

GANDER MOUNTAIN CO
Form DEF 14A
May 06, 2005

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

Filed by a Party other than the Registrant

Check the appropriate box:

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

Gander Mountain Company
(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):

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GANDER MOUNTAIN COMPANY

Notice of Annual Meeting of Shareholders

to be held on June 8, 2005

The annual meeting of shareholders of Gander Mountain Company will be held at the Jerome Hill Theater, located at 180 East Fifth Street, Saint Paul, Minnesota, on Wednesday, June 8, 2005, commencing at 9:00 a.m., central time, for the following purposes:

1. to elect a board of directors of seven directors, to serve until the next annual meeting of shareholders or until their successors have been duly elected and qualified;
2. to approve the amendment and restatement of the Gander Mountain Company 2004 Omnibus Stock Plan to, among other things, increase the aggregate number of shares of common stock authorized for issuance under the plan by 1,856,000 shares to 4,000,000 shares;
3. to approve the Gander Mountain Company Employee Stock Purchase Plan pursuant to which we may sell a maximum of 500,000 shares to our eligible employees;
4. to ratify the appointment of Ernst & Young LLP as our independent registered public accounting firm for our fiscal year ending January 28, 2006; and

to transact other business that may properly be brought before the meeting.

Our board of directors has fixed April 13, 2005 as the record date for the meeting, and only shareholders of record at the close of business on that date are entitled to receive notice of and vote at the meeting.

Your proxy is important to ensure a quorum at the meeting. Even if you own only a few shares, and whether or not you expect to be present, you are requested to date, sign and mail the enclosed proxy in the postage-paid envelope that is provided, or vote the enclosed proxy by telephone or through the Internet in accordance with the voting instructions set forth on the enclosed proxy card. The proxy may be revoked by you at any time prior to being exercised, and returning your proxy or voting your proxy by telephone or through the Internet will not affect your right to vote in person if you attend the meeting and revoke the proxy.

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By Order of the Board of Directors,

/s/ Dennis M. Lindahl
Dennis M. Lindahl
Secretary

Saint Paul, Minnesota
May 6, 2005

VOTING INSTRUCTIONS

All shareholders may vote their shares through the mail. **If you hold your shares through a broker or bank**, you may also vote your shares through the Internet or by telephone. Please help us save administrative and postage costs by voting through the Internet or by telephone. Each method is available 24 hours a day until 11:59 p.m., eastern daylight time, on June 7, 2005 and will ensure that your vote is confirmed and counted immediately. To vote:

BY INTERNET

Go to the web site at **www.proxyvote.com**, 24 hours a day, seven days a week.

Enter the control number and personal identification number (PIN) (if required) as shown on your proxy card or electronic notification.

Complete the electronic ballot and submit your voting instructions.

BY TELEPHONE

From a touch-tone telephone, call the toll-free number printed on your proxy card or electronic notification, 24 hours a day, seven days a week.

Enter the control number shown on your proxy card or electronic notification.

Follow the simple recorded instructions.

BY MAIL

Mark your selections on the proxy card.

Date and sign your name exactly as it appears on your proxy card.

Mail the proxy card in the enclosed postage-paid envelope.

YOUR VOTE IS IMPORTANT. THANK YOU FOR VOTING.

PROXY STATEMENT

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GANDER MOUNTAIN COMPANY

**PROXY STATEMENT FOR
2005 ANNUAL MEETING OF SHAREHOLDERS**

ABOUT THE ANNUAL MEETING

The enclosed proxy is being solicited by our board of directors for use in connection with our annual meeting of shareholders to be held on Wednesday, June 8, 2005 in the Jerome Hill Theater, located at 180 East Fifth Street, Saint Paul, Minnesota, at 9:00 a.m., central time, and at any adjournments thereof. The mailing of this proxy statement and our board of directors' form of proxy to shareholders will commence on or about May 6, 2005.

The board of directors requests that you vote on the proposals described in this proxy statement. You are invited to attend the meeting, but you do not need to attend the meeting in order to vote your shares. Instead, you may follow the instructions below to vote your shares over the telephone or on the Internet, or you can complete, sign and return the enclosed proxy card.

What is the purpose of the annual meeting?

At the annual meeting we will ask our shareholders to vote on four matters:

1. to elect a board of directors of seven directors, to serve until the next annual meeting of shareholders or until their successors have been duly elected and qualified;
2. to approve the amendment and restatement of the Gander Mountain Company 2004 Omnibus Stock Plan to, among other things, increase the aggregate number of shares of common stock authorized for issuance under the plan by 1,856,000 shares to 4,000,000 shares;
3. to approve the Gander Mountain Company Employee Stock Purchase Plan pursuant to which we may sell a maximum of 500,000 shares to our eligible employees; and
4. to ratify the appointment of Ernst & Young LLP as our independent registered public accounting firm for our fiscal year ending January 28, 2006;

as well as to transact other business that may properly be brought before the meeting. Following the formal portion of the meeting, our management will report on our performance and answer questions from our shareholders.

Who is entitled to vote at the meeting?

Only shareholders of record at the close of business on April 13, 2005 will be entitled to vote at the meeting or adjournments thereof. At the close of business on the record date, we had 14,246,925 shares of our common stock outstanding and entitled to vote. Every share is entitled to

one vote on each matter that comes before the meeting.

Who is entitled to attend the meeting?

Subject to space availability, all shareholders as of the record date, or their duly appointed proxies, may attend the meeting. Since seating is limited, admission to the meeting will be on a first-come, first-served basis. Registration will begin at 8:30 a.m. If you plan to attend the meeting, please note that you will be asked to present valid picture identification, such as a driver's license or passport. Cameras, recording devices and other electronic devices will not be permitted at the meeting.

Please also note that if you hold your shares in street name (that is, through a broker or other nominee), you will need to bring a copy of a brokerage statement reflecting your stock ownership as of the record date.

What constitutes a quorum?

A majority of the shares outstanding on the record date, present in person or represented by proxy, will constitute a quorum for the transaction of business at the meeting. If a quorum is present, the meeting can proceed. Proxies received but marked as abstentions and broker non-votes will be included in the calculation of the number of shares considered to be present at the meeting for purposes of determining whether there is a quorum.

How do I vote?

Proxies in the accompanying form that are properly signed and duly returned to us, or if you hold your shares through a broker or bank, voted by telephone or through the Internet in accordance with the voting instructions set forth below, and not revoked, will be voted in the manner specified. We encourage you to vote by telephone or on the Internet, if possible, to reduce the costs of tabulating the vote.

To vote by mail:

Mark your selections on the proxy card.

Date and sign your name exactly as it appears on your proxy card.

Mail the proxy card in the enclosed postage-paid envelope.

If you hold your shares through a broker or bank, to vote by Internet:

Go to the web site at www.proxyvote.com, 24 hours a day, seven days a week.

Enter the control number and personal identification number (PIN) (if required) as shown on your proxy card or electronic notification.

Complete the electronic ballot and submit your voting instructions.

If you hold your shares through a broker or bank, to vote by telephone:

From a touch-tone telephone, call the toll-free number printed on your proxy card or electronic notification, 24 hours a day, seven days a week.

