BANTA CORP
Form DEF 14A
March 15, 2005

Table of Contents

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UNITED STATES
SECURITIES AND EXCHANGE COMMISSION
Washington, D.C. 20549

SCHEDULE 14A

Proxy Statement Pursuant to Section 14(a) of the Securities Exchange Act of 1934 (Amendment No.)

Filed by the Registrant o
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Check the appropriate box:

o Preliminary Proxy Statement
o **Confidential, for Use of the Commission Only (as permitted by Rule 14a-6(e)(2))**
x Definitive Proxy Statement
o Definitive Additional Materials
o Soliciting Material Pursuant to §240.14a-12

BANTA CORPORATION

(Name of Registrant as Specified In Its Charter)

(Name of Person(s) Filing Proxy Statement, if other than the Registrant)

Payment of Filing Fee (Check the appropriate box):

x No fee required.
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1) Title of each class of securities to which transaction applies:

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1) Amount Previously Paid:

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Table of Contents

BANTA CORPORATION
225 Main Street
Menasha, Wisconsin 54952
Notice of Annual Meeting of Shareholders
To Be Held April 26, 2005

To the Shareholders of Banta Corporation:

You are hereby notified that the annual meeting of shareholders of Banta Corporation will be held at the Radisson Paper Valley Hotel, Ballroom B, 333 West College Avenue, Appleton, Wisconsin, on Tuesday, April 26, 2005, at 2:00 p.m., Central Time, for the following purposes:

1. To elect eight directors to serve for the ensuing year.

2. To act upon a proposal to approve the Banta Corporation 2005 Equity Incentive Plan.

3. To ratify the selection of Ernst & Young LLP as the Company s independent auditors for 2005.

4. To transact such other business as may properly come before the meeting or any adjournment or postponement thereof.

The Board of Directors has fixed the close of business on March 4, 2005 as the record date for the determination of the shareholders entitled to notice of and to vote at the annual meeting.

We hope that you will be able to attend the meeting in person, but if you are unable to do so, please complete, sign and promptly mail back the enclosed proxy form, using the return envelope provided. If, for any reason, you should subsequently change your plans, you may, of course, revoke your proxy at any time before it is actually voted.

By Order of the Board of Directors
BANTA CORPORATION

-s- RONALD D. KNEEZEL

Ronald D. Kneezel
Secretary

Menasha, Wisconsin
March 15, 2005

TABLE OF CONTENTS

PROXY STATEMENT
ELECTION OF DIRECTORS
BOARD OF DIRECTORS
STOCK OWNERSHIP
EXECUTIVE COMPENSATION
REPORT OF THE AUDIT COMMITTEE
PERFORMANCE INFORMATION
APPROVAL OF THE 2005 EQUITY INCENTIVE PLAN
RATIFICATION OF ERNST & YOUNG LLP AS INDEPENDENT AUDITORS OF THE COMPANY FOR 2005

Table of Contents

BANTA CORPORATION
225 Main Street
Menasha, Wisconsin 54952
PROXY STATEMENT
FOR
ANNUAL MEETING OF SHAREHOLDERS
To Be Held April 26, 2005

This proxy statement is being furnished to shareholders by the Board of Directors (the Board) of Banta Corporation (the Company), beginning on or about March 15, 2005, in connection with a solicitation of proxies by the Board for use at the annual meeting of shareholders to be held on Tuesday, April 26, 2005, at 2:00 p.m., Central Time, at the Radisson Paper Valley Hotel, Ballroom B, 333 West College Avenue, Appleton, Wisconsin, and all adjournments or postponements thereof (the Annual Meeting), for the purposes set forth in the attached Notice of Annual Meeting of Shareholders.

Execution of a proxy given in response to this solicitation will not affect a shareholder s right to attend the Annual Meeting and to vote in person. Presence at the Annual Meeting of a shareholder who has signed a proxy does not in itself revoke a proxy. Any shareholder giving a proxy may revoke it at any time before it is voted by giving notice thereof to the Company in writing or in open meeting, by attending the Annual Meeting and voting in person, or by delivering a proxy bearing a later date.

A proxy, in the enclosed form, which is properly executed, duly returned to the Company and not revoked will be voted in accordance with the instructions contained therein. The shares represented by executed but unmarked proxies will be voted FOR the eight persons nominated for election as directors referred to herein, FOR the proposal to approve the Banta Corporation 2005 Equity Incentive Plan, FOR the ratification of the selection of Ernst & Young LLP as the Company s independent auditors for 2005 and on such other business or matters which may properly come before the Annual Meeting in accordance with the best judgment of the persons named as proxies in the enclosed form of proxy. Other than the election of directors, the approval of the 2005 Equity Incentive Plan and the ratification of the selection of the Company s independent auditors, the Board has no knowledge of any matters to be presented for action by the shareholders at the Annual Meeting.

Only holders of record of the Company s common stock, $.10 par value (the Common Stock), at the close of business on March 4, 2005 are entitled to notice of and to vote at the Annual Meeting. On that date, the Company had outstanding and entitled to vote 25,137,640 shares of Common Stock, each of which is entitled to one vote per share.

ELECTION OF DIRECTORS

At the Annual Meeting, the shareholders will elect eight directors of the Company, each to hold office until the 2006 annual meeting of shareholders and until his or her successor is duly elected and has qualified. Set forth below are the Board s nominees to serve as directors of the Company. Unless shareholders otherwise specify, the shares represented by the proxies received will be voted in favor of the election as directors of the eight persons named as nominees herein. The Board has no reason to believe that any of the listed nominees will be unable or unwilling to serve as a director if elected. However, in the event that any nominee should be unable or unwilling to serve, the shares represented by proxies received will be voted for another nominee selected by the Board.

Table of Contents

The following sets forth certain information, as of March 4, 2005, about each of the Board nominees for election at the Annual Meeting. Except as otherwise noted, each nominee has engaged in the principal occupation or employment and has held the offices shown for more than the past five years.

Name	Age	Director Since	Principal Occupation; Office, if any, Held in the Company; Other Directorships
Jameson A. Baxter	61	1991	President of Baxter Associates, Inc. (private investments); Trustee of The Putnam Funds; Director of Ryerson Tull, Inc.
John F. Bergstrom	58	1998	Chairman and Chief Executive Officer of Bergstrom Corporation (automobile sales and service, credit life insurance, and automotive fleet leasing); Director of Kimberly-Clark Corporation, Midwest Air Group, Inc., Sensient Technologies Corporation and Wisconsin Energy Corporation.
Henry T. DeNero	58	1996	Former Chairman and Chief Executive Officer of HomeSpace, Inc. (homeowner services); Former Executive Vice President of First Data Corporation (an information processing and computer services company); Former Vice Chairman and Chief Financial Officer of Dayton Hudson Corporation; Director of Western Digital Corporation, Digital Insight Corporation, THQ, Inc., PortalPlayer, Inc. and Vignette Corporation.
David T. Gibbons	61	2004	President and Chief Executive Officer of Perrigo Company (pharmaceutical and nutritional products) since 2000 and Chairman since 2003; Director of Robbins & Myers, Inc. Mr. Gibbons was appointed as a director of the Company in December 2004 and was recommended for selection as a director by a third-party search firm.
Paul C. Reyelts	58	2003	Executive Vice President and Chief Financial Officer since February 2005 and prior thereto Senior Vice President and Chief Financial Officer of The Valspar Corporation (a global leader in the paint and coatings industry); Director of Winmark Corporation.
Ray C. Richelsen	63	1998	Executive Vice President-Transportation, Graphics and Safety Markets of 3M Company (a manufacturer of optical films and specialty materials) from January 1998 until his retirement in August 2000; Group Vice President of 3M Company prior thereto.
Stephanie A. Streeter	47	2001	Chairman, President and Chief Executive Officer of the Company; appointed as President and Chief Executive Officer in October 2002 and Chairman in April 2004; President and Chief Operating Officer of the Company from January 2001 to October 2002; Chief Operating Officer of idealab! (creator and operator of internet businesses) from January 2000 to December 2000; Group Vice President of Avery Dennison Corporation (diversified manufacturing company) from 1996 to 2000.
Michael J. Winkler	60	1996	Executive Vice President of Hewlett-Packard Company (computer services); Director of The Dun & Bradstreet Corporation.

