

MARINEMAX INC
Form 10-Q
August 11, 2008

Table of Contents

**UNITED STATES
SECURITIES AND EXCHANGE COMMISSION
WASHINGTON, DC 20549
FORM 10-Q**

**þ QUARTERLY REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES
EXCHANGE ACT OF 1934 FOR THE QUARTERLY PERIOD ENDED JUNE 30, 2008.**

Commission File No. 1-14173

MARINEMAX, INC.

(Exact name of registrant as specified in its charter)

Delaware

(State or other jurisdiction of
incorporation or organization)

59-3496957

(I.R.S. Employer
Identification
Number)

**18167 U.S. Highway 19 North, Suite 300
Clearwater, Florida**

(Address of principal executive offices)

33764

(ZIP Code)

727-531-1700

(Registrant's telephone number, including area code)

Indicate by check whether the registrant: (1) has filed all reports 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 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. (Check one):

Large accelerated filer Accelerated filer Non-accelerated filer Smaller reporting company
(Do not check if a 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

The number of outstanding shares of the registrant's Common Stock on July 25, 2008 was 18,421,204.

MARINEMAX, INC. AND SUBSIDIARIES
Table of Contents

Item No.	Page
<u>PART I FINANCIAL INFORMATION</u>	
<u>1. Financial Statements (Unaudited):</u>	
<u>Condensed Consolidated Statements of Operations for the Three and Nine Months Ended June 30, 2007 and 2008</u>	3
<u>Condensed Consolidated Balance Sheets as of September 30, 2007 and June 30, 2008</u>	4
<u>Condensed Consolidated Statements of Comprehensive Income (Loss) for the Three and Nine Months Ended June 30, 2007 and 2008</u>	5
<u>Condensed Consolidated Statements of Stockholders' Equity for the Nine Months Ended June 30, 2008</u>	6
<u>Condensed Consolidated Statements of Cash Flows for the Nine Months Ended June 30, 2007 and 2008</u>	7
<u>Notes to Condensed Consolidated Financial Statements</u>	8
<u>2. Management's Discussion and Analysis of Financial Condition and Results of Operations</u>	17
<u>3. Quantitative and Qualitative Disclosures About Market Risk</u>	23
<u>4. Controls and Procedures</u>	23
<u>PART II OTHER INFORMATION</u>	
<u>1. Legal Proceedings</u>	24
<u>1A. Risk Factors</u>	24
<u>2. Unregistered Sales of Equity Securities and Use of Proceeds</u>	24
<u>3. Defaults Upon Senior Securities</u>	24
<u>4. Submission of Matters to a Vote of Security Holders</u>	24
<u>5. Other Information</u>	24
<u>6. Exhibits</u>	24
<u>SIGNATURES</u>	25
<u>EX-31.1</u>	
<u>EX-31.2</u>	
<u>EX-32.1</u>	
<u>EX-32.2</u>	

Table of Contents**PART I. FINANCIAL INFORMATION****ITEM 1. Financial Statements**

MARINEMAX, INC. AND SUBSIDIARIES
Condensed Consolidated Statements of Operations
(Amounts in thousands, except share and per share data)
(Unaudited)

	Three Months Ended		Nine Months Ended	
	June 30,		June 30,	
	2007	2008	2007	2008
Revenue	\$ 379,780	\$ 271,277	\$ 940,585	\$ 719,814
Cost of sales	291,248	209,432	721,479	555,302
Gross profit	88,532	61,845	219,106	164,512
Selling, general, and administrative expenses	63,541	51,623	180,931	161,053
Goodwill and intangible asset impairment		122,091		122,091
Income (loss) from operations	24,991	(111,869)	38,175	(118,632)
Interest expense	7,458	4,765	21,545	16,623
Income (loss) before income tax provision (benefit)	17,533	(116,634)	16,630	(135,255)
Income tax provision (benefit)	3,636	(3,377)	3,187	(12,067)
Net income (loss)	\$ 13,897	\$ (113,257)	\$ 13,443	\$ (123,188)
Basic net income (loss) per common share	\$ 0.75	\$ (6.15)	\$ 0.73	\$ (6.70)
Diluted net income (loss) per common share	\$ 0.73	\$ (6.15)	\$ 0.70	\$ (6.70)
Weighted average number of common and common equivalent shares used in computing net income (loss) per common share:				
Basic	18,440,752	18,415,790	18,368,482	18,381,325
Diluted	19,034,148	18,415,790	19,086,507	18,381,325

See accompanying notes to condensed consolidated financial statements.

Table of Contents

MARINEMAX, INC. AND SUBSIDIARIES
Condensed Consolidated Balance Sheets
(Amounts in thousands, except share and per share data)

	September 30, 2007	June 30, 2008 (Unaudited)
ASSETS		
CURRENT ASSETS:		
Cash and cash equivalents	\$ 30,375	\$ 21,600
Accounts receivable, net	57,333	49,399
Inventories, net	478,039	515,302
Prepaid expenses and other current assets	8,997	8,641
Deferred tax assets	6,485	836
Total current assets	581,229	595,778
Property and equipment, net	118,960	117,669
Goodwill and other intangible assets, net	121,174	
Other long-term assets	4,515	3,614
Total assets	\$ 825,878	\$ 717,061
LIABILITIES AND STOCKHOLDERS EQUITY		
CURRENT LIABILITIES:		
Accounts payable	\$ 19,980	\$ 15,434
Customer deposits	33,420	8,994
Accrued expenses	27,044	27,682
Short-term borrowings	326,000	404,000
Current maturities of long-term debt	4,396	
Total current liabilities	410,840	456,110
Long-term debt, net of current maturities	26,437	
Deferred tax liabilities	11,971	
Other long-term liabilities	3,071	3,745
Total liabilities	452,319	459,855
STOCKHOLDERS EQUITY:		
Preferred stock, \$.001 par value, 1,000,000 shares authorized, none issued or outstanding at September 30, 2007 and June 30, 2008		
Common stock, \$.001 par value, 24,000,000 shares authorized, 18,379,864 and 18,421,204 shares issued and outstanding, net of shares held in treasury, at September 30, 2007 and June 30, 2008, respectively	19	19
Additional paid-in capital	167,912	176,364

Edgar Filing: MARINEMAX INC - Form 10-Q

Retained earnings	220,375	96,633
Accumulated other comprehensive income	28	
Treasury stock, at cost, 719,600 and 790,900 shares held at September 30, 2007 and June 30, 2008, respectively	(14,775)	(15,810)
Total stockholders' equity	373,559	257,206
Total liabilities and stockholders' equity	\$ 825,878	\$ 717,061

See accompanying notes to condensed consolidated financial statements.