Enter the control number shown on your proxy card or electronic notification.

Follow the simple recorded instructions.

If you are a registered shareholder and attend the annual meeting, you may deliver your proxy in person. If you hold your shares in street name, you need to obtain a proxy form from the institution that holds your shares.

May I change my vote after I return my proxy card?

Yes. Even after you have submitted your proxy, you may change your vote at any time before the proxy is exercised by filing with our corporate secretary either a notice of revocation or a duly executed proxy bearing a later date. Alternatively, if you have voted by telephone or through the Internet, you may change your vote by calling the toll-free number again and following the instructions, or by accessing the web site and following the instructions. The powers of the proxy holders will be suspended if you attend the meeting in person and so request, although attendance at the meeting will not by itself revoke a previously granted proxy

What is the recommendation of the board of directors on voting my shares?

Our board of directors recommends a vote *for* the election of the seven nominated directors to constitute the board of directors; *for* approval of the amendment and restatement of the 2004 Omnibus Stock Plan; *for* approval of the Employee Stock Purchase Plan; and *for* the ratification of Ernst & Young LLP as our independent registered public accounting firm. If any other matters come up for a vote at the meeting, the proxy holders will vote in line with the recommendations of the board of directors or, if there is no recommendation, at their own discretion.

What vote is required to approve each item?

Election of Directors. Directors are elected by a plurality of the voting power of the shares of common stock entitled to vote and present in person or represented by proxy at the meeting. For this purpose, a properly executed proxy marked **WITHHELD** with respect to the election of director nominees will be counted for purposes of determining whether there is a quorum, but will have no effect on the outcome of the vote on the election of directors.

Other Items. For all other items that properly come before the meeting, the affirmative vote of a majority of the outstanding shares of common stock entitled to vote and present in person or represented by proxy at the meeting is required for approval. A properly executed proxy marked **ABSTAIN** with respect to any such matter

will be counted for purposes of determining whether there is a quorum and will be considered present in person or by proxy and entitled to vote.

What is the effect of abstentions and broker non-votes?

If shareholders indicate on their proxy that they wish to abstain from voting on a particular proposal, including brokers holding their customers shares of record who cause abstentions to be recorded, these shares are considered present and entitled to vote at the meeting. These shares will count toward determining whether or not a quorum is present. However, these shares will not be considered cast with respect to the proposal for which they abstain from voting and will not be taken into account in determining the outcome of any of those proposals. Accordingly, an abstention will have the effect of a negative vote.

If a shareholder does not give a broker holding the shareholder's shares instructions as to how to vote the shares, the broker has authority under New York Stock Exchange rules to vote those shares for or against routine matters, such as the election of directors and the ratification of Ernst & Young LLP as our independent registered public accounting firm. Brokers cannot vote on their customers' behalf on non-routine proposals. These rules apply to us notwithstanding the fact that shares of our common stock are traded on The Nasdaq National Market. If a broker votes shares that are unvoted by its customers for or against a routine proposal, these shares are counted for the purpose of establishing a quorum and also will be counted for the purpose of determining the outcome of the routine proposals on which they are cast. Shares held by a broker on behalf of a shareholder will not be considered cast with respect to any non-routine proposals and will not be taken into account in determining the outcome of any of non-routine proposals.

May the meeting be adjourned?

If a quorum is not present to transact business at the meeting or if we do not receive sufficient votes in favor of the proposals by the date of the meeting, the persons named as proxies may propose one or more adjournments of the meeting to permit solicitation of proxies. Any adjournment would require the affirmative vote of a majority of the shares present in person or represented by proxy at the meeting.

Who pays the expenses incurred in connection with the solicitation of proxies?

We will pay the cost of soliciting proxies in the accompanying form. In addition to solicitation by the use of the mail, certain directors, officers and regular employees may solicit proxies by telephone, the internet, email or personal interview, and may request brokerage firms and custodians, nominees and other record holders to forward soliciting materials to the beneficial owners of our shares. We will reimburse them for their reasonable out-of-pocket expenses in forwarding these materials.

How may I obtain additional copies of the annual report?

Our annual report for our fiscal year ended January 29, 2005, known as fiscal 2004, including financial statements, is enclosed. The annual report is also available online at www.gandermountain.com. For additional printed copies, which are available without charge, please contact our investor relations representative by e-mail at investorrelations@gandermountain.com or by mail to Gander Mountain Company, c/o Investor

Relations, 180 East Fifth Street, Suite 1300, Saint Paul, Minnesota 55101.

What is the deadline for submitting a shareholder proposal for the 2006 annual meeting?

We must receive shareholder proposals intended to be presented at the 2006 annual meeting of shareholders that are requested to be included in the proxy statement for that meeting at our principal executive office no later than December 23, 2005. We must receive any other shareholder proposals intended to be presented at the 2006 annual meeting of shareholders at our principal executive office no later than March 10, 2006. The inclusion of any shareholder proposals in such proxy materials will be subject to the requirements of the proxy rules adopted under the Securities Exchange Act of 1934, including Rule 14a-8. Written copies of all shareholder proposals should be sent to our principal executive offices at Gander Mountain Company, c/o Corporate Secretary, 180 East Fifth Street, Suite 1300, Saint Paul, Minnesota 55101.

PROPOSAL 1 ELECTION OF DIRECTORS**Directors and Director Nominees**

Seven directors are to be elected at the meeting, each director to hold office until the next Annual Meeting of Shareholders, or until his or her successor is elected and qualified. All of the nominees named below are current directors of our company. Each nominee has indicated a willingness to serve as a director for the ensuing year. Proxies solicited by the board will, unless otherwise directed, be voted to elect the seven nominees named below to constitute the entire board, but in case any nominee is not a candidate at the meeting for any reason, the proxies named in the enclosed proxy form may vote for a substitute nominee in their discretion.

The following table sets forth certain information regarding each director nominee:

Name	Age	Position	Director Since
Mark R. Baker	47	President, Chief Executive Officer and Director	2004
Karen M. Bohn	51	Director	2004
Marshall L. Day	61	Lead Independent Director	2004
Richard C. Dell	59	Director	2004
Gerald A. Erickson	67	Director	1997
Ronald A. Erickson	68	Chairman of the Board of Directors and Director	1997
Dale Nitschke	43	Director	2004

Mark R. Baker, an avid outdoorsman, has served as Chief Executive Officer since September 2002. He was appointed to the office of President in February 2004. From 1996 to July 2001, he served in various positions with Home Depot Inc., including serving as Executive Vice President, Chief Operating Officer and Chief Merchandising Officer from 1999 to 2001. Prior to joining Home Depot, Mr. Baker held senior management positions with various retailers, including Knox Hardware and Lumber, Scotty's Home Improvement Centers, and HomeBase. Mr. Baker is a director of The Scotts Company, a public company that manufactures and markets lawn and garden products.

Karen M. Bohn is currently President and Chief Executive Officer of Galeo Group LLC, a strategic management resource for companies in governance, philanthropy, strategy, and management effectiveness. Previously, she held a variety of positions with Piper Jaffray Companies, most recently as Chief Administrative Officer and member of the Management Committee.