Directors are elected by a plurality of the votes cast (assuming a quorum is present). An abstention from voting will be tabulated as a vote withheld on the election, and will be included in computing the number of shares present for purposes of determining the presence of a quorum, but will not be considered in determining whether each of the nominees has received a plurality of the votes cast at the Annual Meeting. A broker or nominee holding shares registered in its name, or the name of its nominee, which are beneficially owned by another person and for which it has not received instructions as to voting from the beneficial owner, has the discretion to vote the beneficial owner s shares with respect to the election of directors.

THE BOARD RECOMMENDS THE FOREGOING NOMINEES FOR ELECTION AS DIRECTORS AND URGES EACH SHAREHOLDER TO VOTE FOR ALL NOMINEES. SHARES OF COMMON STOCK REPRESENTED BY EXECUTED BUT UNMARKED PROXIES WILL BE VOTED FOR ALL NOMINEES.

BOARD OF DIRECTORS

Corporate Governance and Independent Directors

The Board has in effect Corporate Governance Guidelines that, in conjunction with the Board committee charters, establish processes and procedures to help ensure effective and responsive governance by the Board. The Corporate Governance Guidelines are available on the Company s website at www.banta.com. The Company is not including the information contained on or available through its website as a part of, or incorporating such information by reference into, this Proxy Statement. The Board has adopted certain categorical standards of independence, which specifically relate to the rules imposed by the listing standards of the New York Stock Exchange (NYSE), to assist it in making determinations of director independence. These categorical standards appear as Appendix A to this Proxy Statement. Based on these standards, the Board has affirmatively determined by resolution that Ms. Baxter and Messrs. Bergstrom, DeNero, Gibbons, Reyelts, Richelsen and Winkler have no material relationship with the Company, and, therefore, each are independent in accordance with the NYSE listing standards. The Board will regularly review the continuing independence of the directors.

The Corporate Governance Guidelines provide that a majority of the members of the Board must be independent directors under the NYSE listing standards.

Presiding Director; Executive Sessions.

The Corporate Governance Guidelines provide that the Board shall designate a Presiding Director to lead each executive session of the Board. The role of the Presiding Director rotates periodically as determined by the Board. Ms. Baxter has been designated by Board resolution as the Presiding Director and will serve in that capacity until her successor is appointed by the Board. Normally, members of the Company s senior executive management who are not members of the Board will participate in Board meetings to present information, make recommendations, and be available for direct interaction with members of the Board. However, the Board will have at least two regularly scheduled meetings a year for the non-employee directors without members of the Company s management being present. The non-employee directors may also meet without management present at such other times as they determine appropriate.

Communications with the Board

Shareholders and other interested parties may communicate with the full Board, the Chairman of the Board, non-management directors as a group or individual directors, including the Presiding Director, by delivering a written communication in care of the Secretary of the Company, 225 Main Street, Menasha, WI 54952. The written communication should be addressed to the specific director or directors whom the shareholder or interested party wishes to contact. Such communication will be delivered directly to the director or directors to whom it is addressed by the Secretary of the Company.

Table of Contents

Committees

The Company has Audit, Compensation, and Nominating and Corporate Governance Committees of the Board. The Board has adopted, and may amend from time to time, a written charter for each of the Audit, Compensation, and Nominating and Corporate Governance Committees. The Company makes available on its website at www.banta.com, free of charge, copies of each of these charters. The Company is not including the information contained on or available through its website as a part of, or incorporating such information by reference into, this Proxy Statement.

The Audit Committee consists of Ms. Baxter and Messrs. Richelsen and Reyelts (Chairperson). Each of the members of the Audit Committee is independent as defined by the NYSE listing standards and the rules of the Securities and Exchange Commission (the SEC). The Board has determined that Mr. Reyelts qualifies as an audit committee financial expert as defined in SEC rules. The principal functions performed by the Audit Committee, which met seven times in 2004, are to assist the Board in monitoring: the integrity of the Company s financial statements; the independent auditor s qualifications and independence; the performance of the Company s internal audit function and independent auditors; and the Company s compliance with legal and regulatory requirements. The Audit Committee has the sole authority to appoint, retain, compensate and terminate the Company s independent auditors and to approve the compensation paid to the independent auditors. The Audit Committee has conditioned its selection of independent auditors for 2005 upon the ratification of this selection by the Company s shareholders at the Annual Meeting. See Ratification of Ernst & Young LLP as Independent Auditors of the Company for 2005.

The Compensation Committee consists of Ms. Baxter (Chairperson) and Messrs. Bergstrom, DeNero and Richelsen. Each of the members of the Compensation Committee is independent as defined by the NYSE listing standards. The principal functions of the Compensation Committee, which met five times in 2004, are: to administer the Company s deferred and incentive compensation plans (including the Company s equity incentive plans); to annually evaluate salary grades and ranges; to establish guidelines concerning average compensation increases; to establish performance criteria for and to evaluate the performance of the Chief Executive Officer in consultation with the Nominating and Corporate Governance Committee and the Board; to determine the compensation of the Chief Executive Officer; and to review and approve the compensation of all other officers and directors of the Company and subsidiary or division presidents.

The Nominating and Corporate Governance Committee consists of Messrs. DeNero (Chairperson), Reyelts and Winkler. Each of the members of the Nominating and Corporate Governance Committee is independent as defined by the NYSE listing standards. The principal functions of the Nominating and Corporate Governance Committee, which met four times in 2004, are to: identify individuals qualified to become directors (consistent with the criteria approved by the Board) and recommend candidates for all directorships to be filled by the Board or by the shareholders of the Company; identify directors qualified to serve on the committees established by the Board and recommend to the Board members for each committee to be filled by the Board; develop and recommend to the Board a set of corporate governance principles applicable to the Company, including matters of (a) Board organization, membership and function, (b) committee structure and membership and (c) succession planning for the Chief Executive Officer; and otherwise take a leadership role in shaping the corporate governance of the Company.

Nominations of Directors

The Nominating and Corporate Governance Committee will consider persons recommended by shareholders to become nominees for election as directors in accordance with the criteria set forth in the Corporate Governance Guidelines and the Nominating and Corporate Governance Committee Charter. Recommendations for consideration by the Nominating and Corporate Governance Committee should be sent to the Secretary of the Company in writing together with appropriate biographical information concerning each proposed nominee. The Company s By-laws also set forth certain requirements for shareholders wishing to nominate director candidates directly for consideration by shareholders. With respect to an election of directors to be held at an annual meeting, a shareholder must, among other things, give written notice of an intent to make such a nomination to the Secretary of the Company in advance of the meeting in compliance

with the terms and within the time period specified in the By-laws. The Nominating and Corporate Governance Committee also retains from time to time as appropriate third-party search firms to assist in the identification and evaluation of potential director nominees.

In identifying and evaluating nominees for director, the Nominating and Corporate Governance Committee seeks to ensure that the Board possesses, in the aggregate, the strategic, managerial and financial skills as well as experience necessary to fulfill its duties and to achieve its objectives, and seeks to ensure that the Board is comprised of directors who have broad and diverse backgrounds, possessing knowledge in areas that are of importance to the Company. The Nominating and Corporate Governance Committee looks at each nominee on a case-by-case basis regardless of who recommended the nominee. In looking at the qualifications of each candidate to determine if their election would further the goals described above, the Nominating and Corporate Governance Committee takes into account all factors it considers appropriate, which include strength of character, mature judgment, career specialization, relevant technical skills or financial acumen, diversity of viewpoint and industry knowledge. The Board believes that, to be recommended as a director nominee, each candidate must:

- display the highest personal and professional ethics, integrity and values;
- have the ability to exercise sound business judgment;
- be accomplished in his or her respective field, and have broad experience at the administrative and/or policy-making level in business, government, education, technology or public interest;
- be independent of any particular constituency, be able to represent all shareholders of the Company and be committed to enhancing long-term shareholder value; and
- have sufficient time available to devote to activities of the Board and to enhance his or her knowledge of the Company s business.

