GANDER MOUNTAIN CO
Form 10-Q
September 18, 2007

UNITED STATES
SECURITIES AND EXCHANGE COMMISSION

WASHINGTON, D.C. 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 AUGUST 4, 2007.

Commission File Number: 000-50659

GANDER MOUNTAIN COMPANY

(Exact name of Registrant as Specified in its Charter)

Minnesota	**180 East Fifth Street, Suite 1300** **Saint Paul, Minnesota 55101** **(651) 325-4300**	**41-1990949**
(State or Other Jurisdiction of Incorporation or Organization)	(Address, including zip code, and telephone number, including area code,of Registrant s Principal Executive Offices)	(I.R.S. Employer Identification No.)

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 x No o

Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, or a non-accelerated filer. See definition of accelerated filer and large accelerated filer in Rule 12b-2 of the Exchange Act. check one o large accelerated filer o accelerated filer x non-accelerated filer

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

Indicate the number of shares outstanding of each of the issuer s classes of common stock, as of the latest practicable date: Common Stock, $.01 par value; 20,362,097 shares outstanding as of September 4, 2007.

GANDER MOUNTAIN COMPANY

QUARTERLY PERIOD ENDED AUGUST 4, 2007

Index

PART I. FINANCIAL INFORMATION

ITEM 1. UNAUDITED FINANCIAL STATEMENTS

Gander Mountain Company

Statements of Operations - Unaudited

(In thousands, except per share data)

	13 Weeks Ended August 4, 2007	July 29, 2006	26 Weeks Ended August 4, 2007	July 29, 2006
Sales	$ 216,511	$ 182,482	$ 392,260	$ 338,062
Cost of goods sold	164,975	138,408	306,848	266,996
Gross profit	51,536	44,074	85,412	71,066
Operating expenses:				
Store operating expenses	43,728	36,472	84,279	72,327
General and administrative expenses	11,703	9,606	23,153	18,959
Pre-opening expenses	1,234	708	1,964	1,473
Loss from operations	(5,129)	(2,712)	(23,984)	(21,693)
Interest expense, net	4,530	4,847	8,506	8,833
Loss before income taxes	(9,659)	(7,559)	(32,490)	(30,526)
Income tax provision				
Net loss	$ (9,659)	$ (7,559)	$ (32,490)	$ (30,526)
Basic and diluted loss per share	$ (0.48)	$ (0.53)	$ (1.61)	$ (2.14)
Weighted average common shares outstanding	20,312	14,293	20,201	14,289

See accompanying notes to unaudited financial statements.

2

Gander Mountain Company

Balance Sheets

(In thousands)

	August 4, 2007 (Unaudited)	February 3, 2007
Assets		
Current assets:		
Cash and cash equivalents	$ 1,442	$ 1,342
Accounts receivable	17,390	10,337
Inventories	418,936	349,120
Prepaids and other current assets	15,183	10,681
Total current assets	452,951	371,480
Property and equipment, net	152,393	144,439
Other assets, net	6,187	5,698
Total assets	$ 611,531	$ 521,617
Liabilities and shareholders equity		
Current liabilities:		
Borrowings under credit facility	$ 244,487	$ 168,485
Accounts payable	98,015	62,868
Accrued and other current liabilities	47,781	48,032
Current maturities of long term debt	3,809	1,677
Total current liabilities	394,092	281,062
Long term debt	22,171	16,421
Other long term liabilities	27,171	27,343
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; 20,361,947 and 20,027,788 shares issued and outstanding)	204	200
Additional paid-in-capital	256,200	252,408
Notes receivable from shareholders	(4,100)	(4,100)
Accumulated deficit	(84,207)	(51,717)
Total shareholders equity	168,097	196,791
Total liabilities and shareholders equity	$ 611,531	$ 521,617

See accompanying notes to unaudited financial statements.

Gander Mountain Company

Statements of Cash Flows - Unaudited

(In thousands)

	26 Weeks Ended August 4, 2007	July 29, 2006
Operating activities		
Net loss	$ (32,490)	$ (30,526)
Adjustments to reconcile net loss to net cash used in operating activities:		
Depreciation and amortization	12,684	10,889
Stock-based compensation expense	743	595
Loss on disposal of assets	34	618
Change in operating assets and liabilities:		
Accounts receivable	(7,053)	(7,901)
Inventories	(69,816)	(26,490)
Prepaid expenses and other assets	(5,376)	(1,619)
Accounts payable and other liabilities	33,499	22,714
Net cash used in operating activities	(67,775)	(31,720)
Investing activities		
Purchases of property and equipment	(17,475)	(17,241)
Proceeds from sale of assets		2,100
Net cash used in investing activities	(17,475)	(15,141)
Financing activities		
Borrowings under credit facility, net of repayments	76,002	40,862
Proceeds from long term debt	7,582	5,946
Reductions in long term debt	(1,287)	(397)
Proceeds from exercise of stock options and stock sales, net	3,053	133
Net cash provided by financing activities	85,350	46,544
Net increase / (decrease) in cash	100	(317)
Cash, beginning of period	1,342	1,580
Cash, end of period	$ 1,442	$ 1,263

See accompanying notes to unaudited financial statements.