Marshall L. Day served in various positions with Home Depot Inc. from 1986 through April 2000, serving as Senior Vice President Finance from 1993 to 1995, Senior Vice President Chief Financial Officer from 1995 to 1998 and Senior Vice President Finance and Accounting from 1998 through April 2000. Since his retirement from Home Depot Inc. in April 2000, Mr. Day has served as an independent consultant.

Richard C. Dell has served as the Chief Executive Officer of Ames True Temper, a manufacturer and marketer of non-powered lawn and garden tools and accessories, since January 2002. Prior to joining Ames True Temper, Mr. Dell spent 27 years in a variety of positions at Newell Rubbermaid, most recently as Group President.

Gerald A. Erickson has been a principal of Holiday Companies since its formation in December 1992 and has served on the Board of Directors and as Vice President of Holiday Companies since that time. Mr. Erickson has also served as Vice Chairman of the Board of Directors of Holiday Companies since 2003.

Ronald A. Erickson is the Chief Executive Officer and Chairman of the Board of Directors of Holiday Companies, positions he has held since its formation in December 1992. Mr. Erickson is also a member of the Board of Directors of Carriage Services, Inc., a public company engaged in the funeral services business, and Andersen Corporation, a privately held company engaged in the manufacture and sale of windows and doors.

Dale Nitschke is currently President of Target.com, the direct sales arm of Target Corporation, focusing primarily on Internet commerce. He has held a variety of merchandising positions with Target Corporation since 1985, most recently as Senior Vice President and General Merchandising Manager for Marshall Fields.

Committees of Our Board of Directors

Audit Committee

Messrs. Day (Chair), Dell and Nitschke comprise our audit committee. The purpose of our audit committee is to oversee the accounting and financial reporting processes of our company and the audits of the financial statements of our company. Our audit committee's function is one of oversight and, in that regard, our audit

committee meets with our management and our independent registered public accounting firm to review and discuss our financial reporting and our controls regarding accounting and risk of material loss. The responsibilities of our audit committee are set forth in the Audit Committee Charter, which is regularly reviewed in light of Securities and Exchange Commission and National Association of Securities Dealers regulations; the current version was adopted by our board of directors on May 27, 2004 and is available on our website at www.GanderMountain.com and attached as Exhibit A to this proxy statement. In addition to regular consultation with our management, our audit committee held three meetings in fiscal 2004.

Our board of directors has determined that all members of our audit committee are independent, as that term is used in Section 10A of the Securities Exchange Act of 1934, as that term is defined in Rule 4200(a)(15) of the National Association of Securities Dealers listing standards and as that term is defined by Section 301 of the Sarbanes-Oxley Act of 2002. Our board of directors has determined that Mr. Day, the chair of our audit committee, is an audit committee financial expert as defined by Securities and Exchange Commission regulations.

Compensation Committee

Ms. Bohn (Chair) and Messrs. Day and Dell comprise our compensation committee. All members of our compensation committee are independent, as that term is defined in Rule 4200(a)(15) of the National Association of Securities Dealers listing standards. The purposes of our compensation committee are to discharge the responsibilities of the board with respect to all forms of compensation of our executive officers, oversee our company's equity-based incentive plans and report to the shareholders regarding our company's executive compensation practices and policies. The responsibilities of our compensation committee are set forth in the Compensation Committee Charter, which is regularly reviewed in light of Securities and Exchange Commission and National Association of Securities Dealers regulations and is available on our website at www.GanderMountain.com. In addition to regular consultation with our management, our compensation committee held three meetings in fiscal 2004 and acted by written consent in lieu of a meeting on one occasion.

Governance and Nominating Committee

Ms. Bohn (Chair) and Mr. Nitschke comprise our governance and nominating committee. All members of the governance and nominating committee are independent, as that term is defined in Rule 4200(a)(15) of the National Association of Securities Dealers listing standards. The purposes of our governance and nominating committee are to oversee corporate governance matters; approve director-nominees to be considered for election by shareholders and for election by the board to fill any vacancy or newly created directorship; and make recommendations to the board concerning the appropriate size and composition of the board and each board committee, and the establishment of new board committees. Our governance and nominating committee also assists our board of directors in developing and implementing our Principles of Corporate Governance and Code of Business Conduct and Ethics. The responsibilities of our governance and nominating committee are set forth in the Governance and Nominating Committee Charter, which is regularly reviewed in light of Securities and Exchange Commission and National Association of Securities Dealers regulations and is available on our website at www.GanderMountain.com. In addition to regular consultation with our management, our governance and nominating committee held one meeting in fiscal 2004.

Board of Directors Meetings and Attendance

Our board of directors held three meetings during fiscal 2004 and acted by written consent in lieu of a meeting on five occasions. During fiscal 2004, each director attended all of the meetings of our board of directors and of the board committees on which the director serves.

Principles of Corporate Governance

Our board of directors has adopted Principles of Corporate Governance to assist in the performance of its responsibilities. These principles are available on our website at www.GanderMountain.com.

Director Independence

Our board of directors has determined that all of its members except Messrs. Baker, G. Erickson and R. Erickson are independent, as that term is used in Section 10A of the Securities Exchange Act of 1934, and as that term is defined in Rule 4200(a)(15) of the National Association of Securities Dealers regulations.

Lead Independent Director

Since the chairman of our board of directors is not an independent director, our board of directors has designated Mr. Day as our lead independent director. Mr. Day works with the chairman of the board to establish board agendas, presides at executive sessions of the independent directors and otherwise assists the board in the discharge of its responsibilities.

Director Qualifications and Director Nominee Selection Policy

The governance and nominating committee is responsible for recommending nominees for election to the board of directors. The governance and nominating committee is responsible for reviewing with the board, on an annual basis, the requisite skills and characteristics of individual board members, as well as the composition of the board as a whole, in the context of our needs. The governance and nominating committee reviews all nominees for director and recommends to the board those nominees whose attributes it believes would be most beneficial to us. This assessment will include such issues as experience, integrity, competence, diversity, age, skills and dedication in the context of the needs of the board.

The governance and nominating committee will consider director candidates recommended by shareholders in the same manner that it considers all director candidates. Shareholders who wish to suggest qualified candidates to the governance and nominating committee should write to the office of the Corporate Secretary, Gander Mountain Company, 180 East Fifth Street, Suite 1300, Saint Paul, Minnesota 55101, stating in detail the candidate's qualifications for consideration by the governance and nominating committee. If a shareholder wishes to nominate a director other than a person nominated by or on behalf of the board of directors, he or she must comply with certain procedures set out in our bylaws.

Compensation Committee Interlocks and Insider Participation

No executive officer serves as a member of the board of directors or compensation committee of any entity that has any of its executive officers serving as a member of our board of directors or compensation committee.

Director Compensation

In connection with their service on our board of directors, for fiscal 2004 each of our non-employee directors received a \$20,000 annual retainer and an additional \$1,000 for each meeting of the board of directors attended and \$500 for each committee meeting attended other than audit committee meetings. The audit committee chair received an additional \$1,000 per audit committee meeting attended and each audit committee member received \$750 for each audit committee meeting attended. For our fiscal 2005, we currently anticipate that these fees will remain the same, except that our lead independent director will receive an additional \$5,000 annual retainer. All directors are reimbursed for their reasonable out-of-pocket expenses incurred in attending meetings of the board of directors and committees.