The Board also believes the following qualities or skills are necessary for one or more directors to possess:

- At least one director should have the requisite experience and expertise to be designated as an audit committee financial expert as defined by applicable rules of the SEC.
- One or more of the directors generally should be active or former chief executive officers of public companies or leaders of major complex organizations, including commercial, scientific, government, educational and other similar institutions.
- Directors should be selected so that the Board represents diverse backgrounds and perspectives.

Meetings and Attendance

The Board held six meetings in 2004. Each director attended at least 75% of the aggregate of (a) the total number of meetings of the Board and (b) the total number of meetings held by all committees of the Board on which the director served during 2004.

Directors are expected to attend the Company s annual meeting of shareholders each year. All of the current directors who were directors at the time of the 2004 annual meeting of shareholders attended that meeting.

Director Compensation

Annual Retainer and Meeting Fees. Non-employee directors of the Company receive an annual retainer fee of $38,000. In addition, these directors are paid a fee of $1,000 for every Board and committee meeting they attend. Each committee chairperson also receives an additional $5,000 for serving in such capacity. A director may elect to defer all or any part of the cash compensation he or she is entitled to receive for serving as a director, in which case the amount deferred will be paid in cash in three annual installments after such person ceases to be a director and, at the direction of the director, either will be credited with interest at the prime rate or will be treated for valuation purposes as if such deferred compensation had been invested in

Common Stock pursuant to the phantom stock subaccount under the director s deferred compensation plan. The deferred compensation plan will be terminated and accounts paid in a lump sum in the event of a change in control of the Company.

Director Stock Options and Phantom Share Awards. In addition to the compensation described above, each of Ms. Baxter and Messrs. Bergstrom, DeNero, Reyelts, Richelsen, and Winkler automatically received an option to purchase 3,000 shares of Common Stock at a per share exercise price of $45.79 on April 28, 2004, in accordance with the terms of the Company s Equity Incentive Plan (the Equity Plan). Upon his appointment to the Board on December 22, 2004, Mr. Gibbons automatically received an option to purchase 6,000 shares of Common Stock at a per share exercise price of $44.50.

Under the terms of the Equity Plan, each person when first elected as a non-employee director of the Company automatically receives an option to purchase 6,000 shares of Common Stock. The Equity Plan also provides that, subsequent to the initial grant, each non-employee director (who continues to serve in such capacity) automatically receives an option to purchase an additional 3,000 shares of Common Stock on the day after each annual meeting of shareholders; provided, however, that if a person who is first elected as a non-employee director on the date of the annual meeting of shareholders receives the initial option grant under the Equity Plan on that date, such director will not be entitled to begin receiving subsequent grants until the day following the next succeeding annual meeting of shareholders. Options granted to non-employee directors under the Equity Plan have a per share exercise price equal to 100% of the market value of a share of Common Stock on the date of grant and become exercisable six months after the date of grant, except that if the non-employee director ceases to be a director by reason of death, disability or retirement during such six-month period, the option will become immediately exercisable in full. Options granted to non-employee directors under the Equity Plan terminate on the earlier of (a) ten years after the date of grant or (b) twelve months after the non-employee director ceases to be a director.

It is anticipated that if the Banta Corporation 2005 Equity Incentive Plan (the 2005 Equity Plan) is approved by shareholders at the Annual Meeting, automatic grants of stock options to non-employee directors under the 2005 Equity Plan will replace the current grants to non-employee directors under the Equity Plan and that no further option grants to non-employee directors will be made under the Equity Plan following the grants to non-employee directors in April 2005. The terms of the automatic grants to non-employee directors under the 2005 Equity Plan are identical to the terms under the Equity Plan.

In addition, non-employee directors also receive grants of phantom stock units which have a value equivalent to shares of Common Stock. Each non-employee director receives phantom stock units valued at an amount equal to $50,000 less the Black-Scholes value of the 3,000 share option granted to the director under the Equity Plan. The phantom stock units are granted under the deferred compensation plan and their value is distributed in cash at the time and in the manner described above.

Director Compensation Generally. The Company s director compensation practices are established by the Compensation Committee with the purpose of attracting and retaining qualified non-employee directors necessary for the Company s long-term success. In setting or adjusting director compensation, the Compensation Committee reviews the director compensation practices of corporations of similar size relative to the Company and operating in comparable industries. It is the judgment of the Compensation Committee that a review of the director compensation practices of companies with such characteristics is appropriate in establishing competitive compensation for the Company s non-employee directors.

STOCK OWNERSHIP

Management

The following table sets forth information, as of March 4, 2005, regarding beneficial ownership of Common Stock by each director and nominee, each of the executive officers named in the Summary Compensation Table set forth below, and all of the directors and executive officers as a group. As of March 4, 2005, no director or executive officer of the Company beneficially owned one percent or more of the Common Stock, other than Stephanie A. Streeter, who owned 1.0% of the Common Stock. On that date, the directors and executive officers as a group beneficially owned 2.5% of the Common Stock. Except as otherwise indicated in the footnotes, all of the persons listed below have sole voting and investment power over the shares of Common Stock identified as beneficially owned.

Name of Beneficial Owner	Amount and Nature of Beneficial Ownership(1)(2)
Jameson A. Baxter	34,375
John F. Bergstrom	22,059(3)
Henry T. DeNero	24,800
David T. Gibbons	0
Paul C. Reyelts	16,879(4)
Ray C. Richelsen	19,500
Stephanie A. Streeter	254,944(5)
Michael J. Winkler	35,396
Michael B. Allen	16,246
Geoffrey J. Hibner	15,888
Ronald D. Kneezel	89,824
Terry J. Margolis	6,593
All directors and executive officers as a group (15 persons)	637,254

(1) Includes shares subject to currently exercisable options and options exercisable within 60 days of March 4, 2005 as follows: Ms. Baxter, 21,000 shares; Mr. Bergstrom, 19,500 shares; Mr. DeNero, 22,500 shares; Mr. Reyelts, 9,000 shares; Mr. Richelsen, 19,500 shares; Ms. Streeter, 224,602 shares; Mr. Winkler, 22,500 shares; Mr. Allen, 12,641 shares; Mr. Hibner, 12,490 shares; Mr. Kneezel, 66,867 shares; and Mr. Margolis, 2,094 shares; and all directors and executive officers as a group, 512,830 shares.

(2) Does not include holdings of phantom stock units held by non-employee directors as follows: Ms. Baxter, 10,667 units; Mr. Bergstrom, 2,846 units; Mr. DeNero, 10,152 units; Mr. Reyelts, 295 units; Mr. Richelsen, 5,143 units; and Mr. Winkler, 3,321 units. The value of the phantom stock units is based upon and fluctuates with the market value of the Common Stock.

(3) Includes 2,350 shares held by a trust over which Mr. Bergstrom shares voting and investment power.

(4) Includes 1,000 shares held by Mr. Reyelts spouse as custodian for their children and 500 shares held by Mr. Reyelts spouse. Mr. Reyelts shares voting and investment power over these shares.

(5) Includes 1,000 shares held by Ms. Streeter s spouse. Ms. Streeter shares voting and investing power over these shares.

Table of Contents

Other Beneficial Owners

The following table sets forth information, as of December 31, 2004, regarding beneficial ownership by the only persons known to the Company to own more than 5% of the outstanding Common Stock. The beneficial ownership set forth below has been reported on filings made on Schedule 13G with the SEC by the beneficial owners.