4

Table of Contents

MARINEMAX, INC. AND SUBSIDIARIES
Condensed Consolidated Statements of Comprehensive Income (Loss)
(Amounts in thousands)
(Unaudited)

	Three Months Ended		Nine Months Ended	
	June 30,		June 30,	
	2007	2008	2007	2008
Net income (loss)	\$ 13,897	\$ (113,257)	\$ 13,443	\$ (123,188)
Other comprehensive income (loss):				
Change in fair market value of derivative instruments, net of tax of \$21 and tax benefit of \$91 for the three months ended June 30, 2007 and 2008, respectively and net of tax benefit of \$270 and \$228 for the nine months ended June 30, 2007 and 2008, respectively.	136	(146)	(348)	(365)
Reclassification adjustment for (gains) losses included in net income (loss), net of tax benefit of \$65 and tax of \$211 for the three months ended June 30, 2007 and 2008, respectively, and net of tax benefit of \$52 and tax of \$211 for the nine months ended June 30, 2007 and 2008, respectively.	(103)	337	(84)	337
Comprehensive income (loss)	\$ 13,930	\$ (113,066)	\$ 13,011	\$ (123,216)

See accompanying notes to condensed consolidated financial statements.

Table of Contents

MARINEMAX, INC. AND SUBSIDIARIES
Condensed Consolidated Statements of Stockholders' Equity
(Amounts in thousands, except share data)
(Unaudited)

	Common Stock	Additional Paid-in Capital	Retained Earnings	Accumulated Other Comprehensive Income	Treasury Stock	Total Stockholders' Equity	
	Shares	Amount	Capital	Earnings	(Loss)	Stock	Equity
BALANCE, September 30, 2007	18,379,864	\$ 19	\$ 167,912	\$ 220,375	\$ 28	\$(14,775)	\$ 373,559
Cumulative effect of adoption of FIN 48				(554)			(554)
Net loss				(123,188)			(123,188)
Purchase of treasury stock	(71,300)					(1,035)	(1,035)
Shares issued under employee stock purchase plan	105,537		1,207				1,207
Shares issued upon exercise of stock options	98,922		997				997
Stock-based compensation	8,181		6,027				6,027
Tax benefits of options exercised			220				220
Conversion of restricted stock awards to restricted stock units	(100,000)		1				1
Net other comprehensive income					(28)		(28)
BALANCE, June 30, 2008	18,421,204	\$ 19	\$ 176,364	\$ 96,633	\$	\$(15,810)	\$ 257,206

See accompanying notes to condensed consolidated financial statements.

Table of Contents

MARINEMAX, INC. AND SUBSIDIARIES
Condensed Consolidated Statements of Cash Flows
(Amounts in thousands)
(Unaudited)

	Nine Months Ended	
	June 30,	
	2007	2008
CASH FLOWS FROM OPERATING ACTIVITIES:		
Net income (loss)	\$ 13,443	\$ (123,188)
Adjustments to reconcile net loss to net cash used in operating activities:		
Depreciation and amortization	7,382	7,339
Deferred income taxes	(894)	(6,322)
Goodwill and intangible asset impairment		122,091
Gain on sale of property and equipment	(1,044)	(46)
Gain on involuntary conversion of property and equipment	(613)	
Loss on extinguishment of long-term debt		160
Cumulative effect of adoption of FIN 48		(554)
Stock-based compensation expense	5,367	6,027
Tax benefits of options exercised	724	220
Excess tax benefits from stock-based compensation	(494)	(177)
(Increase) decrease in		
Accounts receivable, net	(14,454)	7,934
Inventories, net	(28,809)	(37,263)
Prepaid expenses and other assets	(1,346)	1,267
(Decrease) increase in		
Accounts payable	(6,763)	(4,546)
Customer deposits	11,408	(24,426)
Accrued expenses	6,417	1,312
Net cash used in operating activities	(9,676)	(50,172)
CASH FLOWS FROM INVESTING ACTIVITIES:		
Purchases of property and equipment	(6,914)	(7,163)
Net cash used in acquisitions of businesses, net assets, and intangible assets	(4,847)	
Proceeds from sale of property and equipment	2,849	46
Proceeds from involuntary conversion of property and equipment	2,007	
Net cash used in investing activities	(6,905)	(7,117)
CASH FLOWS FROM FINANCING ACTIVITIES:		
Net borrowings on short-term borrowings	18,494	78,000
Repayments of long-term debt	(5,269)	(30,833)
Net proceeds from issuance of common stock under option and employee purchase plans	3,076	2,205
Purchase of treasury stock		(1,035)
Excess tax benefits from stock-based compensation	494	177

Net cash provided by financing activities	16,795	48,514
NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS	214	(8,775)
CASH AND CASH EQUIVALENTS, beginning of period	25,113	30,375
CASH AND CASH EQUIVALENTS, end of period	\$ 25,327	\$ 21,600

Supplemental Disclosures of Cash Flow Information:

Cash paid for:

Interest	\$ 20,407	\$ 16,488
Income taxes	\$ 18,169	\$ 6,806

See accompanying notes to condensed consolidated financial statements.

Table of Contents

MARINEMAX, INC. AND SUBSIDIARIES
NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS
(Unaudited)

1. COMPANY BACKGROUND:

We are the largest recreational boat retailer in the United States. We engage primarily in the retail sale, brokerage, and service of new and used boats, motors, trailers, marine parts, and accessories and offer slip and storage accommodations in certain locations. In addition, we arrange related boat financing, insurance, and extended service contracts. As of June 30, 2008, we operated through 87 retail locations in 22 states, consisting of Alabama, Arizona, California, Colorado, Connecticut, Delaware, Florida, Georgia, Maryland, Minnesota, Missouri, Nevada, New Jersey, New York, North Carolina, Ohio, Oklahoma, Rhode Island, South Carolina, Tennessee, Texas, and Utah.

We are the nation's largest retailer of Sea Ray, Boston Whaler, Meridian, Cabo, and Hatteras recreational boats and yachts, all of which are manufactured by Brunswick Corporation (Brunswick). Sales of new Brunswick boats accounted for approximately 57% of our revenue in fiscal 2007. Brunswick is the world's largest manufacturer of marine products and marine engines. We believe we represented in excess of 12% of all Brunswick marine sales, including approximately 46% of its Sea Ray boat sales, during our 2007 fiscal year.