In addition, in fiscal 2004 we granted each of our non-employee directors, other than Messrs. G. Erickson and R. Erickson, options to purchase 10,000 shares of our common stock upon their initial election to our board of directors. For fiscal 2005, we will grant each of our non-employee directors, other than Messrs. G. Erickson and R. Erickson, options to purchase an additional 10,000 shares of our common stock upon re-election to the board of directors. All option grants to directors have been, and will be, made at the fair market value of our common stock on the date of grant. Each option grant vests in full on the first anniversary of the date of grant, so long as such person remains a director.

Attendance at Annual Meeting

Directors are expected to attend annual meetings of our shareholders unless they have unavoidable scheduling conflicts.

Procedures for Contacting the Board of Directors

All interested parties may send written communications to the board of directors or specified individual directors by addressing their communication to the Office of the Corporate Secretary, Gander Mountain Company, 180 East Fifth Street, Suite 1300, Saint Paul, Minnesota 55101. The communications will be collected by the corporate secretary and delivered, in the form received, to the presiding director or, if so addressed, to a specified director.

Our board of directors unanimously recommends that you vote FOR the election of each of the seven nominees listed above to constitute our board of directors.

PROPOSAL 2 APPROVAL OF

AMENDMENT AND RESTATEMENT OF 2004 OMNIBUS STOCK PLAN

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In February 2004, our board of directors adopted, and in March 2004 our shareholders subsequently approved, the 2004 Omnibus Stock Plan, known as the 2004 Plan. As originally adopted, the 2004 Plan authorized the granting of stock-based awards to acquire up to 2,144,000 shares of our common stock.

As of January 29, 2005, options (net of canceled or expired options) covering an aggregate of 1,089,500 shares of our common stock had been granted under the 2004 Plan, and only 1,054,500 shares (plus any shares that might in the future be returned to the 2004 Plan as a result of cancellations or expiration of awards) remained available for future grants under the 2004 Plan. Under the 2004 Plan, options to purchase 1,899,580 shares of our common stock remain outstanding as of April 13, 2005. In addition to the shares available for awards under the 2004 Plan, stand-alone options to purchase 109,728 shares of our common stock remain outstanding as of April 13, 2005 and options to purchase 189,875 shares of our common stock issued under our 2002 Stock Option Plan remain outstanding as of April 13, 2005. The board of directors has determined that we are no longer authorized to grant any awards under the 2002 Stock Option Plan.

On March 3, 2005, our board of directors approved the amendment and restatement of the 2004 Plan, subject to shareholder approval, to increase the aggregate number of shares of our common stock authorized for issuance under the 2004 Plan by 1,856,000 shares, from a total of 2,144,000 shares to 4,000,000 shares. The full, authoritative text of the amended and restated 2004 Plan is attached hereto as Exhibit B. A summary follows for convenience only. Subject to shareholder approval, only the restated 2004 Plan document itself is binding on our company or any participant in the restated 2004 Plan.

By adding 1,856,000 shares to the 2004 Plan, our board of directors believes that awards available under the 2004 Plan will allow us to motivate our current and future key employees to put forth maximum effort for our continued success and growth. If the shareholders fail to approve this proposal, the 2004 Plan will remain in effect as it existed immediately prior to the proposed amendment and restatement. In that case, we would be limited to issuing no more than 2,144,000 shares of our common stock in total pursuant to awards made under the 2004 Plan.

Award Grants

All awards granted under the 2004 Plan have been in the form of options to purchase common stock. For each of the named executive officers and the various groups indicated, the following table presents the number of shares of common stock subject to awards granted under the 2004 Plan during fiscal 2004. The table only provides grant information, and does not reflect the current status of those awards granted (whether an award was exercised, terminated, forfeited, etc.). Future awards to our executive officers and employees are discretionary. At this time, therefore, the future benefits that may be received by our executive officers and other employees if our shareholders approve the restated 2004 Plan cannot be determined; however, we granted the named executive officers options to purchase an aggregate of 221,000 shares under the 2004 Plan on March 14, 2005.

Name and Position	Number of Award Shares	Exercise Price
Mark R. Baker <i>Chief Executive Officer and President</i>	100,000	\$16.00
Dennis M. Lindahl <i>Executive Vice President, Chief Financial Officer, Secretary and Treasurer</i>	50,000	\$16.00
Allen L. Dittrich <i>Executive Vice President, Merchandising</i>	40,000	\$16.00
Sharon K. Link <i>Senior Vice President, Finance and Administration and Assistant Treasurer</i>	50,000	\$16.00 - \$21.45
Andrew P. Carlin <i>Senior Vice President, Store Operations</i>	25,000	\$16.00 - \$21.45
All current executive officers, as a group	285,000	\$11.16 - \$21.45

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All current directors who are not executive officers, as a group	40,000	\$24.40	
All employees, including all current officers who are not executive officers, as a group	817,450	\$12.90 - \$21.74	

Market Price of Our Common Stock

The closing market price of our common stock on April 13, 2005 was \$13.37 per share.

Summary Description of the 2004 Omnibus Stock Plan

Purpose of the 2004 Plan

The purpose of the 2004 Plan is to motivate our key personnel to produce a superior return for our shareholders by offering them an opportunity to realize stock appreciation, by facilitating their ownership of our common stock and by rewarding them for achieving a high level of corporate performance. The 2004 Plan is also intended to facilitate recruiting and retaining key personnel, including outside directors, consultants and advisors, of outstanding ability.

Shares Available Under the 2004 Plan

There are currently 2,144,000 shares of our common stock authorized for awards under the 2004 Plan. Upon approval of the restated 2004 Plan, there will be 4,000,000 shares of our common stock authorized for awards under the 2004 Plan. This number is subject to adjustment for future stock splits, stock dividends and similar changes in the capitalization of our company. The 2004 Plan will remain in effect until all shares subject to it have been distributed or until all awards have expired or lapsed. In addition, our board of directors may terminate the 2004 Plan at any time, subject to the conditions stated in the 2004 Plan. The 2004 Plan is not subject to the Employee Retirement Income Security Act of 1974 and is not a qualified plan under Section 401(a) of the Internal Revenue Code of 1986.

2004 Plan Administration

The 2004 Plan is administered by a committee of two or more non-employee members of the board of directors, or by action of the board of directors as permitted in the 2004 Plan. In the event of a conflict between a permitted action of the board of directors and an action of the committee, the action of the board of directors controls. The committee has the authority to interpret the 2004 Plan and any award or agreement made under the 2004 Plan. The committee also has the authority, subject to the terms of the 2004 Plan, to establish, amend, waive and rescind any rules relating to the 2004 Plan. The committee is also responsible for determining when and to whom awards will be granted, the form of each award, the amount of each award and any other terms of an award, consistent with the 2004 Plan.

Members of the committee are designated by our board of directors and serve on the committee for an indefinite term, at the discretion of our board of directors. The committee may delegate all or any portion of its authority to persons who are not non-employee directors solely for purposes of determining and administering awards to persons who are not insiders of our company.