Amount and Nature of Beneficial Ownership

Name and Address of Beneficial Owner	Voting Power		Investment Power			Percent of Class
	Sole	Shared	Sole	Shared	Aggregate	
Barclays Global Investors, NA (and certain affiliates) 45 Fremont Street San Francisco, California	1,625,639	0	1,790,503	0	1,790,503	7.19%
Wachovia Corporation One Wachovia Center Charlotte, North Carolina	213,030	1,461,965	1,679,491	2,590	1,684,481	6.74%
Royce & Associates, LLC 1414 Avenue of the Americas New York, New York 10019	1,468,100	0	1,468,100	0	1,468,100	5.89%

Table of Contents

EXECUTIVE COMPENSATION

Summary Compensation Information

The following table sets forth certain information for each of the last three fiscal years concerning compensation awarded to, earned by or paid to certain executive officers of the Company. The persons named in the table are sometimes referred to herein as the named executive officers.

Summary Compensation Table

		Annual Compensation (1)		Long Term Compensation			
				Awards		Payouts	
Name and Principal Position	Year	Salary	Bonus	Restricted Stock Awards(2)	Securities Underlying Options(#)	LTIP Payouts(3)	All Other Compensation(4)
Stephanie A. Streeter	2004	$ 681,733	$ 851,808	$ 332,769	33,803	$ 533,068	$ 4,100
Chairman, President and	2003	615,000	415,529		100,000	77,551	4,000
Chief Executive Officer	2002	534,231	310,487		75,000	47,172	4,000
Michael B. Allen	2004	350,000	272,774	78,004	37,923	105,000	4,100
President, Banta Print	2003						
Sector(5)	2002						
Geoffrey J. Hibner	2004	330,000	262,131	73,544	7,470	111,772	76,197
Chief Financial	2003	120,577	38,318			6,386	72,953
Officer(6)	2002						
Terry J. Margolis	2004	277,420	225,829	61,803	6,280	100,350	4,100
President, Banta	2003	255,730	207,208			8,562	72,625
Supply-Chain Management and Healthcare Sector(7)	2002	186,554	72,100				81,964
Ronald D. Kneezel	2004	264,890	191,283	55,113	5,599	114,882	4,100
Vice President, General	2003	253,000	59,987		14,000	33,489	4,000
Counsel and Secretary	2002	241,000	75,452		15,000	47,428	4,000

(1) Certain personal benefits provided by the Company to the named executive officers are not included in the table. The aggregate amount of such personal benefits for each named executive officer in each year reflected in the table did not exceed the lesser of $50,000 or 10% of the sum of such officer s salary and bonus in each respective year.

(2)

As of January 1, 2005, the number and value of the aggregate restricted stock holdings for the named executive officers were as follows: Ms. Streeter, 7,312 restricted shares with a value of $327,285; Mr. Allen, 1,714 restricted shares with a value of $76,719; Mr. Hibner, 1,616 restricted shares with a value of $72,332; Mr. Margolis, 1,358 restricted shares with a value of $60,784; and Mr. Kneezel, 1,211 restricted shares with a value of $54,204. Contingent upon the named executive officer s continued employment with the Company, the shares of restricted stock will vest over a three-year period, with one-third vesting on each of the first three anniversaries of the date of issuance. Dividends are paid to the holders of the restricted stock.

(3) During fiscal 2004, the Company replaced its Economic Profit (EP) Long-Term Incentive Compensation Plan (the EP Plan) with a new Long-Term Incentive Cash Compensation Plan, which provides a cash incentive compensation system over three-year rolling periods, the first of which ends in 2006. For fiscal 2004, consists of payments made pursuant to the EP Plan and as a result of the termination thereof, including amounts earned in prior periods but deferred in bonus banks as follows: Ms. Streeter, $95,735; Mr. Hibner, $12,772; Mr. Margolis, $17,124; and Mr. Kneezel, $40,713.

(4) For fiscal 2004, consists of Company matching contributions under the Company s Incentive Savings Plan, which is a profit sharing plan under Section 401(k) of the Internal Revenue Code. Also includes reimbursement for relocation expenses of $71,430 and $72,097 for Mr. Hibner in 2003 and 2004, respectively; and $81,819 and $68,625 for Mr. Margolis in 2002 and 2003, respectively.

(5) Mr. Allen joined the Company on January 5, 2004.

(6) Mr. Hibner joined the Company on August 11, 2003.

(7) Mr. Margolis joined the Company on February 4, 2002 and was named as an executive officer on April 27, 2004. As a result of the Company s proposed sale of its healthcare business, it is currently anticipated that Mr. Margolis will leave the Company in the second quarter of 2005.

Stock Options

The Company has in effect equity plans pursuant to which options to purchase Common Stock may be granted to key employees (including executive officers) of the Company and its subsidiaries. The following table presents certain information as to grants of stock options made during fiscal 2004 to the named executive officers.

Option Grants in 2004 Fiscal Year

	Individual Grants				Grant Date Value
Name	**Number of Securities Underlying Options Granted(1)**	**Percentage of Total Options Granted to Employees in Fiscal Year**	**Exercise or Base Price ($/share)**	**Expiration Date**	**Grant Date Present Value(2)**
Stephanie A. Streeter	33,803	6.4%	$ 45.95	4/26/14	$ 336,002
Michael B. Allen	30,000	5.7%	$ 40.93	1/05/14	$ 243,300
	7,923	1.5%	$ 45.95	4/26/14	$ 78,755
Geoffrey J. Hibner	7,470	1.4%	$ 45.95	4/26/14	$ 74,252
Terry J. Margolis	6,280	1.2%	$ 45.95	4/26/14	$ 62,423
Ronald D. Kneezel	5,599	1.1%	$ 45.95	4/26/14	$ 55,654

(1) The options reflected in the table (which are nonstatutory stock options for purposes of the Internal Revenue Code) were granted on April 26, 2004 (and, in the case of Mr. Allen, an option granted on January 5, 2004 in connection with his joining the Company) and vest ratably over the three-year period following the date of grant. The options are subject to early vesting in the case of the optionee s death, disability or retirement.

(2) The option values presented are based on the Black-Scholes option pricing model adopted for use in valuing stock options. Material assumptions and adjustments incorporated in the Black-Scholes model in estimating the value of the options reflected in the table above include the following: (a) an exercise price of the option equal to

the fair market value of the underlying stock on the date of grant; (b) a risk-free rate of return representing the interest rate on a U.S. Treasury security with a maturity date corresponding to the term of the option; (c) volatility of 25.64% (24.16% for the January 5, 2004 grant to Mr. Allen), which was calculated using daily Common Stock prices for the one-year period prior to the date of grant; (d) a dividend yield equal to 1.47% (1.72% for the January 5, 2004 grant to Mr. Allen) representing the dividend yield on the Common Stock as of the date of grant; (e) an option term of ten years; and (f) reductions in accordance with the option pricing model of 15.59% (for all option grants in 2004) to reflect assumptions relating to the probability of forfeiture due to termination prior to vesting and 21.64% (20.89% for the January 5, 2004 grant to Mr. Allen) to reflect the probability of a shortened option term due to termination of employment prior to the expiration date. The actual value, if any, that an optionee may realize upon exercise will depend on the excess of the price of the Common Stock over

Table of Contents

the option exercise price on the date that the option is exercised. There is no assurance that the value realized by an optionee will be at or near the value estimated under the Black-Scholes model.

The following table sets forth information regarding the exercise of stock options by each of the named executive officers during the 2004 fiscal year and the fiscal year-end value of unexercised options held by the named executive officers.