We have dealer agreements with Sea Ray, Boston Whaler, Meridian, Cabo, Hatteras Yachts and Mercury Marine, all subsidiaries or divisions of Brunswick. We also have dealer agreements with Azimut and Ferretti Group, including Bertram. These agreements allow us to purchase, stock, sell, and service these manufacturers' boats and products. These agreements also allow us to use these manufacturers' names, trade symbols, and intellectual properties in our operations.

Our operating dealership subsidiaries that carry the Sea Ray product line are each a party to a multi-year dealer agreement with Brunswick covering Sea Ray products and are the exclusive dealers of Sea Ray boats in their geographic markets. We are party to a multi-year dealer agreement with Hatteras Yachts that gives us the exclusive right to sell Hatteras Yachts throughout the state of Florida, excluding the Florida panhandle. We are also the exclusive dealer for Hatteras Yachts throughout the state of Texas. We are also the exclusive dealer for Cabo Yachts throughout the state of Florida. We are also party to a dealer agreement with Ferretti Group and Bertram Yachts. The agreement appoints us as the exclusive dealer for Ferretti Yachts, Pershing, Riva, and Mochi Craft yachts and other recreational boats for the United States, Canada, and the Bahamas. The agreement also appoints us as the exclusive dealer for Bertram in the United States (excluding the Florida peninsula and Texas), Canada, and the Bahamas. We are also the exclusive dealer for Italy-based Azimut-Benetti Group's product lines Azimut and Atlantis mega-yachts, yachts, and other recreational boats for the Northeast United States from Maryland to Maine. We believe the non-Brunswick brands offer a migration for our existing customer base or fill a void in our product offerings, and accordingly, do not compete with the business generated from our other prominent brands.

As is typical in the industry, we deal with manufacturers, other than Sea Ray and Hatteras Yachts, under renewable annual dealer agreements, each of which gives us the right to sell various makes and models of boats within a given geographic region. Any change or termination of these agreements for any reason, or changes in competitive, regulatory, or marketing practices, including rebate or incentive programs, could adversely affect our results of operations. Although there are a limited number of manufacturers of the type of boats and products that we sell, we believe that adequate alternative sources would be available to replace any manufacturer other than Brunswick as a product source. These alternative sources may not be available at the time of any interruption, and alternative products may not be available at comparable terms, which could affect operating results adversely.

Our business, as well as the entire recreational boating industry, is highly seasonal, with seasonality varying in different geographic markets. With the exception of Florida, we generally realize significantly lower sales and higher levels of inventories, and related short-term borrowings, in the quarterly periods ending December 31 and March 31. The onset of the public boat and recreation shows in January stimulates boat sales and allows us to reduce our inventory levels and related short-term borrowings throughout the remainder of the fiscal year. Our business will become substantially more seasonal as we acquire dealers that operate in colder regions of the United States.

2. BASIS OF PRESENTATION:

These unaudited condensed consolidated financial statements have been prepared in accordance with accounting principles generally accepted in the United States for interim financial information, the instructions to Quarterly Report on Form 10-Q, and Rule 10-01 of Regulation S-X and should be read in conjunction with our Annual Report on Form 10-K for the fiscal year ended September 30, 2007. Accordingly, they do not include all of the information and footnotes required by accounting principles generally accepted in the United States for complete financial statements. All adjustments, consisting of only normal recurring adjustments considered necessary for fair presentation, have been reflected in these unaudited

Table of Contents

condensed consolidated financial statements. The operating results for the three and nine months ended June 30, 2008 are not necessarily indicative of the results that may be expected in future periods.

The preparation of unaudited condensed consolidated financial statements in conformity with accounting principles generally accepted in the United States requires us to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the unaudited condensed consolidated financial statements and the reported amounts of revenue and expenses during the reporting periods. The estimates made by us in the accompanying unaudited condensed consolidated financial statements include valuation allowances, valuation of goodwill and intangible assets, valuation of long-lived assets, and valuation of accruals. Actual results could differ from those estimates.

In order to provide comparability between periods presented, certain amounts have been reclassified from the previously reported unaudited condensed consolidated financial statements to conform to the unaudited condensed consolidated financial statement presentation of the current period. The unaudited condensed consolidated financial statements include our accounts and the accounts of our subsidiaries, all of which are wholly owned. All significant intercompany transactions and accounts have been eliminated.

3. NEW ACCOUNTING PRONOUNCEMENTS:

During June 2006, the Financial Accounting Standards Board (FASB) issued FASB Interpretation No. 48, Accounting for Uncertainty in Income Taxes (FIN 48), an interpretation of FASB Statement No. 109, Accounting for Income Taxes (SFAS 109). FIN 48 clarifies the accounting for uncertainty in income taxes recognized in an enterprise's financial statements in accordance with SFAS 109. FIN 48 prescribes a recognition threshold and measurement attribute for the financial statement recognition and measurement of a tax position taken or expected to be taken in a tax return. FIN 48 also provides guidance on derecognition, classification, interest and penalties, accounting in interim periods, disclosure, and transition. Effective October 1, 2007, we adopted FIN 48. See Note 7, Income Taxes, for the effects of adopting FIN 48 on our condensed consolidated financial statements.

In September 2006, the FASB issued SFAS No. 157, Fair Value Measurements (SFAS 157). SFAS 157 defines fair value, applies to other accounting pronouncements that require or permit fair value measurements and expands disclosures about fair value measurements. SFAS 157 is effective for fiscal years beginning after November 15, 2007 and interim periods within those fiscal years. We are currently assessing the implications of this standard and evaluating the impact of adopting SFAS 157 on our consolidated financial statements.

In February 2007, the FASB issued SFAS No. 159, Fair Value Option for Financial Assets and Financial Liabilities (SFAS 159), which permits an entity to measure certain financial assets and financial liabilities at fair value. SFAS 159 is effective for fiscal years beginning after November 15, 2007. We are currently assessing the implications of this standard and evaluating the impact of adopting SFAS 159 on our consolidated financial statements.

In December 2007, the FASB issued SFAS No. 141R Business Combinations. SFAS 141R will require among other things, the expensing of direct transaction costs, in process research and development to be capitalized, certain contingent assets and liabilities to be recognized at fair value and earn-out arrangements may be required to be measured at fair value recognized each period in earnings. In addition, certain material adjustments will be required to be made to purchase accounting entries at the initial acquisition date and will cause revisions to previously issued financial information in subsequent filings. SFAS 141R is effective for transactions occurring after the beginning of the first annual reporting period beginning on or after December 15, 2008 and may have a material impact on our consolidated financial position, results from operations and cash flows should we enter into a material business combination after the standards effective date.