Eligibility

All of our employees and persons who provide services to us and our affiliates, including directors, advisors and consultants, are eligible to receive awards under the 2004 Plan. The selection of those to whom awards under the 2004 Plan are made is within the sole discretion of the committee.

Types of Awards Under the 2004 Plan

The types of awards that may be granted under the 2004 Plan include incentive and non-statutory stock options, stock appreciation rights, performance units, restricted stock and other stock-based awards. The following is a brief description of the material characteristics of each type of award.

Incentive and Non-Statutory Stock Options. Incentive stock options are options designated by the committee as incentive stock options that comply with the requirements of Section 422 of the Internal Revenue Code of 1986 or any successor provision. Non-statutory stock options are all options other than incentive stock options. Stock options may

The purpose of the 2004 Plan is to motivate our key personnel to produce a superior return for our shareholders by

be granted and exercised at such times as the committee may determine, but no more than 2,000,000 shares of common stock underlying stock options may be granted to any one person in any year. The purchase price of each share subject to an option shall be determined by the committee and set forth in an option agreement, and, except where determined otherwise by the committee, shall not be less than 100% of the fair market value of a share as of the date the option is granted. Each option shall be exercisable in whole or in part on the terms provided in the agreement. In no event shall any option be exercisable at any time after the expiration of its term. When an option is no longer exercisable, it shall be deemed to have lapsed or terminated.

The purchase price of the shares with respect to which an option is exercised shall be payable in full at the time of exercise. The purchase price may be payable in cash, by delivery or tender of shares having a fair market value as of the date the option is exercised equal to the purchase price of the shares being purchased pursuant to the option, or a combination thereof, as determined by the committee, but no fractional shares will be issued or accepted. A participant exercising a stock option shall not be permitted to pay any portion of the purchase price with shares if, in the opinion of the committee, payment in such manner could have adverse financial accounting consequences for our company. The committee may also provide for a reload option, in which a participant who exercises an option and pays the option price in whole or in part with shares then owned by the participant will be entitled to receive another option covering the same number of shares tendered and with a price of no less than fair market value of our common stock on the date of grant of such additional option.

With respect to incentive stock options, the committee retains full authority to impose other conditions, limitations or provisions where needed to qualify the option as an incentive stock option. For example, the purchase price of each share subject to an incentive stock option shall not be less than 100% of the fair market value of a share as of the date the incentive stock option is granted if this limitation is necessary to qualify as an incentive stock option. The aggregate fair market value of the shares with respect to which incentive stock options held by an individual first become exercisable in any calendar year shall also not exceed \$100,000 (or such other limit required by law) if this limitation is necessary to qualify the option as an incentive stock option. Any stock options exceeding this limit will be treated as non-statutory stock options. An incentive stock option will also not be exercisable more than 10 years after the date of grant (or such other limit imposed by law) if this limitation is necessary to qualify the option as an incentive stock option.

In addition, no participant may receive an incentive stock option under the 2004 Plan if, at the time the award is granted, the participant owns shares possessing more than 10% of the total combined voting power of all classes of stock of our company or our subsidiaries, unless (1) the option price for that incentive stock option is at least 110% of the fair market value of the shares subject to that incentive stock option on the date of grant and (2) that option is not exercisable after the date five years from the date of grant.

Stock Appreciation Rights and Performance Units. The recipient of a stock appreciation right receives, upon exercise of the right and subject to the terms and conditions specified by the committee, all or a portion of the excess of the fair market value of a specified number of shares as of the date of exercise of the right over a specified price that shall not be less than 100% of the fair market value of such shares as of the date of grant of the right. Payment shall be made upon exercise of a stock appreciation right, subject to terms and conditions imposed by the committee in the agreement. No stock appreciation right shall be exercisable at any time after the expiration of its term, and when a stock appreciation right is no longer exercisable, it shall be deemed to have lapsed or terminated. In no event may a participant be awarded more than 2,000,000 shares in the form of stock appreciation rights in any year.

An award of performance units under the 2004 Plan entitles the recipient to future payments of cash, shares or a combination of cash and shares, as determined by the committee, based upon the achievement of pre-established performance targets. The committee shall determine the extent to which performance targets have been attained and the amount of payment due for such satisfaction.

Note that an agreement may permit an acceleration of the performance cycle, and an adjustment of performance targets and payments with respect to some or all of the performance units awarded to a participant, upon the occurrence of certain events, which may, but need not include, without limitation, a fundamental change in our company as defined in the 2004 Plan, the participant's death or retirement or other events affecting the capitalization of our company.

Restricted Stock and Other Stock-Based Awards. The committee may award restricted stock under the 2004 Plan, which is stock subject to specified restrictions on transfer and conditions of forfeiture. A holder of restricted stock shall have all the other rights of a shareholder, including the right to receive dividends and the right to vote. No more than 2,000,000 of the total number of shares available as awards under the 2004 Plan shall be issued as restricted stock.

The committee may also award stock or other awards, such as securities convertible into stock and phantom securities. The granting of such awards is within the discretion of the committee; however, no more than 500,000 of the total number of shares available for awards under the 2004 Plan shall be issued during the term of the 2004 Plan in the form of stock without restrictions.

Acceleration of Awards, Lapse of Restrictions, Forfeiture

The committee may provide in an award agreement for the lapse or waiver of restrictions or conditions on restricted stock or other awards, or acceleration of the vesting of stock options, stock appreciation rights and other awards, or acceleration of the term with respect to which the achievement of performance targets for performance units is determined in the event of a fundamental change in the corporate structure of our company, upon a change of control of our company or upon the participant's death, disability or retirement.

If the participant's employment or other relationship with our company or our affiliates is terminated for any reason, then any unexercised portion of the award will generally be forfeited, except as provided in the award agreement or by the committee.

Adjustments, Modifications, Termination

The board of directors may at any time terminate, suspend or modify the 2004 Plan. And, except as where stated otherwise in the 2004 Plan, the committee may at any time alter or amend any or all agreements under the 2004 Plan to the extent permitted by law. No termination, suspension, or modification of the 2004 Plan will materially and adversely affect any right acquired by a participant before the date of such termination, suspension, or modification. However, any and all adjustments made in response to changes in the capitalization of our company will be conclusively presumed to not adversely affect any rights of award recipients. If we experience a change in capitalization, a fundamental change, or any other relevant change as described in the 2004 Plan, the committee may make appropriate adjustments to the awards in order to prevent enlargement of rights or inappropriate dilution of rights.

Federal Tax Considerations (United States Only)

This section summarizes the material federal income tax consequences that may result from awards made under the 2004 Plan. Because this is only a summary, issues that are material to a participant may not be discussed. Furthermore, the tax laws are subject to legislative changes and new or revised administrative or judicial interpretations. Participants may also incur foreign, state or local tax consequences that are not discussed in this summary.

Incentive Stock Options. Participants will realize no taxable income, and we will not be entitled to any related deduction, when participants are granted an incentive stock option. If certain statutory employment and holding period conditions are satisfied before a participant disposes of the shares acquired pursuant to the exercise of such an option, then the participant will not realize any taxable income upon the exercise of such an option and we will not be entitled to any deduction in connection with such exercise. Upon disposition of the shares after expiration of the statutory holding periods, any gain or loss a participant realizes will be a capital gain or loss. We will not be entitled to a deduction with respect to a disposition of the shares by a recipient after the expiration of the statutory holding periods.