Aggregated Option Exercises in 2004 Fiscal Year and Fiscal Year-End Option Values

			Number of Securities Underlying Unexercised Options at Fiscal Year-End		Value of Unexercised In-the-Money Options at Fiscal Year-End(1)	
Name	**Shares Acquired on Exercise**	**Value Realized(1)**	**Exercisable**	**Unexercisable**	**Exercisable**	**Unexercisable**
Stephanie A. Streeter	0		213,334	(38,514)		

Investing activities		
Purchase of property and equipment	(7,671)	(3,572)
Net cash used in investing activities	(7,671)	(3,572)
Financing activities		
Proceeds from sale of common stock, net of expenses	96,216	
(Repayments of) proceeds from notes with affiliates	(9,839)	3,224
(Repayments of) borrowings under credit facility, net	(46,779)	38,948
Net cash provided by financing activities	39,598	42,172
Net increase in cash	99	86
Cash, beginning of period	970	591
Cash, end of period	$ 1,069	$ 677

See accompanying notes to unaudited condensed financial statements

5

Gander Mountain Company

Notes to Unaudited Condensed Financial Statements

1. Basis of Presentation

The accompanying unaudited condensed financial statements of Gander Mountain Company (we or us) have been prepared in accordance with the requirements for Form 10-Q and do not include all the disclosures normally required in annual financial statements prepared in accordance with accounting principles generally accepted in the United States of America. The interim financial information as of May 1, 2004 and for the 13 weeks ended May 1, 2004 and May 3, 2003 is unaudited and has been prepared on the same basis as the audited annual financial statements. In the opinion of management, such unaudited information includes all adjustments necessary for a fair presentation of the interim financial information. All such adjustments are of a normal recurring nature. These interim financials statements and the related notes should be read in conjunction with the annual financial statements and notes included in the final prospectus relating to our initial public offering, as filed with the Securities and Exchange Commission, which includes audited financial statements for our three fiscal years ended January 31, 2004.

Our business is seasonal in nature and interim results may not be indicative of results for a full year. Historically, we have realized more of our sales in the latter half of our fiscal year, which includes hunting and holiday seasons. Our business is also impacted by the timing of new store openings. Both seasonality and new store openings impact the analysis of the results of operations and financial condition for comparable periods.

2. Initial Public Offering and Capital Stock

On April 26, 2004 we completed our initial public offering of 6,583,750 shares of common stock, including the underwriters over-allotment, resulting in proceeds to us of $96.2 million, net of transaction costs of $9.1 million. We used $9.8 million of the net proceeds to repay all of our debt to Holiday Companies and the remaining $86.4 million to reduce outstanding indebtedness under our credit facility with Fleet Retail Finance.

Upon completion of our initial public offering and the filing of our Amended and Restated Articles of Incorporation in connection therewith, the authorized capital stock of our company consists of 100,000,000 shares of common stock, par value $.01 per share, and 5,000,000 shares of preferred stock, par value $.01 per share. Our previously outstanding Class A, B and C convertible preferred stock was converted into 6,664,927 shares of common stock and our outstanding Class A and B common stock was recapitalized into 973,248 shares of common stock. As of May 1, 2004, there were 14,221,925 shares of common stock outstanding.

3. Stock-Based Compensation

We continue to apply Accounting Principles Board (APB) No. 25, *Accounting for Stock Issued to Employees*, and related interpretations in accounting for stock-based compensation plans. Accordingly, compensation expense has not been recognized for employee stock options as the exercise price for options granted is greater than or equal to our stock price on the date of grant.

In February 2004, we granted options to purchase 109,728 shares of common stock to certain officers with an exercise price of $16.00 per share, the price to the public of our shares in our initial public offering. These options will vest in three equal increments on July 31, 2004 and the two subsequent anniversaries thereafter. These options are exercisable for a period of nine years from the date of grant.

In February 2004, we adopted the Gander Mountain Company 2004 Omnibus Stock Plan which authorizes the granting of stock based awards up to 2,144,000 shares of common stock. This plan was approved by shareholders in March 2004. Under this plan, awards may be made to employees, directors, and consultants. The types of awards that may be granted under the plan include restricted and unrestricted stock, incentive and nonstatutory stock options, stock appreciation rights and other stock awards.

Concurrent with the pricing of our initial public offering, we granted options to purchase 841,750 shares of common stock, with an exercise price of $16.00 per share, to our employees under the 2004 Omnibus Stock Plan. These options will vest in equal increments over three years from date of issuance and are exercisable for a period of ten years from the date of grant.

The table below illustrates the effect on net loss and net loss per share applicable to common shareholders as if we had applied the fair value recognition provisions of Statement of Financial Accounting Standard (SFAS) No. 123, *Accounting for Stock-Based Compensation*, to stock based employee compensation (in thousands except per share data):

	13 Weeks Ended	
	May 1, 2004	**May 3, 2003**
Net loss applicable to common shareholders, as reported	$ (17,901)	$ (15,378)
Add: Stock based employee compensation expense included in reported net loss		
Deduct: Stock based employee compensation expense determined under the fair value method, net of tax	(191)	(99)
Pro forma net loss applicable to common shareholders	$ (18,092)	$ (15,477)
Net loss per share		
Basic and diluted - as reported	$ (10.52)	$ (15.80)
Basic and diluted pro forma	$ (10.64)	$ (15.91)

The weighted average fair value of options granted the quarter ended May 1, 2004 was $7.61 per option share. There were no options granted during the quarter ended May 3, 2003. The fair value of each grant is estimated on the date of grant using the Black-Scholes option pricing model with the following assumptions:

	13 Weeks Ended	
	May 1, 2004	**May 3, 2003**
Risk-free interest rate	3.67%	NA
Expected dividend yield	0.00%	NA
Expected stock price volatility	50.00%	NA
Expected life of stock options	5 years	NA

4. Earnings Per Share

Basic and diluted loss applicable to common shareholders per share is based upon the weighted average number of shares outstanding. All potentially dilutive stock options have been excluded from the calculation of weighted average shares outstanding because their inclusion would have an anti-dilutive effect on loss per share. Options to purchase 2,013,315 and 1,061,837 shares of common stock were outstanding at the end of the fiscal quarters ended May 1, 2004 and May 3, 2003, respectively.

The accompanying condensed unaudited financial statements report loss applicable to common shareholders and loss applicable to common shareholders per share in accordance with accounting principles generally accepted in the United States of America. We also disclose this information on a pro forma basis below. We closed the initial public offering of our common stock on April 26, 2004. The pro forma amounts assume that the conversion of the convertible preferred shares to common shares, our 32-for-1 stock split and our initial public offering took place at the beginning of the 13 week periods ended May 1, 2004 and May 3, 2003. The pro forma amounts exclude the preferred stock dividends that are assumed extinguished and the interest expense on the portions of our debt to Holiday Companies and our credit facility indebtedness that would have been paid down with the proceeds from the initial public offering, net of $0 taxes. We believe the use of pro forma amounts provides meaningful information due to the significant increase in outstanding shares as a result of our initial public offering and the elimination of our preferred stock dividends.

	13 Weeks Ended	
	May 1, 2004	May 3, 2003
Pro Forma Data :		
Pro forma net loss applicable to common shareholders	$(12,654)	$(10,695)
Pro forma basic and diluted loss applicable to common shareholders per share	$(0.89)	$(0.89)
Pro forma weighted average common shares outstanding	14,222	12,081
Reconciliation of Pro Forma Data to GAAP:		
Loss applicable to common shareholders	$(17,901)	$(15,378)
Preferred stock dividends	4,305	4,131
Interest expense reduction	942	552
Pro forma net loss	$(12,654)	$(10,695)
Weighted average common shares outstanding	1,701	973
Conversion of preferred shares to common shares	6,299	6,665
Additional shares issued in our initial public offering	6,222	4,443
Pro forma weighted average common shares outstanding	14,222	12,081

We continued to reflect the accretion of cumulative unpaid dividends on our previously outstanding Class A, B and C convertible preferred stock in accordance with accounting standards until the closing of our initial public offering. No such dividends were paid and any unpaid cumulative dividends were extinguished with the changes in capital structure completed in connection with our initial public offering. Accordingly, no such obligation or reduction to net income/(loss) will be reflected in our quarterly results of operations after May 1, 2004.