In March 2008, the FASB issued SFAS No. 161 Disclosures about Derivative Instruments and Hedging Activities An Amendment to SFAS 133. SFAS 161 applies to all derivative instruments accounted for under SFAS 133 and requires entities to provide greater transparency on how and why entities use derivative instruments, how derivative instruments are accounted for under SFAS 133 and the effect the derivative instruments may have on the results of operations and cash flows. SFAS 161 is effective for fiscal years and interim periods beginning after November 15, 2008. Since SFAS 161 only applies to disclosures it will not have a material impact on our consolidated financial position, results from operations and cash flows.

Table of Contents**4. GOODWILL AND OTHER INTANGIBLE ASSETS:**

We account for goodwill and identifiable intangible assets in accordance with Statement of Financial Accounting Standards No. 142, Goodwill and Other Intangible Assets (SFAS 142). Under this standard, we assess the impairment of goodwill and identifiable intangible assets at least annually and whenever events or changes in circumstances indicate that the carrying value may not be recoverable. The first step in the assessment is the estimation of fair value. If step one indicates that impairment potentially exists, the second step is performed to measure the amount of impairment, if any. Goodwill and identifiable intangible asset impairment exists when the estimated fair value is less than its carrying value.

During the three months ended June 30, 2008, we experienced a significant decline in market valuation driven primarily by weakness in the marine retail industry and an overall soft economy, which has hindered our financial performance. Accordingly, we completed a step one analysis (as noted above) and estimated the fair value of the reporting unit as prescribed by SFAS 142, which indicated potential impairment. As a result, we completed a fair value analysis of indefinite lived intangible assets and a step two goodwill impairment analysis, as required by SFAS 142. We determined that indefinite lived intangible assets and goodwill were impaired and we recorded a non-cash charge of \$121.2 million based on our assessment. We will not be required to make any current or future cash expenditures as a result of this impairment charge.

The carrying amounts of goodwill and identifiable intangible assets for the period from September 30, 2007 to June 30, 2008 are as follows (amounts in thousands):

	Goodwill	Identifiable Intangible Assets	Total
Balance, September 30, 2007	\$ 97,446	\$ 23,728	\$ 121,174
Changes during the period	(97,446)	(23,728)	(121,174)
Balance, June 30, 2008	\$	\$	\$

5. OTHER LONG-TERM ASSETS:

During February 2006, we became party to a joint venture with Brunswick that acquired certain real estate and assets of Great American Marina for an aggregate purchase price of approximately \$11.0 million, of which we contributed approximately \$4.0 million and Brunswick contributed approximately \$7.0 million. The terms of the agreement specify that we operate and maintain the service business, and Brunswick operates and maintains the marina business. Simultaneously with the closing, the acquired entity became Gulfport Marina, LLC (Gulfport). We account for our investment in Gulfport in accordance with Accounting Principles Board Opinion No. 18, The Equity Method of Accounting for Investments in Common Stock (APB 18). Accordingly, we adjust the carrying amount of our investment in Gulfport to recognize our share of earnings or losses.

During the three months ended June 30, 2008, we experienced a significant decline in market valuation driven primarily by weakness in the marine retail industry, an overall soft economy which has hindered our financial performance. As a result of this weakness we realized a goodwill and intangible asset impairment charge, as noted above. Based on these events, we reviewed the valuation of our investment in Gulfport in accordance with APB 18 and recoverability of the assets contained within the joint venture. APB 18 requires that a loss in value of an investment which is other than a temporary decline should be recognized. We reviewed our investment and assets contained within the Gulfport joint venture, which consists of land, buildings, equipment and goodwill. As a result, we determined that the goodwill held within the joint venture was impaired and recorded a non-cash charge of \$1.0 million based on our assessment. We will not be required to make any current or future cash expenditures as a result of this impairment charge.

Statement of Financial Accounting Standards No. 144, Accounting for Impairment or Disposal of Long-Lived Assets (SFAS 144), requires that long-lived assets, such as property and equipment and purchased intangibles subject to amortization, be reviewed for impairment whenever events or changes in circumstances indicate that the carrying

amount of an asset may not be recoverable. Recoverability of the asset is measured by comparison of its carrying amount to undiscounted future net cash flows the asset is expected to generate. If such assets are considered to be impaired, the impairment to be recognized is measured as the amount by which the carrying amount of the asset exceeds its fair market value. Estimates of expected future cash flows represent management's best estimate based on currently available information and reasonable and supportable assumptions. Any impairment recognized in accordance with SFAS 144 is

Table of Contents

permanent and may not be restored. To date, we have not recognized any impairment of long-lived assets in connection with SFAS 144.

6. DERIVATIVE INSTRUMENTS AND HEDGING ACTIVITY:

We account for derivative instruments in accordance with Statement of Financial Accounting Standards No. 133, Accounting for Derivative Instruments and Certain Hedging Activities (SFAS 133), as amended by Statement of Financial Accounting Standards No. 138, Accounting for Certain Derivative Instruments and Certain Hedging Activity, an Amendment of SFAS 133 (SFAS 138) and Statement of Financial Accounting Standards No. 149, Amendment of Statement 133 on Derivative Instruments and Hedging Activities (SFAS 149), (collectively SFAS 133). Under these standards, we record all derivative instruments as either assets or liabilities on the balance sheet at their respective fair values. Generally, if a derivative instrument is designated as a cash flow hedge, we record the change in the fair value of the derivative in other comprehensive income to the extent the derivative is effective, and recognize the change in the statement of operations when the hedged item affects earnings. If a derivative instrument is designated as a fair value hedge, we recognize the change in fair value of the derivative and of the hedged item attributable to the hedged risk in earnings in the current period.

We were previously a party to several interest rate swap agreements, which were designated as effective cash flow hedges, that effectively converted a portion of the floating rate long-term debt to fixed rates. During the three-months ended June 30, 2008, we prepaid the outstanding balances of our long-term debt. With this prepayment, the swaps were terminated and the pretax fair market value of the swaps of approximately \$550,000 was reclassified from accumulated other comprehensive income and recognized as income in the Condensed Consolidated Statement of Operations.

