

GANDER MOUNTAIN CO  
Form 10-Q  
December 15, 2009  
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**UNITED STATES**  
**SECURITIES AND EXCHANGE COMMISSION**

Washington, DC 20549

**FORM 10-Q**

**QUARTERLY REPORT PURSUANT TO SECTION 13 OR 15(D) OF THE  
SECURITIES EXCHANGE ACT OF 1934 FOR THE  
QUARTERLY PERIOD ENDED OCTOBER 31, 2009**

Commission file number: 0-50659

**GANDER MOUNTAIN COMPANY**

(Exact name of Registrant as Specified in its Charter)

**Minnesota**  
(State or Other Jurisdiction of  
Incorporation or Organization)

**41-1990949**  
(I.R.S. Employer  
Identification No.)

**180 East Fifth Street, Suite 1300  
Saint Paul, Minnesota 55101  
(651) 325-4300**

(Address, including zip code, and telephone number, including area code,  
of Registrant's Principal Executive Offices)

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Indicate by check mark whether the registrant: (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days. Yes  No

Indicate by check mark whether the registrant has submitted electronically and posted on its corporate Web site, if any, every Interactive Data File required to be submitted and posted pursuant to Rule 405 of Regulation S-T during the preceding 12 months (or for such shorter period that the registrant was required to submit and post such files). Yes  No

Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, a non-accelerated filer, or a smaller reporting company. See the definitions of large accelerated filer, accelerated filer, and smaller reporting company in Rule 12b-2 of the Exchange Act.

Large accelerated filer

Accelerated filer

Non-accelerated filer   
(Do not check if a smaller reporting company)

Smaller reporting company

Indicate by check mark whether the registrant is a shell company (as defined in Rule 12b-2 of the Exchange Act). Yes  No

Indicate the number of shares outstanding of each of the issuer's classes of common stock, as of the latest practical date: Common Stock, \$.01 par value; 24,197,733 shares outstanding as of December 4, 2009.

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## GANDER MOUNTAIN COMPANY

## QUARTERLY PERIOD ENDED OCTOBER 31, 2009

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*Our logos Gander Mountain®, Gander Mtn.®, Gander Mountain Guide Series®, We Live Outdoors®, Overton's®, Gladiator®, and Dockmate;® and other trademarks, tradenames and service marks of Gander Mountain mentioned in this report are our property. This report also contains trademarks and service marks belonging to other entities.*

**SPECIAL NOTE REGARDING FORWARD-LOOKING INFORMATION**

This Quarterly Report on Form 10-Q contains 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 Item 1A – Risk Factors – of our Annual Report on Form 10-K for fiscal year 2008. 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 Commission that advise interested parties of the risks and factors that may affect our business.



Table of Contents**PART I. FINANCIAL INFORMATION****ITEM 1. UNAUDITED CONSOLIDATED FINANCIAL STATEMENTS****Gander Mountain Company****Consolidated Statements of Operations - Unaudited****(In thousands, except per share data)**

	13 Weeks Ended		39 Weeks Ended	
	October 31, 2009	November 1, 2008	October 31, 2009	November 1, 2008
Sales	\$ 276,594	\$ 269,920	\$ 752,661	\$ 730,455
Cost of goods sold	201,389	200,160	566,185	551,183
Gross profit	75,205	69,760	186,476	179,272
Operating expenses:				
Selling, general and administrative expenses	68,814	64,975	199,425	190,871
Exit costs and related charges	492	(1,112)	1,165	(20)
Pre-opening expenses			299	2,035
Income (loss) from operations	5,899	5,897	(14,413)	(13,614)
Interest expense, net	2,579	4,950	7,807	14,301
Income (loss) before income taxes	3,320	947	(22,220)	(27,915)
Income tax provision	151	182	591	619
Net income (loss)	\$ 3,169	\$ 765	\$ (22,811)	\$ (28,534)
Basic and diluted income (loss) per common share	\$ 0.13	\$ 0.03	\$ (0.94)	\$ (1.18)
Weighted average common shares outstanding	24,200	24,162	24,196	24,086

See accompanying notes to unaudited consolidated financial statements.

Table of Contents**Gander Mountain Company****Consolidated Balance Sheets****(In thousands)**

	<b>October 31, 2009 unaudited</b>	<b>January 31, 2009</b>
<b>Assets</b>		
Current assets:		
Cash and cash equivalents	\$ 1,680	\$ 1,655
Accounts receivable	21,736	10,784
Income taxes receivable		62
Inventories	428,172	358,127
Prepays and other current assets	11,214	12,132
Total current assets	462,802	382,760
Property and equipment, net	150,134	162,180
Goodwill	47,114	47,114
Acquired intangible assets, net	18,365	19,130
Other assets, net	1,541	1,936
Total assets	\$ 679,956	\$ 613,120
<b>Liabilities and shareholders equity</b>		
Current liabilities:		
Borrowings under credit facility	\$ 292,106	\$ 204,514
Accounts payable	80,245	63,863
Accrued and other current liabilities	49,511	55,456
Notes payable - related parties	10,000	10,000
Current maturities of long term debt	16,676	15,628
Total current liabilities	448,538	349,461
Long term debt	40,775	50,402
Deferred income taxes	6,204	5,954
Other long term liabilities	26,922	27,398
Shareholders equity:		
Preferred stock (\$.01 par value, 5,000,000 shares authorized; no shares issued and outstanding)		
Common stock (\$.01 par value, 100,000,000 shares authorized; 24,197,733 and 24,195,736 shares issued and outstanding)	242	242
Additional paid-in-capital	279,114	278,691
Accumulated deficit	(121,839)	(99,028)
Total shareholders equity	157,517	179,905
Total liabilities and shareholders equity	\$ 679,956	\$ 613,120

See accompanying notes to unaudited consolidated financial statements.