ITEM 2. MANAGEMENT S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS

Forward Looking Statements

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

These interim financials statements filed on this Form 10-Q and the discussions contained herein should be read in conjunction with the annual financial statements and notes included in the final prospectus relating to our initial public offering, as filed with the Securities and Exchange Commission, which includes audited financial statements for our three fiscal years ended January 31, 2004.

Overview

The Gander Mountain brand name has a long heritage and strong appeal to outdoor lifestyle customers given the brand s 36 year history as a nationwide catalog operation from 1960 to 1996, which by 1996 was augmented with 17 retail stores. In 1996 and 1997 Holiday Companies, which at the time owned and operated a group of retail sporting goods stores, acquired these Gander Mountain retail stores, formed our company and began to build a new outdoor lifestyle business. We have expanded our store base from 26 stores in 1997 to 67 Gander Mountain stores in nine states as of May 1, 2004.

We have built our business by offering our customers a broad and deep assortment of national, regional and owned brand hunting, fishing and camping equipment, accessories and related technical apparel and footwear at low prices, accompanied by knowledgeable customer service. Our success will depend on our ability to grow our business by building new stores and by increasing sales in our existing stores.

We have embarked on a series of strategic and operating initiatives aimed at improving our merchandise offerings, enhancing profitability and accelerating new store openings. We are transforming our market position from a traditional specialty store to a larger format, category-focused store by opening new larger format stores and increasing the selling space within our existing stores. The larger format strategy has allowed us to offer our customers a broader and deeper assortment of merchandise. These improvements, along with our every day low price policy on key equipment and accessories, have driven sales at new stores and had a positive impact on comparable store sales in recent quarters.

We measure performance using such key operating statistics as comparable store sales, sales per square foot, gross margin percentage and store operating expenses, with a focus on labor, as a percentage of sales. These results translate into store operating contribution which we use to evaluate overall performance on an individual store basis. Store operating contribution is calculated by deducting a store s operating expenses from its gross margin. In addition, general and administrative expenses are monitored in absolute amount, as well as on a percentage of sales basis. Pre-opening expenses are analyzed based on the number of store openings, market attributes and store size.

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

Overall, we expect our retail locations to equal or exceed national retail averages for comparable store sales changes and, accordingly, we expect our sales per square foot to increase gradually over time. However, we cannot assure you that we will be able to equal or exceed national retail averages for comparable store sales or improve our sales per square foot.

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

the introduction of new product categories with varying gross margin percentage characteristics,

changes in the merchandise mix at our current locations,

differences in merchandise mix by geographic location,

price competition,

sourcing of products from locations outside the United States,

vendor programs, and

supply chain enhancements.

The most significant store operating expenses are labor and related employee benefits and advertising. We believe the combination of increased sales volume and improved labor management within our stores will allow us to better leverage payroll expenses over time. Our employee benefits include health insurance, the cost of which continues to increase faster than the general rate of inflation. We continually monitor this cost and review strategies to effectively control increases but we are subject to the overall trend of increases in health care costs. Advertising costs are monitored as a percentage of sales. These costs are largely variable which allows us to actively manage them to facilitate achieving our sales, gross margin percentage and store operating contribution objectives.

Store operating contribution is measured as a percentage of sales. It gives us an overall measure as to whether or not individual locations and markets are meeting our financial objectives.

General and administrative expenses are controlled in absolute amounts and monitored as a percentage of sales. In anticipation of our accelerated growth plans, we have made significant investments in infrastructure, including our information systems, distribution capabilities

and management ranks. These investments included an enterprise-wide merchandising and distribution system from Retek and a financial system from Oracle implemented in fiscal 2000. Our current infrastructure facilitates the opening of stores at a greater rate, which we believe enables us to leverage our expenses. Accordingly, we expect such expenses to decrease as a percentage of sales over time.

Pre-opening expenses will continue to be related to store openings, including relocations. These expenses will fluctuate as we open additional stores.

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

Identification of appropriate new store sites is essential to our growth strategy. We believe our focus on our larger store size and our flexible real estate strategy provides us with increased opportunities to find optimal real estate locations on attractive terms. We evaluate and invest in new stores based on site specific projected returns on investment. During fiscal 2001, fiscal 2002 and fiscal 2003, we opened seventeen, two and ten stores, respectively, including new stores and store relocations. In the first quarter of fiscal 2004, we opened two stores.

Critical Accounting Policies and Use of Estimates

Our financial statements are prepared in accordance with generally accepted accounting principles. In connection with the preparation of the financial statements, we are required to make assumptions, make estimates and apply judgment that affect the reported amounts of assets, liabilities, revenue, expenses and the related disclosures. We base our assumptions, estimates and judgments on historical experience, current trends and other factors that we believe to be relevant at the time the consolidated financial statements are prepared. On a regular basis, we review the accounting policies, assumptions, estimates and judgments to ensure that our financial statements are presented fairly and in accordance with generally accepted accounting principles.

However, because future events and their effects cannot be determined with certainty, actual results could differ from our assumptions and estimates, and such differences could be material.

Our critical accounting policies and use of estimates are discussed in and should be read in conjunction with the annual financial statements and notes included in the final prospectus relating to our initial public offering, as filed with the Securities and Exchange Commission, which includes audited financial statements for our three fiscal years ended January 31, 2004.

Results of Operations

The following table represents the selected items in the Condensed Statements of Operations reflected as a percentage of sales:

	13 Weeks Ended	
	May 1, 2004	**May 3, 2003**
Sales	100.0%	100.0%
Cost of goods sold, including occupancy and distribution costs	80.5%	82.5%
Gross profit	19.5%	17.5%
Operating expenses:		
Store operating expenses	23.9%	23.3%
General and administrative expenses	6.6%	7.3%
Pre-opening expenses	1.2%	1.9%
Loss from operations	(12.2)%	(15.0)%
Interest expense, net	1.6%	1.2%
Loss before income taxes	(13.8)%	(16.2)%
Income tax provision (benefit)		
Net loss	(13.8)%	(16.2)%

Sales consist of sales from comparable stores, new stores and non-comparable stores. A store is included in the comparable store base in its fourteenth full month of operations. A relocated store returns to the comparable store base in its fourteenth full month after relocation. New store sales include sales from stores we opened during the current period. Non-comparable store sales include sales in the current period from our stores opened during the previous fiscal year before they have begun their fourteenth month of operation.

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

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

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

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

Thirteen Weeks Ended May 1, 2004 and Thirteen Weeks Ended May 3, 2003

Sales. Sales increased by $29.3 million, or 42.2%, to $98.7 million for the 13 weeks ended May 1, 2004, from $69.4 million for the 13 weeks ended May 3, 2003. This increase resulted from a comparable store sales increase of $5.5 million, or 8.7%, and sales of $24.8 million from ten additional stores opened subsequent to the first quarter of fiscal 2003, offset by closed and non-comparable store sales. The increase in comparable store sales was attributable to sales increases in our hunting category, particularly firearms, both new and used. Our apparel and footwear categories also contributed significantly to comparable stores sales. The new store sales mix for the first quarter of fiscal 2004 was relatively consistent with the comparable store sales mix, except for sales from new products introduced into new larger format stores.

Firearms sales were enhanced by our co-branded credit card launched in September 2003, which provides customers with a 5% discount and a new financing option on firearms. The hunting category performance was also positively impacted by a February 2004 advertising promotion. New or expanded product categories, including ATVs and accessories, paintball and cabin décor, showed strong results as well. These increases were partially offset by decreases in sales mix for the fishing and camping categories. Fishing season openings occur later this fiscal year as compared to our last fiscal year and there has been some shift in consumer patterns toward a later and more dispersed purchasing period for fishing equipment and supplies. Camping sales trends were consistent with current industry trends.