7. INCOME TAXES:

Because of how we have historically structured and completed our acquisitions, our goodwill and intangibles, have largely been amortizable for tax purposes. As such, the write-off of goodwill and intangible assets, combined with other timing differences, gave rise to a net deferred tax asset of approximately \$38.8 million. Pursuant to Statement of Financial Accounting Standards No. 109, Accounting for Income Taxes (SFAS 109) we must consider all positive and negative evidence regarding the realization of deferred tax assets including past operating results and future sources of taxable income. Under the provisions of SFAS 109 we determined that our net deferred tax asset needed to be reserved given recent earnings and industry trends. Accordingly, recording of the valuation allowance resulted in a non-cash charge of approximately \$38 million.

The effective tax rate for the third quarter of fiscal 2008 differed from previous periods primarily due to the valuation allowance recorded against the net deferred tax asset.

In June 2006, the Financial Accounting Standards Board issued Interpretation No. 48 (FIN 48), Accounting for Uncertainty in Income Taxes. The Interpretation clarifies the accounting for uncertainty in income taxes recognized in an enterprise's financial statements and prescribes a recognition threshold and measurement attributes of income tax positions taken or expected to be taken on a tax return. Under FIN 48, the impact of an uncertain tax position taken or expected to be taken on an income tax return must be recognized in the financial statements at the largest amount that is more-likely-than-not to be sustained upon audit by the relevant taxing authority. An uncertain income tax position will not be recognized in the financial statements unless it is more likely than not of being sustained. We adopted the provisions of FIN 48 as of October 1, 2007 and as a result, we recognized a charge of approximately \$554,000 to the October 1, 2007 retained earnings balance.

As of June 30, 2008, we had approximately \$2.0 million of gross unrecognized tax benefits, of which approximately \$1.4 million, if recognized, would impact the effective tax rate. There have been no significant changes to the total amount of unrecognized tax benefits for the nine months ended June 30, 2008.

Consistent with our prior practices, interest and penalties related to uncertain tax positions will be recognized as a component of income tax expense. As of the date of adoption, interest and penalties represented approximately \$630,000 of the gross unrecognized tax benefits. There have no significant changes subsequent to adoption.

Since inception, we have been subject to tax by both federal and state taxing authorities. Until the respective statutes of limitations expire, we are subject to income tax audits in the jurisdictions in which we operate. We are no longer subject to U.S. federal tax examinations for fiscal years prior to 2004 and for the majority of the state

jurisdictions we are not subject to audits prior to the 2003 fiscal year.

Table of Contents

It is reasonably possible that a change to the total amount of unrecognized tax benefits could occur in the next 12 months based on examinations by tax authorities, the expiration of statutes of limitations, or potential settlements of outstanding positions. It is not possible to estimate a range of the possible changes at this time. However, we do not expect the change to be significant to the overall balance of unrecognized tax benefits.

8. SHORT-TERM BORROWINGS:

During March 2008, we entered into an amendment to modify certain financial covenants and terms of our second amended and restated credit and security agreement entered into in June 2006. The amendment modified the threshold of the Fixed Charge Coverage Ratio and the Current Ratio. During June 2007, we entered into an amendment to extend the term of our second amended and restated credit and security agreement entered into in June 2006. The credit facility provides us a line of credit with asset-based borrowing availability of up to \$500 million for working capital and inventory financing, with the amount of permissible borrowings determined pursuant to a borrowing base formula. The credit facility also permits approved-vendor floorplan borrowings of up to \$20 million. The credit facility accrues interest at the London Interbank Offered Rate (LIBOR) plus 150 to 260 basis points, with the interest rate based upon the ratio of our net outstanding borrowings to our tangible net worth. The credit facility is secured by our inventory, accounts receivable, equipment, furniture, and fixtures. The amended credit facility matures in May 2012, with two one-year renewal options. As of June 30, 2008, we were in compliance with all of the credit facility covenants and our additional available borrowings under our credit facility was approximately \$96 million.

9. LONG-TERM DEBT

During the three-months ended June 30, 2008, we prepaid all outstanding mortgages and accelerated the amortization of the associated loan costs, of approximately \$160,000. As of the end of the period long-term debt consisted of the following:

	September 30, 2007	June 30, 2008
	(Amounts in thousands)	
Various mortgage notes payable to financial institutions, due in monthly installments ranging from \$26,357 to \$30,860 bearing fixed interest at rates ranging from 6.57% to 7.75%, maturing September 2010 through July 2015, collateralized by land and buildings.	\$ 6,060	\$
Various mortgage notes payable to financial institutions, due in monthly installments ranging from \$22,605 to \$102,000, bearing variable interest at rates ranging from 6.58% to 7.35%, maturing September 2012 through June 2016, collateralized by land and buildings.	24,773	
	30,833	
Less Current maturities	(4,396)	
	\$ 26,437	\$

10. STOCKHOLDERS EQUITY:

We issued a total of 212,640 shares of our common stock in conjunction with our 2007 Incentive Stock Plan (2007 Plan) and Employee Stock Purchase Plan (Stock Purchase Plan) during the nine months ended June 30, 2008. Our 2007 Plan provides for the grant of incentive and non-qualified stock options to acquire our common stock, the award of restricted stock and restricted stock units, the grant of common stock, the grant of stock appreciation rights, and the grant of other cash awards to key personnel, directors, consultants, independent contractors, and others providing valuable services to us. The Stock Purchase Plan is available to all our regular employees who have completed at least one year of continuous service.

In November 2005, our Board of Directors approved a share repurchase plan allowing our company to repurchase up to 1,000,000 shares of our common stock. Under the plan, we may buy back common stock from time to time in the open market or in privately negotiated blocks, dependant upon various factors, including price and availability of the shares, and

Table of Contents

general market conditions. At June 30, 2008, we had purchased an aggregate of 790,900 shares of common stock under the plan for an aggregate purchase price of approximately \$15.8 million.

11. STOCK-BASED COMPENSATION:

We account for stock-based compensation in accordance with Statement of Financial Accounting Standards No. 123R, Share Based Payment (SFAS 123R). Under this standard, we use the Black-Scholes valuation model for valuing all stock options and shares granted under the Stock Purchase Plan. Compensation for restricted stock awards and restricted stock units are measured at fair value on the grant date based on the number of shares expected to vest and the quoted market price of our common stock. We recognize compensation cost for all awards in earnings, net of estimated forfeitures, on a straight-line basis over the requisite service period for each separately vesting portion of the award.

During the nine months ended June 30, 2007 and 2008, we recognized stock-based compensation expense of approximately \$5.4 million and \$6.0 million, respectively, in selling, general, and administrative expenses in the condensed consolidated statements of operations. Tax benefits realized for tax deductions from option exercises for the nine months ended June 30, 2007 and 2008, were approximately \$724,000 and \$220,000, respectively.