Gander Mountain Company

Notes to Unaudited Financial Statements

Quarterly Period Ended August 4, 2007

1. Basis of Presentation

The accompanying unaudited financial statements of Gander Mountain Company (we or us) have been prepared in accordance with the requirements for Form 10-Q and do not include all the disclosures normally required in annual financial statements prepared in accordance with U.S. generally accepted accounting principles. The interim financial information as of August 4, 2007 and for the 13 and 26 weeks ended August 4, 2007 and July 29, 2006, 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 our Annual Report on Form 10-K for the fiscal year ended February 3, 2007, as filed with the Securities and Exchange Commission, which includes audited financial statements for our three fiscal years ended February 3, 2007.

Our business is seasonal in nature and interim results may not be indicative of results for a full year. Historically, we have realized more of our sales in the latter half of our fiscal year, which includes the hunting and holiday seasons. Our 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.

2. Stock-Based Compensation

We have three share-based compensation plans which are the 2004 Omnibus Stock Plan, the 2002 Stock Option Plan and the Employee Stock Purchase Plan. In addition certain approved stock-based option awards were granted in fiscal 1998 and fiscal 2002 and were not under a specific option plan program. We are no longer authorized to grant any awards under the 2002 Stock Option Plan. As of August 4, 2007, there were a total of 3,949,627 options to purchase common stock outstanding under all of our stock option plans and non-plan option awards, with a weighted average exercise price of $ 10.39 and a weighted average remaining life of 7.5 years. There were 2,576,886 options that were exercisable as of August 4, 2007 with a weighted-average exercise price of $11.57.

Stock-based compensation expense for the 13 weeks ended August 4, 2007 and July 29, 2006, was $350,000 and $294,000, respectively. Stock-based compensation expense for the 26 weeks ended August 4, 2007 and July 29, 2006, was $743,000 and $595,000, respectively. As of August 4, 2007, there was approximately $4.2 million of unrecognized compensation expense related to stock options that is expected to be recognized over a weighted-average period of 3.0 years.

During our second quarter of fiscal 2007, there were 166,041 options exercised with an aggregate intrinsic value of $853,000, which generated $1,430,000 in net cash proceeds for the company. For our first half of fiscal 2007, there were 323,393 options exercised with an aggregate intrinsic value of $1,237,000, which generated $2,932,000 million in net cash proceeds for the company. There were no option exercises during the first half of fiscal 2006.

As of August 4, 2007, there were 758,492 shares available for future grant under the 2004 Omnibus Stock Plan.

	13 weeks - August 4, 2007		13 weeks - July 29, 2006	
	Number of Shares Under Option	Weighted-Average Exercise Price	Number of Shares Under Option	Weighted-Average Exercise Price
Outstanding - Beginning	3,756,545	$ 10.20	3,957,662	$ 10.40
Granted	442,300	12.03	138,100	7.82
Exercised	(166,041)	8.61		
Forfeited	(83,177)	14.21	(52,106)	12.09
Outstanding -Ending	3,949,627	$ 10.39	4,043,656	$ 10.29
Weighted-average Black-Scholes fair value of options granted		$ 5.95		$ 3.86

	26 weeks - August 4, 2007		26 weeks - July 29, 2006	
	Number of Shares Under Option	Weighted-Average Exercise Price	Number of Shares Under Option	Weighted-Average Exercise Price
Outstanding - Beginning	3,945,475	$ 10.16	3,680,804	$ 10.84
Granted	491,000	11.92	533,867	6.81
Exercised	(323,393)	9.07		
Forfeited	(163,455)	11.66	(171,015)	11.24
Outstanding -Ending	3,949,627	$ 10.39	4,043,656	$ 10.29
Weighted-average Black-Scholes fair value of options granted		$ 5.89		$ 3.34

3. New Accounting Pronouncement

In June 2006, the Financial Accounting Standards Board (FASB) issued FASB Interpretation No. 48, *Accounting for Uncertainty in Income Taxes* (FIN 48), an interpretation of Statement of Financial Accounting Standards No. 109, *Accounting for Income Taxes*. FIN 48 clarifies the accounting for uncertainty in income taxes by prescribing a recognition threshold for tax positions taken or expected to be taken in a tax return. The recognition threshold requires that we determine whether it is more likely than not that a tax position will be sustained upon examination, and then the position is measured at the largest amount of benefit that is greater than 50 percent likely of being realized upon ultimate settlement. Unrecognized tax benefits are tax benefits claimed on our tax returns that do not meet these recognition and measurement standards. FIN 48 was effective as of the beginning of the first quarter of fiscal 2007. As of August 4, 2007 and February 3, 2007, we believe that no reserves for uncertain income tax positions need to be recorded pursuant to FIN 48. As a result, and due to our full valuation allowance, we do not have any unrecognized tax benefits. Thus, our adoption of FIN 48 did not have a material impact on our financial position or results of operations. We do not believe there will be any material changes in our unrecognized tax positions over the next 12 months.