Except in the event of death, if a recipient disposes of the shares acquired upon exercise of an incentive stock option before the expiration of the statutory holding periods, the recipient will be considered to have realized as compensation, taxable as ordinary income in the year of disposition in an amount, not exceeding the gain realized on such disposition, equal to the difference between the exercise price and the fair market value of

Stock Appreciation Rights and Performance Units. The recipient of a stock appreciation right receives, upon exercise,

the shares on the date of exercise of the option. We will be entitled to a deduction at the same time and in the same amount as the participant is deemed to have realized ordinary income. Any gain realized on the disposition in excess of the amount treated as compensation or any loss realized on the disposition will constitute capital gain or loss, respectively. If a participant pays the option price with shares that were originally acquired pursuant to the exercise of an incentive stock option and the statutory holding periods for such shares have not been met, the participant will be treated as having made a disqualifying disposition of such shares, and the tax consequences of such disqualifying disposition will be as described above.

The foregoing discussion applies only for regular tax purposes. For alternative minimum tax purposes, an incentive stock option will be treated as if it were a non-statutory stock option, the tax consequences of which are discussed below.

Non-Statutory Stock Options. Participants will realize no taxable income, and we will not be entitled to any related deduction, when any nonqualified stock option is granted under the 2004 Plan. Upon exercise of a nonqualified stock option, a participant will realize ordinary income, and we will be entitled to a deduction, equal to the excess of the fair market value of the shares on the date of exercise over the option price. Upon disposition of the shares, any additional gain or loss realized by a participant will be taxed as a capital gain or loss.

Stock Appreciation Rights and Performance Units. Generally, participants will realize no income upon the award of a stock appreciation right or performance units. Participants will realize ordinary income, and we will be entitled to a corresponding deduction, when cash or shares are delivered to a participant upon exercise of a stock appreciation right or in payment of the performance unit award. The amount of ordinary income and deduction will be the amount of cash, plus fair market value of the shares received on the date the participant receives them. Upon a subsequent disposition of shares a participant receives, any additional gain or loss a participant realizes will be taxed as capital gain or loss.

Restricted Stock and Other Stock-Based Awards. With respect to awards of unrestricted stock, generally (a) participants will realize ordinary income and we will be entitled to a corresponding deduction upon the grant of the unrestricted stock and (b) the amount of such ordinary income and deduction will be the fair market value of such unrestricted stock on the date of the grant.

Unless a participant files an election to be taxed under Section 83(b) of the Internal Revenue Code of 1986, the following federal tax consequences will generally apply to an award of restricted stock:

a participant will not realize income upon the grant of the restricted stock;

a participant will realize ordinary income, and we will be entitled to a corresponding deduction, when the restrictions on the participant's stock have been removed or have expired; and

the amount of a participant's ordinary income and our deduction will be the fair market value of the stock on the date the restrictions are removed or expire.

If a participant elects to be taxed under Section 83(b) or if a participant is awarded unrestricted stock, then the tax consequences to the participant and us will be determined as of the date of the grant of the stock, rather than as of the date of the removal or expiration of the restrictions.

When a participant disposes of restricted or unrestricted stock, the difference between the amount the participant receives upon the disposition and the fair market value of the shares on the date the participant realized ordinary income will be taxed as a capital gain or loss.

Withholding. The 2004 Plan permits us to withhold from cash awards, and to require participants to pay us, cash sufficient to cover any required withholding taxes. In lieu of cash, the committee may permit participants to cover withholding obligations through a reduction in the number of shares delivered to participants or through the surrender to us of shares of our common stock that a participant owns.

Stock Appreciation Rights and Performance Units. The recipient of a stock appreciation right receives, upon exercise,

Restrictions on Transfer of Awards

Except as provided otherwise in the 2004 Plan, the only person who may exercise an option, stock appreciation right, or receive payments pursuant to performance units or any other award, is the participant who received such award under the 2004 Plan.

No award of restricted stock (before the expiration of the restrictions), options, stock appreciation rights, performance units or other award, may be sold, assigned, transferred, exchanged or otherwise encumbered, except under the following limited circumstances:

transfers or grants to a successor in interest in the event of the participant's death;

pursuant to a qualified domestic relations order as defined in the Internal Revenue Code of 1986 or Title 1 of the Employee Retirement Income Security Act of 1974; or

the committee specifically authorizes a transfer of the interest in the award where no consideration accompanies the transfer.

Any attempted transfer not permitted by the 2004 Plan is ineffective. And, where a transfer is authorized, the transferee continues to be subject to the terms and conditions of the award as existed immediately before the transfer.

Resale Considerations

Shares of stock acquired under the 2004 Plan by persons other than our affiliates, as defined in Rule 405 under the Securities Act of 1933, may be resold without further registration under the Securities Act of 1933. Generally, our affiliates may resell the shares obtained under the 2004 Plan as follows:

in compliance with Rule 144 under the Securities Act of 1933;

under an applicable exemption to the registration requirements of the Securities Act of 1933; or

in connection with an effective registration statement under the Securities Act of 1933.

Recipients who are our directors or executive officers or who are directly or indirectly the beneficial owners of more than 10% of any class of equity security that is registered pursuant to Section 12 of the Securities Exchange Act of 1934 must also comply with the reporting and trading requirements of Section 16 of the Securities Exchange Act of 1934 and the rules and regulations of the Securities and Exchange Commission under that statute.

Our board of directors unanimously recommends that you vote FOR proposal 2 to approve the Amended and Restated 2004 Omnibus Stock Plan.

PROPOSAL 3 APPROVAL OF EMPLOYEE STOCK PURCHASE PLAN

In March 2005, our board of directors adopted the Employee Stock Purchase Plan, known as the Purchase Plan. As adopted, the Purchase Plan permits eligible employees to authorize us to deduct a specified amount from their after-tax compensation for each pay period to purchase shares of our common stock. The maximum number of shares of common stock available to be sold to eligible employees pursuant to the Purchase Plan is 500,000.

The full, authoritative text of the Purchase Plan is attached hereto as Exhibit C. A summary follows for convenience only. Only the Purchase Plan document itself is binding on our company or any participant in the Purchase Plan.

Benefits

Future benefits to our executive officers and employees cannot be determined at this time because the amount of contributions set aside to purchase shares under the Purchase Plan is within the discretion of each participant. During fiscal 2004, none of our employees purchased any shares under the Purchase Plan since the Purchase Plan was not created until the fiscal year had ended.

Summary Description of the Employee Stock Purchase Plan

Stock Appreciation Rights and Performance Units. The recipient of a stock appreciation right receives, upon exercise,

Purpose of the Purchase Plan

The purpose of the Purchase Plan is to provide eligible employees with an opportunity to acquire a proprietary interest in our company and, thereby, to develop a stronger incentive to work for our continued success. The Purchase Plan is intended to be an employee stock purchase plan within the meaning of Section 423(b) of the Internal Revenue Code of 1986 and will be interpreted and administered in a manner consistent with such intent.