Cash received from option exercises under all share-based payment arrangements for the nine months ended June 30, 2007 and 2008, was approximately \$3.1 million and \$2.2 million, respectively. We currently expect to satisfy share-based awards with registered shares available to be issued.

12. THE INCENTIVE STOCK PLANS:

During February 2007, our stockholders approved a proposal to approve our 2007 Plan, which replaced our 1998 Incentive Stock Plan (1998 Plan). Our 2007 Plan provides for the grant of stock options, stock appreciation rights, restricted stock, restricted stock units, bonus stock, dividend equivalents, other stock related awards, and performance awards (collectively awards), that may be settled in cash, stock, or other property. Our 2007 Plan is designed to attract, motivate, retain, and reward our executives, employees, officers, directors, and independent contractors by providing such persons with annual and long-term performance incentives to expend their maximum efforts in the creation of stockholder value. The total number of shares of our common stock that may be subject to awards under the 2007 Plan is equal to 1,000,000 shares, plus (i) any shares available for issuance and not subject to an award under the 1998 Plan, (ii) the number of shares with respect to which awards granted under the 2007 Plan and the 1998 Plan terminate without the issuance of the shares or where the shares are forfeited or repurchased; (iii) with respect to awards granted under the 2007 Plan and the 1998 Plan, the number of shares that are not issued as a result of the award being settled for cash or otherwise not issued in connection with the exercise or payment of the award; and (iv) the number of shares that are surrendered or withheld in payment of the exercise price of any award or any tax withholding requirements in connection with any award granted under the 2007 Plan and the 1998 Plan. The 2007 Plan terminates in February 2017, and awards may be granted at any time during the life of the 2007 Plan. The date on which awards vest are determined by the Board of Directors or the Plan Administrator. The exercise prices of options are determined by the Board of Directors or the Plan Administrator and are at least equal to the fair market value of shares of common stock on the date of grant. The term of options under the 2007 Plan may not exceed ten years. The options granted have varying vesting periods. To date, we have not settled or been under any obligation to settle any awards in cash.

Table of Contents

The following table summarizes option activity from September 30, 2007 through June 30, 2008:

	Shares Available for Grant	Options Outstanding	Aggregate Intrinsic Value (in thousands)	Weighted Average Exercise Price	Weighted Average Remaining Contractual Life
Balance at September 30, 2007	1,230,841	2,156,545	\$4,993	\$17.36	5.2
Options authorized					
Options granted	(37,500)	37,500		\$11.71	
Options cancelled/forfeited/expired	326,866	(326,866)		\$13.57	
Restricted stock units issued	(335,400)				
Options exercised		(98,922)		\$10.08	
Balance at June 30, 2008	1,184,807	1,768,257	\$	\$ 8.59	5.3
Exercisable at June 30, 2008		906,517	\$	\$ 7.25	4.1

The weighted-average grant date fair value of options granted during the nine months ended June 30, 2007 and 2008, was \$12.56 and \$7.25, respectively. The total intrinsic value of options exercised during the nine months ended June 30, 2007 and 2008 was approximately \$1.8 million and \$536,000, respectively.

As of June 30, 2008, there was approximately \$2.6 million of unrecognized compensation costs related to non-vested options that are expected to be recognized over a weighted average period of 2.7 years. The total fair value of options vested during the nine months ended June 30, 2007 and 2008 was approximately \$1.5 million and \$2.1 million, respectively.

We continued using the Black-Scholes model to estimate the fair value of options granted during fiscal 2008. The expected term of options granted is derived from the output of the option pricing model and represents the period of time that options granted are expected to be outstanding. Volatility is based on the historical volatility of our common stock. The risk-free rate for periods within the contractual term of the options is based on the U.S. Treasury yield curve in effect at the time of grant.

The following are the weighted-average assumptions used for each respective period:

	Three Months Ended June 30,		Nine Months Ended June 30,	
	2007	2008	2007	2008
Dividend yield	0.0%	0.0%	0.0%	0.0%
Risk-free interest rate	5.0%	3.6%	4.7%	3.4%
Volatility	43.1%	44.8%	42.6%	44.2%
Expected life	7.5	7.5	6.4	7.5
	years	years	years	years

13. EMPLOYEE STOCK PURCHASE PLAN:

The 1998 Employee Stock Purchase Plan (1998 ESPP) provides for up to 750,000 shares of common stock to be available for purchase by our regular employees who have completed at least one year of continuous service. The 1998 ESPP provides for implementation of up to 10 annual offerings beginning on the first day of October starting in 1998, with each offering terminating on September 30 of the following year. Each annual offering may be divided into two six-month offerings. For each offering, the purchase price per share will be the lower of (i) 85% of the closing price of the common stock on the first day of the offering or (ii) 85% of the closing price of the common stock on the

last day of the offering. The purchase price is paid through periodic payroll deductions not to exceed 10% of the participant's earnings during each offering period. However, no participant may purchase more than \$25,000 worth of common stock annually.

During February 2008, our stockholders approved a proposal to approve our 2008 Employee Stock Purchase Plan (2008 ESPP), which will replace our 1998 ESPP. Our 2008 ESPP provides a method whereby our employees will have an opportunity to acquire a proprietary interest in our company through the purchase of shares of our common stock through accumulated voluntary payroll deductions. The total number of shares of our common stock that may be subject to awards under the 2008 ESPP is equal to 500,000 shares plus the number of shares reserved for issuance under the 1998 ESPP that

Table of Contents

are not purchased as of the expiration of the 1998 ESPP. The 2008 ESPP will begin with the offering period commencing on October 1, 2008 and end on September 30, 2009, each annual offering may be divided into two six-month offerings commencing on October 1 and April 1, respectively, and terminating six months thereafter. The 2008 ESPP provides for implementation of up to 10 annual offerings, and will remain in effect until December 31, 2018. For each offering, the purchase price per share will be the lower of (i) 85% of the closing price of the common stock on the first day of the offering or (ii) 85% of the closing price of the common stock on the last day of the offering. The purchase price is paid through periodic payroll deductions not to exceed 10% of the participant's earnings during each offering period. However, no participant may purchase more than \$25,000 worth of common stock annually.

We continued using the Black-Scholes model to estimate the fair value of options granted during fiscal 2007 and 2008. The expected term of options granted is derived from the output of the option pricing model and represents the period of time that options granted are expected to be outstanding. Volatility is based on the historical volatility of our common stock. The risk-free rate for periods within the contractual term of the options is based on the U.S. Treasury yield curve in effect at the time of grant.