Gross Profit. Gross profit increased by $7.1 million, or 58.9%, to $19.3 million in the first quarter of fiscal 2004 from $12.1 million in the first quarter of fiscal 2003. As a percentage of sales, gross profit increased to 19.5% from 17.5%. The increase was primarily due to:

a 1.4% increase as a percentage of sales in distribution and occupancy costs from leveraging comparable store sales increases and distribution center initiatives that improved product handling efficiency,

a 0.6% increase as a percentage of sales from certain vendor allowances which in prior years were reductions in advertising expense because proof of performance in advertising programs had been required prior to fiscal 2004, and

a 0.4% increase as a percentage of sales in net revenues from our co-branded credit card program.

These improvements were partially offset by higher sales levels in the relatively lower margin hunting catergory.

Store Operating Expenses. Store operating expenses increased by $7.5 million, or 46.2%, to $23.6 million in fiscal 2004 from $16.2 million in fiscal 2003. Store operating expenses as a percentage of sales increased to 23.9% in the first quarter of fiscal 2004 from 23.3% in the first quarter of fiscal 2003. Net advertising expense increased 0.4 % reflecting an emphasis on marketing consistency year round as well as 1.8% due to the change in vendor allowance

requirements discussed above. For the first quarter of fiscal 2004, such vendor allowances are reflected as a reduction in cost of sales and inventory versus as a reduction in advertising expense in the first quarter of fiscal 2003. The increase in net advertising expense was offset by a 1.4% reduction in payroll expenses as a percentage of sales due to improved labor scheduling and comparable store sales increases.

General and Administrative Expenses. General and administrative expenses increased by $1.4 million, or 28.1%, to $6.5 million in the first quarter of fiscal 2004 from $5.1 million in the first quarter of fiscal 2003. General and administrative expenses decreased as a percentage of sales to 6.6% in the first quarter of fiscal 2004 from 7.3% in the first quarter of fiscal 2003 primarily due to leveraging administrative and technology infrastructure expenses while increasing investments in merchandising and store operations functions.

Pre-opening Expenses. Pre-opening expenses were approximately similar in the comparable periods, decreasing by $0.1 million to $1.2 million in the first quarter of fiscal 2004 from $1.3 million in the first quarter of fiscal 2003. We opened two stores in the first quarter of each year.

Interest Expense. Interest expense increased by $0.7 million, or 84.2%, to $1.5 million in the first quarter of fiscal 2004 from $0.8 million in the first quarter of fiscal 2003. The increase in interest expense resulted from substantially higher average borrowings used to fund our growth. The proceeds from our initial public offering were used to repay debt five days prior to the end of the quarter. With this reduction in outstanding indebtedness, the level of interest expense for the remaining quarters of fiscal 2004 is anticipated to be less than the first quarter of fiscal 2004, based on current interest rate levels.

Income Tax Provision (Benefit). We have determined the realization of the tax benefit related to our net deferred tax asset is uncertain at this time and a valuation allowance was recorded for the entire balance of our net deferred tax asset.

Preferred Stock Dividend. We continued to reflect the accretion of cumulative unpaid dividends on our previously outstanding Class A, B and C convertible preferred stock in accordance with accounting standards until the closing of our initial public offering. No such dividends were paid and any unpaid cumulative dividends were extinguished with the changes in capital structure associated with the closing of our initial public offering. No such obligation or reduction to net income/(loss) will be reflected in our quarterly results of operations after May 1, 2004.

Liquidity and Capital Resources

Our primary capital requirements are for inventory, capital improvements, pre-opening expenses to support our new store growth plans, and, to the extent of the highly seasonal nature of our business, operating losses. Until the completion of our initial public offering, our main sources of liquidity were equity investments by, and advances from, Holiday Companies and its affiliated entities, and borrowings under our credit facility.

On April 26, 2004, we closed the initial public offering of our common stock, selling 6,583,750 shares of common stock, including the underwriters over-allotment, at a price of $16.00 per share, resulting in net proceeds to us of $96.2 million. Transaction costs were $9.1 million and have been reflected as a reduction of paid-in-capital. The proceeds were used to eliminate our outstanding note payable to Holiday Companies in the amount of $9.8 million and reduce $86.4 million of outstanding indebtedness on our credit facility with Fleet Retail Finance. As of May 1, 2004, the availability on our credit facility was $87.1 million.

Operating Activities. Net cash used in operating activities was $31.8 million in the first quarter of fiscal 2004, compared to $38.5 million of net cash used in operating activities in the same quarter of fiscal 2003. The decrease in net cash used in operating activities in the first quarter of fiscal 2004 compared to the first quarter of fiscal 2003 reflects a $10.6 million increase in accounts payable levels as a result of improved payment terms as well as the timing of vendor payments. The change in accounts payable is offset by the increase in cash used in operations of $3.4 million related to increased accounts receivables, resulting primarily from an increase of $1.3 million due from landlords for agreed upon reimbursements for tenant improvements in connection with the development of new stores and the co-branded credit card program initiated in September 2003.

Investing Activities. Net cash used in investing activities was $7.7 million in the first quarter of fiscal 2004 and $3.5 million in the comparable prior year period. Net cash used in investing activities consists of purchases of property and equipment. We use cash primarily for tenant improvements and equipment to open new and relocated stores and to remodel and upgrade existing stores. There were two new stores opened in the first quarter of fiscal 2004, adding approximately 204,000 additional square feet compared to two new stores in the first quarter of fiscal 2003, with approximately 141,000 square feet being added. Capital expenditures in the first quarter of fiscal 2004 also included investments in five stores under development. The first quarter of fiscal 2003 included three stores under development.

Financing Activities. Net cash provided by financing activities was $39.6 million in the first quarter of fiscal 2004, as compared to $42.1 million in the first quarter of fiscal 2003. During the first quarter of fiscal 2004, we received net proceeds from our initial public offering of $96.2 million, reduced debt by $96.2 million in total, and borrowed $39.6 million under our credit facility. We borrowed $38.9 million under our credit facility during the first quarter of fiscal 2003. The borrowings during these periods were primarily related to financing the increased inventory levels, property and equipment purchases for store opening, and to the extent of the highly seasonal nature of our business, operating losses.

To meet our liquidity and capital needs, we entered into a credit facility with Fleet Retail Finance in fiscal 2001. This credit facility currently provides for revolving loans in an aggregate amount of up to $175.0 million including up to $35.0 million in the form of letters of credit. The facility can be increased to $200.0 million if we are not in default under the agreement. The actual availability under our credit facility is limited to the lesser of, on average, 65% of our eligible inventory or 85% of our inventory s liquidation value, in each case net of specified reserves and less any letters of credit outstanding. Outstanding borrowings under the credit facility as of May 1, 2004 were $55.3 million. Our total remaining borrowing capacity under the credit facility, after subtracting letters of credit, as of May 1, 2004 was $87.1 million. Interest on the outstanding indebtedness under the credit facility currently accrues at the lender s prime commercial lending rate plus 0% to 1% depending on our earnings before interest, taxes, depreciation and amortization (EBITDA), as defined in the credit agreement, or, if we elect, at the one, two, three or six month LIBOR plus 1.75% to 2.5% depending on such EBITDA.

Our obligations under the credit facility are secured by interests in substantially all of our assets. The credit facility expires June 30, 2007. As of May 1, 2004, we were in compliance with all covenants under our credit facility.

Our future capital requirements will primarily depend on the number of new stores we open and the timing of those openings within a given fiscal year. These requirements will include costs directly related to opening new stores and may also include costs necessary to ensure that our infrastructure, including distribution capabilities, is able to support a larger store base. We have opened two stores, and plan to open at least 13 additional stores, in fiscal 2004, including at least one relocated store. In the final three quarters of fiscal 2004, we expect our capital expenditures to be approximately $22 million to $27 million, substantially all of which will relate to planned store openings, store relocations and store remodels in fiscal 2004. Additional needs for capital include funding seasonal inventory levels and, potentially, seasonal losses from operations. We intend to satisfy our capital requirements over the next twelve months with cash flows from operations and funds available under our credit facility.