Eligible Employees

All employees whose customary employment exceeds six months are eligible employees. However, any employee who would be deemed for purposes of Section 423(b)(3) of the Internal Revenue Code to own stock possessing 5% or more of the total combined voting power or value of all classes of our stock is not eligible to participate in the Purchase Plan. In order to participate in any purchase period, a participant must be an eligible employee on the first day of the purchase period.

Method of Participation

Election. To participate in the Purchase Plan, a participant must file an enrollment form with us in advance of a purchase period. The form authorizes regular payroll deductions from the participant's compensation beginning with the first payday in the purchase period. The deductions will continue until the participant withdraws from the Purchase Plan or ceases to be an eligible employee.

The first purchase period under the Purchase Plan began on March 11, 2005 and ends on June 17, 2005. Subsequent purchase periods will be approximate six-month periods beginning on the first payday coincident with or next following each January 1 and July 1. If a participant does not enroll at the first opportunity, the participant may do so later by filing an enrollment form in advance of any purchase period. The occurrence of certain major corporate events, such as a sale of the company, would cause the then current purchase period to immediately end on the date of such event.

Withholding. If an eligible employee elects to enroll in the Purchase Plan, the participant may elect to have any whole percentage of his or her compensation withheld per pay period. At any time during a purchase period, the participant may instruct us to end further withholding from his or her compensation for the remainder of the purchase period. If a participant requests that withholding be stopped, the participant may not resume payroll deductions during the same purchase period.

Stock Purchase Account. We will maintain an account for each participant in the Purchase Plan to record the amount withheld from the participant's compensation through payroll deductions made under the Purchase Plan. The stock purchase accounts are established solely for accounting purposes, and all amounts credited to a stock purchase account will remain part of our general assets until the end of the purchase period and then will be applied to the purchase of our common stock under the Purchase Plan. As with all corporate assets, the amounts withheld may be subject to liens of our creditors. Until shares of our common stock are issued under the Purchase Plan, a participant will be a general creditor of ours with respect to the withheld amounts. No interest will be credited to a stock purchase account. Amounts withheld will be credited to a stock purchase account on each payday. Participants may not make separate cash payments into their stock purchase accounts.

Purchase of Common Stock. As of the last day of each purchase period, the entire credit balance in each stock purchase account will be used to purchase the largest number of whole shares of our common stock purchasable with the amount in the account. The purchase price of each share of our common stock is currently 100% of the fair market value of a share on the last payday of the purchase period. Once the Purchase Plan has been approved by our shareholders, the compensation committee will have the discretion to allow employees to purchase these shares at a specified discount from market value; provided, that in no event shall the purchase price for any purchase period be less than the lesser of (a) 85% of the fair market value of our common stock on the first business day of that purchase period or (b) 85% of the fair market value of our common stock on the last business day of that purchase period. If a participant files an appropriate form with us prior to the purchase, he or she may also elect to receive the entire credit balance of his or her stock purchase account in cash.

The shares of our common stock delivered pursuant to the Purchase Plan will be newly issued shares. As soon as practicable after the close of the purchase period, we will either issue and deliver to each participant a certificate for the number of shares of our common stock that were purchased or deliver to each participant an appropriate record of the book entry transfer of such shares to him or her.

If the purchases to be made at the end of a purchase period would otherwise cause the aggregate number of shares of our common stock purchased under the Purchase Plan to exceed the number authorized for issuance under the Purchase Plan, each participant will be allocated a ratable portion of the maximum number of shares that may be sold.

Withdrawal. A participant may withdraw from the Purchase Plan at any time before the end of a purchase period by filing an appropriate withdrawal notice with us. Upon withdrawal, all further withholding will cease and the entire amount credited to the stock purchase account will be paid to the participant, without interest, in cash within 30 days. If a participant withdraws, he or she will not be eligible to reenter the Purchase Plan until the next purchase period.

Stock Appreciation Rights and Performance Units. The recipient of a stock appreciation right receives, upon exercise,

Rights Not Transferable

A participant's rights under the Purchase Plan are exercisable only by the participant during his or her lifetime, and may not be sold, pledged, assigned or transferred in any manner other than by will or the laws of descent and distribution. The amounts credited to a stock purchase account may not be assigned, transferred, pledged or hypothecated in any way.

Termination of Employment

Upon a participant's normal or early approved retirement under any pension or retirement plan we may adopt, no further amounts will be credited to the stock purchase account and the entire credit balance in the account will be used to purchase our common stock at the end of the purchase period as described above unless a participant notifies us in an approved manner that he or she wishes to receive the entire unpaid credit balance of his or her stock purchase account in cash. If a participant's employment is terminated under any other circumstances, participation in the Purchase Plan will immediately cease and we will refund in cash all amounts credited to the stock purchase account within 30 days.

Purchase Plan Administration

Our compensation committee will administer the Purchase Plan. The compensation committee is designated by the board of directors and is authorized to make any uniform rules that may be necessary to carry out the Purchase Plan provisions. The compensation committee will determine any questions arising in the administration, interpretation and application of the Purchase Plan and all such determinations will be conclusive and binding on all parties.

Amendment of the Purchase Plan

The board of directors may at any time amend the Purchase Plan in any manner that does not adversely affect the rights of participants pursuant to shares previously acquired under the Purchase Plan, except that, without shareholder approval, no amendment will be made to increase the number of shares to be reserved under the Purchase Plan, or to effect any change to the Purchase Plan that requires shareholder approval under the rules or regulations of the Nasdaq Stock Market or any securities exchange that are applicable to us.

Termination of the Purchase Plan

All rights of participants under the Purchase Plan will terminate at the earlier of the day that participants become entitled to purchase a number of shares of our common stock equal to or greater than the number of shares remaining available for purchase, or at any time, at the discretion of the board of directors.

Certain Laws and Regulations

The Purchase Plan is not subject to any of the provisions of the Employee Retirement Income Security Act of 1974 and is not a qualified plan under Section 401(a) of the Internal Revenue Code of 1986.

SFAS 123R

Statement of Accounting Financial Standards No. 123R, *Accounting for Stock-Based Compensation*, known as SFAS 123R, will currently require us to report the fair value of our stock-based compensation beginning in our fiscal year ending February 3, 2007. Although most of the attention regarding SFAS 123R has focused on employee stock options, it also applies to employee stock purchase plans and it treats the purchase rights granted to employees in such plans as options that must be valued accordingly. Under SFAS 123R, we avoid reporting a compensation expense (i) by selling stock under the Purchase Plan to participants based only on the market price at the end of the offering period where there is no more than a 5% discount off the market price at the end of the period and (ii) by allowing participating employees to withdraw from the Purchase Plan at any time until the shares are purchased, and have their withheld funds returned to them if they so request, without interest. Under the Purchase Plan, participants may withdraw from the Purchase Plan at any time until the shares are purchased and have their withheld funds returned to them.

Stock Appreciation Rights and Performance Units. The recipient of a stock appreciation right receives, upon exercis

The purchase price of each share of our common stock is currently 100% of the fair market value of a share on the last payday of the purchase period. Once the Purchase Plan has been approved by our shareholders, the compensation committee will have the discretion to allow employees to purchase these shares at a specified discount from fair market value; provided, that in no event shall the purchase price for any purchase period be less than the lesser of (a) 85% of the fair market value of our common stock on the first business day of that purchase period or (b) 85% of the fair market value of our common stock on the last business day of that purchase period.