The following are the weighted-average assumptions used for each respective period:

	Three Months Ended		Nine Months Ended	
	June 30,		June 30,	
	2007	2008	2007	2008
Dividend yield	0.0%	0.0%	0.0%	0.0%
Risk-free interest rate	5.0%	2.6%	5.1%	2.7%
Volatility	44.1%	56.3%	40.9%	56.3%
Expected life	six-months	six-months	six-months	six-months

14. RESTRICTED STOCK AWARDS:

During the first quarter of fiscal 2007, we granted restricted stock units to certain key employees pursuant to the 1998 Plan. The restricted stock units have vesting periods that become fully vested at the end of year five. The stock underlying the vested restricted stock units will be delivered upon vesting. We accounted for the restricted stock units using the measurement and recognition provisions of SFAS 123R. Accordingly, the fair value of the restricted stock units is measured on the grant date and recognized in earnings over the requisite service period for each separately vesting portion of the award.

During fiscal 2008, we granted restricted stock units, with both time-based and performance-based criteria pursuant to the 2007 Plan. These shares vest ratably over a four-year period and based on achieving financial performance targets of our company. Under SFAS 123R, we recognize compensation costs, net of forfeitures, over the vesting period for awards with performance conditions only if it is probable that the conditions will be satisfied. If the financial performance targets are not reached, or if an employee terminates their employment prior to the end of the vesting period, the corresponding performance-based restricted stock units will not be issued and the expense previously recognized will be reversed. We have recognized compensation costs associated with the performance-based restricted stock units based on our belief that obtaining the maximum performance targets is probable. The table below presents performance-based restricted stock units at the maximum number of restricted stock units that would vest if the maximum performance targets are met.

The following table summarizes restricted stock award activity from September 30, 2007 through June 30, 2008:

	Shares	Weighted Average Grant Date Fair Value
Non-vested balance at September 30, 2007	500,100	\$28.30
Changes during the period		

Edgar Filing: MARINEMAX INC - Form 10-Q

Awards granted	335,400	\$15.67
Awards vested		
Awards forfeited	(5,500)	\$20.29
Non-vested balance at June 30, 2008	830,000	\$23.25

Table of Contents

As of June 30, 2008, there was approximately \$8.9 million of total unrecognized compensation cost related to restricted stock units and restricted stock awards that is expected to be recognized over a weighted-average period of 3.1 years. These unrecognized compensation costs assume that the maximum performance targets are met for the respective restricted stock units that contain a performance criterion.

15. EARNINGS (LOSS) PER SHARE:

The following is a reconciliation of the shares used in the denominator for calculating basic and diluted earnings (loss) per share:

	Three Months Ended June 30,		Nine Months Ended June 30,	
	2007	2008	2007	2008
Weighted average common shares outstanding used in calculating basic earnings (loss) per share	18,440,752	18,415,790	18,368,482	18,381,325
Effect of dilutive options	593,396		718,025	
Weighted average common and common equivalent shares used in calculating diluted earnings (loss) per share	19,034,148	18,415,790	19,086,507	18,381,325

For the three and nine months ended June 30, 2008, all options outstanding have been excluded from the computation of diluted loss per share because their effect would be anti-dilutive as a result of our net loss. For the three and nine months ended June 30, 2007 options to purchase 721,400 and 692,900 shares of common stock, respectively, were excluded from the computation of diluted earnings per share because the options' exercise prices were greater than the average market price of our common stock and therefore, their effect would be anti-dilutive.

16. COMMITMENTS AND CONTINGENCIES:

We are party to various legal actions arising in the ordinary course of business. The ultimate liability, if any, associated with these matters was not material at June 30, 2008. While it is not feasible to determine the actual outcome of these actions as of June 30, 2008, we do not believe that these matters will have a material adverse effect on our consolidated financial condition, results of operations, or cash flows.

Table of Contents

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

This Management's Discussion and Analysis of Financial Condition and Results of Operations contains forward-looking statements within the meaning of Section 27A of the Securities Act of 1933, as amended, and Section 21E of the Securities Exchange Act of 1934, as amended. These forward-looking statements include statements relating to our future economic performance, plans and objectives for future operations, and projections of revenue and other financial items that are based on our beliefs as well as assumptions made by and information currently available to us. Actual results could differ materially from those currently anticipated as a result of a number of factors, including those listed under "Business-Risk Factors" in our Annual Report on Form 10-K for the fiscal year ended September 30, 2007.

General

We are the largest recreational boat retailer in the United States with fiscal 2007 revenue of approximately \$1.3 billion. Through 87 retail locations in 22 states, we sell new and used recreational boats and related marine products, including engines, trailers, parts, and accessories. We also arrange related boat financing, insurance, and extended warranty contracts; provide boat repair and maintenance services; offer yacht and boat brokerage services; and, where available, offer slip and storage accommodations.

MarineMax was incorporated in January 1998. We commenced with the acquisition of five independent recreational boat dealers on March 1, 1998. Since the initial acquisitions in March 1998, we have significantly expanded our operations through the acquisition of 20 recreational boat dealers, two boat brokerage operations, and two full-service yacht repair facilities. As a part of our acquisition strategy, we frequently engage in discussions with various recreational boat dealers regarding their potential acquisition by us. Potential acquisition discussions frequently take place over a long period of time and involve difficult business integration and other issues, including in some cases, management succession and related matters. As a result of these and other factors, a number of potential acquisitions that from time to time appear likely to occur do not result in binding legal agreements and are not consummated.

Current economic conditions in areas in which we operate dealerships, including but not limited to Florida and California, had a negative impact on our operations. General economic conditions, consumer spending patterns, federal tax policies, interest rate levels, and the cost and availability of fuel can impact overall boat purchases and as a result may materially impact our revenues and cash flows. The cyclical nature of the recreational boating industry has adversely affected our business and results of operations. As general economic trends improve, we expect our financial strength and retailing strategies will position us to capitalize on growth opportunities as they occur and will allow us to emerge from this challenging environment with greater earnings potential. The uncertainty associated with these adverse economic and industry factors will continue to impact the variability in our operating results from what we have historically experienced.

Application of Critical Accounting Policies

We have identified the policies below as critical to our business operations and the understanding of our results of operations. The impact and risks related to these policies on our business operations is discussed throughout Management's Discussion and Analysis of Financial Condition and Results of Operations when such policies affect our reported and expected financial results.

