**

Bob, we try and evaluate exactly what that was. But I am going to share with you just some of these kind of double-digit declines that we saw that were mid teens for those short periods of time, that I think came down to a -- in those three weeks during those three weather phenomena, were very, very significant dollars and impacted us during a peak season. Now clearly, we don't know and I didn't think, obviously, as we approached this September that we would be cycling another warm September across the whole Northern tier and October on top of that. And then you add \$3 gasoline, I can't tell you how it breaks down exactly, but it was real, and it's been improving ever since. Gas has come down, it's gotten colder and by the way, strangely enough, we've gotten closer to the hunting seasons as they've all become activated and it's in the range that we are much more comfortable with right now.

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**Bob Simonson - William Blair - Analyst**

Another question. You sent out some guidebooks, is that what they were called? I don't believe you called them a catalog because there was no item number and you certainly couldn't get them -- you could only call and find out where the store was. But did you see any measurable influence from that and what are your plans going forward for -- maybe this is the legal issue that Shannon talked about -- but to create in-house some ability to offer product direct to the customer?

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**Mark Baker - Gander Mountain Co. - President & CEO**

Well, Bob, we will continue to evaluate the timing and the best way for us to enter the direct marketing business. It's still our intent to do that at some point in time. Obviously, with the current challenges, we want to make sure we've focused our energy, our resources on making sure we're doing the right job with our retail stores, and we are very focused on making sure that '06 provides the profit that we expect.

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**Bob Simonson - William Blair - Analyst**

Which was what?

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**Mark Baker - Gander Mountain Co. - President & CEO**

Thank you. And we will eventually figure a way to get into it. The attempt to put out our broad assortment and communicate that to our consumers in different ways is just a continuance of making sure people understand our full bandwidth of good, better best, the depth and breadth of selection. And we are being rewarded, I think not only in the Twin Cities, but with the awareness of how deep and broad our product assortment and our services are, so it was just another way of communicating that. So unfortunately, the timing of the drop with \$3 dollar gas wasn't ideal, but that happens.

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**Bob Simonson - William Blair - Analyst**

Was that book put in all of the stores?

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**Mark Baker - Gander Mountain Co. - President & CEO**

Yes, it was.

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**Bob Simonson - William Blair - Analyst**

And will you do another one?

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**Mark Baker - Gander Mountain Co. - President & CEO**

We will probably continue to have bigger and smaller advertising devices like that in the future.

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**Operator**

Steve Denault, Northland Securities.

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**Steve Denault - Northland Securities - Analyst**

If I could ask you to provide a little bit more color, when you referenced the Minneapolis market and the Cabela's store, are you suggesting that comps in the Twin Cities market have gone positive since that store opening in Rogers?

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**Mark Baker - Gander Mountain Co. - President & CEO**

What I'm going to say, Steve, is that we closed one store and consolidated the Woodbury store to a larger store; you're familiar with the Twin Cities market. Our square footage remains the same, so we've complicated looking at comps, if you will, to some degree, but we are seeing stores with comparable store sales in the Twin Cities, yes, correct. Obviously, we will continue -- and we made the announcement today to relocate the Fridley older store to Blaine in a much larger square footage. We know that those larger stores do a great job of serving the customer more fully and we have seen that they are obviously a more competitive box in protecting and gaining market share for us. But yes, in the Twin Cities, ours -- dollars -- that we are taking out of the market today are actually higher than they were a year ago before this competitor opened up.

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**Operator**

Brett Hendrickson, Bonanza Capital.

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**Brett Hendrickson - Bonanza Capital - Analyst**

When you do a relocation, how does that affect the comp base? Does that store come out of the comp base?

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**Dennis Lindahl - Gander Mountain Co. -- CFO & EVP**

Yes. If we have a significant relocation and not just a minor remodel, so if we move the physical location of the store, it does not go back into comps for the 15-month period of time.

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**Operator**

(Operator Instructions). Mr. Baker, it appears we have no further questions at this time. I would like to turn the call back over to you for any additional remarks or closing comments.

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**Mark Baker - Gander Mountain Co. - President & CEO**

Thank you, Jamie. I want to close with a few thoughts. We believe that our stores offer the best assortment and the best value in the outdoor lifestyle segment. We are committed to our strategy of providing excellent service and a broad assortment of goods and services at a value price which allows us to gain market share and be the winner. We are encouraged by the fact that 95% of our stores made a contribution on a four-wall basis in the last 12 months despite a difficult sales environment. We look forward to benefiting from the scale we have discussed with you in the past as we move on to 2006.

Our major shareholders and our directors share my confidence in the great potential for profitability and growth in this business. We are committed to our customers, our supplier partners and to our dedicated associates to provide great service every day. We intend to realize the full potential of our business model and generate substantial returns to our shareholders. Thank you for joining us today. We look forward to speaking with you again after our year-end.

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**Operator**

And ladies and gentlemen, this does conclude today's teleconference. You may now disconnect and have a great day.

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