Table of Contents**Gander Mountain Company****Consolidated Statements of Cash Flows - Unaudited****(In thousands)**

	<b>39 Weeks Ended</b>	
	<b>October 31, 2009</b>	<b>November 1 2008</b>
<b>Operating activities</b>		
Net loss	\$ (22,811)	\$ (28,534)
Adjustments to reconcile net loss to net cash used in operating activities:		
Depreciation and amortization	23,098	23,434
Exit costs and related charges	1,115	(1,205)
Stock-based compensation expense	411	989
Loss (gain) on disposal of assets	10	(62)
Change in operating assets and liabilities:		
Accounts receivable	(10,891)	(10,380)
Inventories	(70,044)	(38,177)
Prepays and other current assets	914	(567)
Other assets	(65)	(121)
Accounts payable and other liabilities	9,922	4,786
Deferred income taxes	250	293
Net cash used in operating activities	(68,091)	(49,544)
<b>Investing activities</b>		
Purchases of property and equipment	(9,679)	(16,195)
Acquisition related expenses		(172)
Proceeds from sale of assets	112	77
Net cash used in investing activities	(9,567)	(16,290)
<b>Financing activities</b>		
Borrowings under credit facility, net	87,592	60,251
Proceeds from short term notes payable - related parties		10,000
Reductions in long term debt	(9,921)	(5,623)
Proceeds from exercise of stock options and employee stock purchases	12	235
Net cash provided by financing activities	77,683	64,863
Net increase (decrease) in cash	25	(971)
Cash, beginning of period	1,655	2,622
Cash, end of period	\$ 1,680	\$ 1,651

See accompanying notes to unaudited consolidated financial statements.

Table of Contents**Gander Mountain Company****Notes to Unaudited Consolidated Financial Statements****Note 1. Basis of Presentation**

The accompanying unaudited financial statements of Gander Mountain Company ( the Company ) 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 U.S. generally accepted accounting principles. The interim financial information as of October 31, 2009 and for the 13 and 39 weeks ended October 31, 2009 and November 1, 2008, respectively, is unaudited and has been prepared on the same basis as the audited annual financial statements. In the opinion of management, this unaudited information includes all adjustments necessary for a fair presentation of the interim financial information. All of these adjustments are of a normal recurring nature. These interim financial 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 Annual Report on Form 10-K for the fiscal year ended January 31, 2009, as filed with the Securities and Exchange Commission, which includes audited financial statements for the Company s three fiscal years ended January 31, 2009.

In preparing the accompanying financial statements, the Company has evaluated subsequent events through December 15, 2009, the issuance date of this Quarterly Report on Form 10-Q. The Company has determined that no events or transactions have occurred subsequent to October 31, 2009 which require recognition or disclosure in the financial statements. In December 2009, the Company extended the maturity date on its \$10 million unsecured term loan with its two major shareholders from December 31, 2009 to March 31, 2010.

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

With the acquisition of Overton s Holding Company ( Overton s ) in December 2007, the Company s consolidated reporting includes its two reportable segments: Retail and Direct. The Retail segment sells its outdoor lifestyle products and services through retail stores. The Direct segment is the internet and catalog operations under the Company s Overton s brand name as well as the internet and catalog operations under its Gander Mountain brand, which launched August 3, 2008.

The following table shows the Company s consolidated sales by product category for the comparable 13 week periods:

Category (1)	3rd Quarter 2009	3rd Quarter 2008
Hunting and Firearms	53.8%	51.9%
Fishing and Marine	13.9%	14.1%
Camping, Paddlesports and Backyard Equipment	6.6%	6.4%
Apparel and Footwear	22.8%	21.1%



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Powersports	1.3%	4.3%
Other	0.9%	1.1%
Parts and services	0.7%	1.1%
Total	100.0%	100.0%

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(1) Direct segment sales from Overton's for the third quarters of fiscal 2009 and fiscal 2008 have been included in the Fishing and Marine category. Direct segment sales from Gander Mountain Direct are included in their respective categories.

**Supplemental Cash Flow Information** - During the 39 weeks ended October 31, 2009 and November 1, 2008, the Company acquired equipment totaling \$1.3 million and \$4.1 million, respectively, which was financed through capital leases. Purchases of property and equipment in the statement of cash flows exclude these amounts.

**Fair Value of Financial Instruments** - The carrying amounts of the Company's financial instruments, primarily debt instruments, approximate fair value at October 31, 2009 and January 31, 2009.