Federal Tax Considerations (United States Only)

This section summarizes the material federal income tax consequences that may result from participation in the Purchase Plan. Because this is only a summary, issues that are material to a participant may not be discussed. Furthermore, the tax laws are subject to legislative changes and new or revised administrative or judicial interpretations. Participants may also incur foreign, state or local tax consequences that are not discussed in this summary.

Payroll deductions under the Purchase Plan will be made on an after-tax basis. A participant will not be taxed as a result of participation in the Purchase Plan until the time of disposition of shares acquired under the Purchase Plan or upon the participant's death. A participant will have a basis in his or her shares equal to the purchase price of the shares plus any amount that must be treated as ordinary income at the time of disposition of the shares, as described below. Any additional gain or loss realized on the disposition of shares acquired under the Purchase Plan will be capital gain or loss.

If a participant holds shares for less than two years after the first day of the purchase period or one year after the last day of the purchase period, then the excess of the fair market value of the shares on the date of purchase over the purchase price paid will be taxed as ordinary income. In this circumstance, we generally would be entitled to a deduction in the amount taxed as ordinary income.

If a participant holds shares for longer than the period described in the preceding paragraph or if a participant dies while holding the shares, then only a portion of the gain realized upon the sale or other disposition of the shares will be taxed as ordinary income, and the remainder will be taxed as capital gain. The portion to be taxed as ordinary income would be equal to the lesser of (i) the excess of the fair market value of the shares on the date of disposition or death over the purchase price paid or (ii) the excess of the fair market value of the shares on the first day of the purchase period over the purchase price paid. In this circumstance, we would not be entitled to a deduction for any amount taxed as ordinary income.

Resale Considerations

Once a registration statement for the Purchase Plan is effective, shares acquired under the Purchase Plan by persons other than our affiliates, as defined in Rule 405 under the Securities Act of 1933, may be resold without further registration under the Securities Act of 1933. Generally, our affiliates may resell the shares obtained under the 2004 Plan as follows:

in compliance with Rule 144 under the Securities Act of 1933;

under an applicable exemption to the registration requirements of the Securities Act of 1933; or

in connection with an effective registration statement on Form S-1, S-2, S-3 or other applicable form under the Securities Act of 1933.

Recipients who are our directors or executive officers or who are directly or indirectly the beneficial owners of more than 10% of any class of equity security that is registered pursuant to Section 12 of the Securities Exchange Act of 1934 must also comply with the reporting, holding period and trading requirements of Section 16 of the Securities Exchange Act of 1934 and the rules and regulations of the Securities and Exchange Commission under that statute.

Our board of directors unanimously recommends that you vote FOR proposal 3 to approve the Employee Stock Purchase Plan.

**PROPOSAL 4 RATIFICATION OF THE
INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM**

Ernst & Young LLP has been our independent registered public accounting firm since fiscal 2002. Our audit committee has selected Ernst & Young LLP to serve as our independent registered public accounting firm for fiscal 2005, subject to ratification by our shareholders. While it is not required to do so, our audit committee is submitting the selection of that firm for ratification in order to ascertain the view of our shareholders. If the selection is not ratified, our audit committee will reconsider its selection. Proxies solicited by our board of directors will, unless otherwise directed, be voted to ratify the appointment of Ernst & Young LLP as our independent registered public accounting firm for fiscal 2005.

A representative of Ernst & Young LLP will be present at the meeting and will be afforded an opportunity to make a statement if the representative so desires and will be available to respond to appropriate questions during the meeting.

Fees Billed by Ernst & Young LLP

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In addition to reimbursement for certain out-of-pocket expenses, the following table presents the aggregate fees billed for professional services by Ernst & Young LLP in fiscal 2004 and 2003 for these various services:

Description of Fees	Fiscal Year 2004 Amount		Fiscal Year 2003 Amount	
	\$		\$	
Audit Fees	\$	325,000	\$	648,000
Audit-Related Fees		14,500		8,000
Total Audit and Audit-Related Fees		339,500		656,000
Tax Fees:				
Tax Compliance Fees				
Tax Consultation and Advice Fees		3,700		18,100
Total Tax Fees		3,700		18,100
All Other Fees				
Total	\$	343,200	\$	674,100

Audit Fees

The audit fees set forth above consist of fees billed by Ernst & Young LLP for audit services in connection with their review of our interim financial statements for the first three quarters of each fiscal year and for the audit of our fiscal year-end financial statements, in addition to fees for audit services that are normally provided by an accountant in connection with statutory and regulatory filings or engagements, such as comfort letters and consents related to Securities and Exchange Commission registration statements, for the fiscal year. In addition, the fiscal 2003 audit fees include fees for the audit of our fiscal 2002 and 2001 financial statements, which had not previously been audited by Ernst & Young LLP, for inclusion in the registration statement for our initial public offering.

Audit-Related Fees

The audit-related fees set forth above consist of fees billed by Ernst & Young LLP for an audit of our employee benefit plans and consulting in connection with Sarbanes-Oxley related matters.

Tax Fees

The tax fees set forth above consist solely of fees billed by Ernst & Young LLP for federal and unclaimed property tax consultation.

All Other Fees

We were not billed any amounts by Ernst & Young LLP for other products and services during fiscal 2004 or 2003.

Approval of Independent Registered Public Accounting Firm Services and Fees

The Audit Committee Charter requires that our audit committee approve the retention of our independent registered public accounting firm for any non-audit service and consider whether the provision of these non-audit services by our independent registered public accounting firm is compatible with maintaining our independent registered public accounting firm's independence, prior to engagement for these services. Our audit committee actively monitors the relationship between audit and non-audit services provided. All of the services listed under the headings Audit-Related Fees and Tax Fees were pre-approved by our audit committee with respect to engagements occurring on or after the date of our initial public offering.

Report of the Audit Committee

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The role of our committee, which is composed of three independent non-employee directors, is one of oversight of our company's management and independent registered public accounting firm with regard to our company's financial reporting and controls regarding accounting and risk of material loss. In performing our oversight function, we relied upon advice and information received in our discussions with management and the independent registered public accounting firm.

Our committee has (i) reviewed and discussed our audited financial statements for fiscal 2004 with our company's management; (ii) discussed with our company's independent registered public accounting firm the matters required to be discussed by Statement on Auditing Standards No. 61 regarding communication with audit committees (Codification of Statements on Auditing Standards, AU sec. 380); (iii) received the written disclosures and the letter from our company's independent registered public accounting firm required by Independence Standards Board Standard No. 1 (Independence Discussions with Audit Committees); and (iv) discussed with our company's independent registered public accounting firm the independent registered public accounting firm's independence. Based on the review and discussions with management and the independent registered public accounting firm referred to above, our committee recommended to the board that the audited financial statements be included in our company's annual report on Form 10-K for fiscal 2004 and filed with the Securities and Exchange Commission.

THE AUDIT COMMITTEE

MARSHALL L. DAY (CHAIR)
RICHARD C. DELL