We are subject to audit by the Internal Revenue Service and states in which we operate, with respect to income taxes for the prior three years. As of February 3, 2007, we have federal and state net operating loss carryforwards of approximately $54.5 million expiring between 2016 and 2026.

In September 2006, the FASB issued SFAS No. 157, *Fair Value Measurements* (SFAS No. 157). SFAS No. 157 defines fair value, establishes a framework for measuring fair value in generally accepted accounting principles and expands disclosures about fair value measurements. SFAS No. 157 applies to other accounting pronouncements that require or permit fair value measurements, as the FASB previously concluded in those accounting pronouncements that fair value is the relevant measurement attribute. Accordingly, SFAS No. 157 does not require any new fair value measurements. SFAS No. 157 is effective for fiscal years beginning after November 15, 2007. We plan to adopt SFAS No. 157 beginning in the first quarter of fiscal 2008. We are currently evaluating the impact, if any, the adoption of SFAS No. 157 will have on our financial position and results of operations.

In February 2007, the FASB issued SFAS No. 159, *The Fair Value Option for Financial Assets and Liabilities Including an Amendment of FASB Statement No. 115* (SFAS No. 159). SFAS No. 159 permits us to choose to measure certain financial assets and liabilities at fair value that are not currently required to be measured at fair value (the Fair Value Option). Election of the Fair Value Option is made on an instrument-by-instrument basis and is irrevocable. At the adoption date, unrealized gains and losses on financial assets and liabilities for which the Fair Value Option has been elected would be reported as a cumulative adjustment to beginning retained earnings. If we elect the Fair Value Option for certain financial assets and liabilities, we will report unrealized gains and losses due to changes in their fair value in earnings at each subsequent reporting date. SFAS No. 159 is effective for our 2008 fiscal year. We are currently evaluating the potential impact of adopting SFAS No. 159 on our financial position and results of operations.

4. Capital Stock

The authorized capital stock of our company consists of 100,000,000 shares of common stock, par value $.01 per share, and 5,000,000 shares of preferred stock, par value $.01 per share. As of August 4, 2007, there were 20,361,947 shares of common stock and no shares of preferred stock outstanding.

5. Credit Facility and Secured Borrowings

Credit facility - Our credit facility provides us with the capital to fund the operations and growth of our business. On August 15, 2007, pursuant to an amended and restated agreement, we agreed with Bank of America, N.A., as agent, and the lenders named therein, to increase our revolving credit facility to $345 million from $275 million, with an option to increase the revolving facility by another $55 million subject to certain terms and conditions. The additional outstanding term loan commitment remains at $20 million. The amended facility also extends the maturity date for the revolving and term loan, by three years, to June 30, 2012. We will continue to utilize the proceeds of the credit facility for working capital and general corporate purposes.

Outstanding borrowings under the credit facility, including letters of credit, were $258.8 million and $226.5 million as of August 4, 2007 and July 29, 2006, respectively. Actual availability under the amended credit facility is limited to specific advance rates on eligible inventory and accounts receivable. Typically, availability will be highest in the latter half of our fiscal year as inventory levels and advance rates increase. Based on eligible inventory and accounts receivable balances as of August 4, 2007 and July 29, 2006, our available borrowing capacity under the credit facility, after subtracting letters of credit, was $32.8 million and $16.7 million, respectively.

The credit facility specifies testing of the EBITDA covenant is required only when our availability is less than 10% of the lesser of (a) the revolving credit facility maximum on any given day or (b) the borrowing base, as defined and adjusted for certain reserves. It also requires quarterly testing of the operating cash flow covenant. We were in compliance with all covenants as of August 4, 2007 and February 3, 2007.

Secured Borrowings During our second quarter of fiscal 2007, we entered into an agreement with Bank of America that allowed us to finance capital expenditures of certain of our new stores under long-term, secured financing arrangements. In June 2007, in exchange for $7.3 million, we issued a promissory note carrying a fixed interest rate of 8.7% and a five year repayment term. Monthly payments of principal and interest are made under this note, which is secured by certain property and equipment of ten new stores we opened in fiscal 2005 and fiscal 2006.

6. Earnings Per Share

Basic and diluted income or loss per share is based upon the weighted average number of shares outstanding. Diluted loss per share for the 13 and 26 weeks ended August 4, 2007 and the 13 and 26 weeks ended July 29, 2006 excludes potentially dilutive stock options from the calculation of weighted average shares outstanding because including them would have an anti-dilutive effect on loss per share.

As of August 4, 2007 and July 29, 2006, there were a total of 3,949,627 and 4,043,656 options to purchase common stock outstanding, respectively.

7. Selected Balance Sheet Information (in thousands)

	August 4, 2007	February 3, 2007