Contractual Obligations and Other Commitments

Our material off-balance sheet arrangements are operating lease obligations and letters of credit. We excluded these items from the balance sheet in accordance with generally accepted accounting principles. As of May 1, 2004 and January 31, 2004, the minimum lease obligations due within one year were $28.1 million and $25.7 million, respectively. Issued and outstanding letters of credit amounted to $2.2 million at May 1, 2004 and are related to the importing of merchandise.

Seasonality

Our business is seasonal in nature and interim results may not be indicative of results for a full year. Our highest sales activity normally occurs during the third and fourth quarters of our fiscal year, which are primarily associated with the fall hunting seasons and the holiday season. The first quarters of our fiscal years have averaged 15% of our annual sales, including new store sales, over the past two years, however, this factor can not be used as an indicator of future results. Our customers demand for our products and therefore our sales, can be significantly impacted by unseasonable weather conditions that affect outdoor activities and the demand for related apparel and equipment. This seasonality also impacts our inventory levels, which tend to rise beginning approximately in April, reach a peak in November, and decline to lower levels after the December holiday season.

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

ITEM 3. QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK

We are exposed to market risk from changes in interest rates on borrowings under our credit facility with Fleet Retail Finance that bears interest at the lower of the lender s prime commercial lending rate plus 0% to 1% depending on our EBITDA, as defined in the credit agreement, or the adjusted LIBOR rate for one, two, three or six months plus 1.75% to 2.50% depending on such EBITDA. At May 1, 2004, we had $55.3 million in outstanding borrowings under our credit facility. If interest rates increased by 100 basis points during our first quarter of fiscal 2004, our interest expense would have increased by approximately $0.3 million based upon average borrowings under our credit facility during the first quarter of fiscal 2004.

We have no derivative financial instruments or derivative commodity instruments in our cash and cash equivalents.

We have no international stores, however, we import certain items for sale in our stores. Substantially all of our purchases are denominated in U.S. dollars and are paid under normal trade terms.

14

ITEM 4. CONTROLS AND PROCEDURES

As of the end of the period covered by this report, we conducted an evaluation, under the supervision and with the participation of the principal executive officer and principal financial officer, of our disclosure controls and procedures (as defined in Rules 13a-15(e) and 15d-15(e) under the Securities Exchange Act of 1934 (the Exchange Act)). Based on this evaluation, the principal executive officer and principal financial officer concluded that our disclosure controls and procedures are effective to ensure that information required to be disclosed by us in reports that we file or submit under the Exchange Act is recorded, processed, summarized and reported within the time periods specified in Securities and Exchange Commission rules and forms. There was no change in our internal control over financial reporting identified in connection with the evaluation required by Rule 13a-15(d) and 15d-15(d) of the Exchange Act that occurred during the period covered by this report that has materially affected, or is reasonably likely to materially affect, our internal control over financial reporting.

PART II. OTHER INFORMATION

ITEM 1. LEGAL PROCEEDINGS

Not applicable.

ITEM 2. CHANGES IN SECURITIES, USE OF PROCEEDS AND ISSUER PURCHASES OF EQUITY SECURITIES

On April 26, 2004, we completed an initial public offering of our common stock pursuant to a registration statement on Form S-1 (File No. 333-112494) that was declared effective by the Securities and Exchange Commission on April 20, 2004. A total of 6,583,750 shares of common stock were offered under the final prospectus, all of which were sold at a price per share of $16.00. The managing underwriters of our offering were Banc of America Securities LLC, William Blair & Company, L.L.C. and Piper Jaffray & Co. The aggregate gross proceeds of the shares offered and sold were $105.3 million. In connection with the offering, we paid an aggregate of $7.3 million in underwriting discounts and commissions to the underwriters. In addition, the following table sets forth the other material expenses incurred in connection with the offering:

SEC registration fee	$	13,347
NASD filing fee		11,034
Nasdaq National Market listing fee		100,000
Legal fees and expenses		555,000
Accounting fees and expenses		538,000
Printing and engraving expenses		268,431
Blue sky fees and expenses		5,000
Transfer agent fees and expenses		5,000
Miscellaneous expenses		253,839
Total	$	1,749,651

After deducting the underwriting discounts and commissions and the offering expenses described above, we received net proceeds from our initial public offering of approximately $96.2 million. Prior to May 1, 2004, $9.8 million of the net proceeds of the offering were used to repay all of our outstanding debt to Holiday Companies, and the remaining net proceeds were used to repay approximately $86.4 million of outstanding indebtedness under our credit facility with Fleet Retail Finance. Holiday Companies is our affiliate and is wholly owned by members of the Erickson family, the family whose members either directly or indirectly own the majority of our outstanding capital stock. Members of the Erickson family with significant ownership interests in Holiday Companies include Ronald and Gerald Erickson, who are members of our board of directors, and Donovan, Neal and Richard Erickson and Marjorie Pihl, who are former members of our board of directors.

ITEM 3. DEFAULTS UPON SENIOR SECURITIES

Not applicable.

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

Effective March 12, 2004, our shareholders unanimously approved the following items by written action in lieu of a meeting:

the ratification of the election of our directors and the actions the directors took for fiscal 2000, fiscal 2001, fiscal 2002 and fiscal 2003;

the election of Donovan Erickson, Gerald Erickson, Neal Erickson, Richard Erickson, Ronald Erickson and Marjorie Pihl to our board of directors (Donovan, Neal and Richard Erickson and Marjorie Pihl resigned as directors on April 26, 2004);

in connection with the closing of our initial public offering, an amendment and restatement of our Articles of Incorporation to delete all references to the prior classes of capital stock, authorize 100,000,000 shares of common stock and 5,000,000 shares of undesignated preferred stock and provide for certain other matters;

in connection with the closing of our initial public offering, an amendment and restatement of our Bylaws;

the renaming of our class A voting common stock to common stock ;

the ratification of our 2002 Stock Option Plan;

the adoption of our 2004 Omnibus Stock Plan; and

the ratification of the issuance of options to purchase 948,352 shares of our common stock (on a split-adjusted basis) to certain of our current and former executive officers.

ITEM 5. OTHER INFORMATION

Not applicable.

ITEM 6. EXHIBITS AND REPORTS ON FORM 8-K

(a) ***Exhibits filed with this report***

Exhibit No.	Description	Method of Filing
3.1	Amended and Restated Articles of Incorporation of the Registrant	Incorporated By Reference (1)
3.2	Amended and Restated Bylaws of the Registrant	Incorporated By Reference (2)
31.1	Rule 13a-14(a)/15d-14(a) Certification by Principal Executive Officer	Filed Electronically
31.2	Rule 13a-14(a)/15d-14(a) Certification by Principal Financial and Accounting Officer	Filed Electronically
32	Section 1350 Certifications	Filed Electronically

(1) Incorporated by reference to Exhibit 3.3 to Amendment No. 1 to the Registrant s Registration Statement on Form S-1 (Registration No. 333-112494), filed with the Commission on March 15, 2004.

(2) Incorporated by reference to Exhibit 3.4 to Amendment No. 1 to the Registrant s Registration Statement on Form S-1 (Registration No. 333-112494), filed with the Commission on March 15, 2004.

(b) ***Reports on Form 8-K***

No reports on Form 8-K were filed during the fiscal quarter ended May 1, 2004.

SIGNATURES

Pursuant to the requirements of the Securities Exchange Act of 1934, the registrant has duly caused this report to be signed on its behalf by the undersigned thereunto duly authorized.

	GANDER MOUNTAIN COMPANY
Date: June 10, 2004	By: /s/ Mark R. Baker Mark R. Baker *President and Chief Executive Officer* (Principal Executive Officer)
Date: June 10, 2004	By: /s/ Dennis M. Lindahl Dennis M. Lindahl *Executive Vice President, Chief Financial Officer, Secretary and Treasurer* (Principal Financial and Accounting Officer)

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