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**Note 2. Recent Accounting Pronouncements**

In June 2009, the Financial Accounting Standards Board ( FASB ) issued FASB No. 168, *The FASB Accounting Standards Codification and the Hierarchy of Generally Accepted Accounting Principles – a replacement of FASB Statement No. 162* ( SFAS 168 ). SFAS 168 establishes the FASB Accounting Standards Codification as the source of authoritative accounting principles recognized by the FASB to be applied by non-governmental entities in the preparation of financial statements in conformity with GAAP in the United States. SFAS 168 is effective for financial statements issued for interim and annual periods ending after September 15, 2009.

In May 2009, the FASB issued ASC Topic 855, *Subsequent Events* which establishes general standards of accounting and disclosure for events that occur after the balance sheet date but before financial statements are issued. The accounting guidance contained in Topic 855 is consistent with the auditing literature widely used for accounting and disclosure of subsequent events, however, Topic 855 requires an entity to disclose the date through which subsequent events have been evaluated. Topic 855 was effective for interim and annual periods ending after June 15, 2009. The adoption of Topic 855 did not have a material impact on the Company's consolidated financial statements.

**Note 3. Proposed Going-Private Transaction**

On September 27, 2009, a special committee of the Company's board of directors made a recommendation to the full board of directors to proceed with a reverse stock split, followed by a forward stock split, to effect a deregistration of the shares of the Company's common stock and delisting from the Nasdaq Global Market. Following this recommendation, on the same date, the board of directors unanimously approved a 1-for-30,000 reverse stock split of the Company's common stock, followed immediately thereafter by a 30,000-for-1 forward stock split of the common stock. When the reverse/forward stock split becomes effective, holders of fewer than a total of 30,000 shares of common stock, will receive a cash payment of \$5.15 per pre-split share. On September 27, 2009, the Company entered into funding agreements with each of Gratco, LLC and Holiday Stationstores, Inc. These agreements included an obligation by Gratco LLC and Holiday Stationstores, Inc. to fund the cancellation of the fractional shares from the reverse/forward stock split, as well as offer to purchase all shares held by the Company's unaffiliated shareholders following the reverse/forward stock split at a price of \$5.15 per share. Gratco LLC is an affiliate of David Pratt, the Company's chairman and interim chief executive officer, and Holiday Stationstores, Inc. is an affiliate of Ronald A. Erickson, the Company's vice chairman, and Gerald A. Erickson, a director of the Company.

**Note 4. Credit Facility**

The Company maintains a \$345 million revolving credit facility and a \$20 million Term Loan A with Bank of America, N.A., both of which have a maturity date of June 30, 2012. The actual availability under the credit facility is limited to specific advance rates on eligible inventory and accounts receivable. Typically, availability will be highest in the latter half of the fiscal year as inventory levels and advance rates increase. Interest on the outstanding indebtedness under the revolving portion of the credit facility currently accrues at the lender's prime commercial lending rate, or, if the Company elects, at the one, two, three or six month LIBOR plus 1.25% to 1.75%, depending on the Company's EBITDA, as defined in the credit agreement. The Company's obligations under the credit facility are secured by interests in substantially all of its assets. The revolving credit facility and Term Loan A outstanding balances are reported together as *Borrowings under credit facility* in the Company's consolidated balance sheets.

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Availability under the Company's credit facility was \$44.1 million and \$35.3 million as of October 31, 2009 and November 1, 2008, respectively.

Current financial covenants under the credit facility require that availability under the line of credit not fall below 7.5% of the lower of the borrowing base, as defined, or the credit facility limit. This availability test is applied and measured on a daily basis. The covenants also limit the Company's annual capital expenditures. The credit facility also contains other covenants that, among other matters, restrict the Company's ability to incur substantial other indebtedness, create certain liens, engage in certain mergers and acquisitions, sell certain assets, enter into certain capital leases or make junior payments, including cash dividends. The Company was in compliance with all covenants as of October 31, 2009 and January 31, 2009.

Table of Contents**Note 5. Long Term Debt**

The Company's long term debt consists of the following (*in thousands*):

		October 31, 2009	January 31, 2009
Term loan B	\$	35,000	\$ 37,500
Equipment financing notes	(Principal Executive Officer)	March 22, 2019	
Marco Taglietti, M.D.			
/s/ Eric Francois	Chief Financial Officer	March 22, 2019	
Eric Francois	(Principal Financial and Accounting Officer)		
/s/ Guy Macdonald	Chairman of the Board of Directors	March 22, 2019	
Guy Macdonald			
/s/ Steven C. Gilman, Ph.D.	Director	March 22, 2019	
Steven C. Gilman, Ph.D.			
/s/ Ann F. Hanham, Ph.D.	Director	March 22, 2019	
Ann F. Hanham, Ph.D.			
/s/ David Hastings	Director	March 22, 2019	
David Hastings			
/s/ Patrick Machado	Director	March 22, 2019	
Patrick Machado			

/s/ Armando Anido  
Armando Anido

Director

March  
22,  
2019

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