In the ordinary course of business, we make a number of estimates and assumptions relating to the reporting of our financial condition and results of operations in the preparation of our condensed consolidated financial statements in conformity with accounting principles generally accepted in the United States. We base our estimates on historical experience and on various other assumptions that we believe are reasonable under the circumstances. The results form the basis for making judgments about various matters, including the carrying values of assets and liabilities that are not readily apparent from other sources. Actual results could differ significantly from those estimates under different assumptions and conditions. We believe that the following discussion addresses our most critical accounting policies, which are those that are most important to our financial condition and results of operations and require our most difficult, subjective, and complex judgments, often as a result of the need to make estimates about the effect of matters that are inherently uncertain.

Revenue Recognition

We recognize revenue from boat, motor, and trailer sales, and parts and service operations at the time the boat, motor, trailer, or part is delivered to or accepted by the customer or service is completed. We recognize commissions earned from

Table of Contents

a brokerage sale at the time the related brokerage transaction closes. We recognize revenue from slip and storage services on a straight-line basis over the term of the slip or storage agreement. We recognize commissions earned by us for placing notes with financial institutions in connection with customer boat financing when we recognize the related boat sales. We also recognize marketing fees earned on credit life, accident and disability, and hull insurance products sold by third-party insurance companies at the later of customer acceptance of the insurance product as evidenced by contract execution, or when the related boat sale is recognized. We also recognize commissions earned on extended warranty service contracts sold on behalf of third-party insurance companies at the later of customer acceptance of the service contract terms as evidenced by contract execution, or recognition of the related boat sale. We are charged back for a portion of these commissions should the customer terminate or default on the service contract prior to its scheduled maturity.

Vendor Consideration Received

We account for consideration received from our vendors in accordance with Emerging Issues Task Force Issue No. 02-16, Accounting by a Customer (Including a Reseller) for Certain Consideration Received from a Vendor (EITF 02-16). EITF 02-16 most significantly requires us to classify interest assistance received from manufacturers as a reduction of inventory cost and related cost of sales as opposed to netting the assistance against our interest expense incurred with our lenders. Pursuant to EITF 02-16, amounts received by us under our co-op assistance programs from our manufacturers, are netted against related advertising expenses.

Inventories

Inventory costs consist of the amount paid to acquire the inventory, net of vendor consideration and purchase discounts, and including the cost of equipment added, reconditioning costs, and transportation costs relating to acquiring inventory for sale. We state new boat, motor, and trailer inventories at the lower of cost, determined on a specific-identification basis, or market. We state used boat, motor, and trailer inventories, including trade-ins, at the lower of cost, determined on a specific-identification basis, or market. We state parts and accessories at the lower of cost, determined on the first-in, first-out basis, or market. If the carrying amount of our inventory exceeds its fair value, we reduce the carrying amount to reflect fair value. We utilize our historical experience and consideration of current sales trends as the basis for our lower of cost or market analysis. If events occur and market conditions change, causing the fair value to fall below carrying value, further reductions may be required.

Valuation of Goodwill and Other Intangible Assets

We account for goodwill and identifiable intangible assets in accordance with Statement of Financial Accounting Standards No. 142, Goodwill and Other Intangible Assets (SFAS 142). Under this standard, we assess the impairment of goodwill and identifiable intangible assets at least annually and whenever events or changes in circumstances indicate that the carrying value may not be recoverable. The first step in the assessment is the estimation of fair value. If step one indicates that impairment potentially exists, the second step is performed to measure the amount of impairment, if any. Goodwill and identifiable intangible asset impairment exists when the estimated fair value is less than its carrying value.

During the three months ended June 30, 2008, we experienced a significant decline in market valuation driven primarily by weakness in the marine retail industry and an overall soft economy, which has hindered our financial performance. Accordingly, we completed a step one analysis (as noted above) and estimated the fair value of the reporting unit as prescribed by SFAS 142, which indicated potential impairment. As a result, we completed a fair value analysis of indefinite lived intangible assets and a step two goodwill impairment analysis, as required by SFAS 142. We determined that indefinite lived intangible assets and goodwill were impaired and we recorded a non-cash charge of \$121.2 million based on our assessment. We will not be required to make any current or future cash expenditures as a result of this impairment charge.

Other Long-Term Assets

During February 2006, we became party to a joint venture with Brunswick that acquired certain real estate and assets of Great American Marina for an aggregate purchase price of approximately \$11.0 million, of which we contributed approximately \$4.0 million and Brunswick contributed approximately \$7.0 million. The terms of the agreement specify that we operate and maintain the service business, and Brunswick operates and maintains the marina business. Simultaneously with the closing, the acquired entity became Gulfport Marina, LLC (Gulfport). We

account for our investment in Gulfport in accordance with Accounting Principles Board Opinion No. 18, The Equity Method of Accounting for Investments in Common Stock (APB 18). Accordingly, we adjust the carrying amount of our investment in Gulfport to recognize our share of earnings or losses.

Table of Contents

During the three months ended June 30, 2008, we experienced a significant decline in market valuation driven primarily by weakness in the marine retail industry, an overall soft economy which has hindered our financial performance. As a result of this weakness we realized a goodwill and intangible asset impairment charge, as noted above. Based on these events, we reviewed the valuation of our investment in Gulfport in accordance with APB 18 and recoverability of the assets contained within the joint venture. APB 18 requires that a loss in value of an investment which is other than a temporary decline should be recognized. We reviewed our investment and assets contained within the Gulfport joint venture, which consists of land, buildings, equipment and goodwill. As a result, we determined that the goodwill held within the joint venture was impaired and recorded a non-cash charge of \$1.0 million based on our assessment. We will not be required to make any current or future cash expenditures as a result of this impairment charge.

Impairment of Long-Lived Assets

Statement of Financial Accounting Standards No. 144, *Accounting for Impairment or Disposal of Long-Lived Assets* (SFAS 144), requires that long-lived assets, such as property and equipment and purchased intangibles subject to amortization, be reviewed for impairment whenever events or changes in circumstances indicate that the carrying amount of an asset may not be recoverable. Recoverability of the asset is measured by comparison of its carrying amount to undiscounted future net cash flows the asset is expected to generate. If such assets are considered to be impaired, the impairment to be recognized is measured as the amount by which the carrying amount of the asset exceeds its fair market value. Estimates of expected future cash flows represent management's best estimate based on currently available information and reasonable and supportable assumptions. Any impairment recognized in accordance with SFAS 144 is permanent and may not be restored. To date, we have not recognized any impairment of long-lived assets in connection with SFAS 144.

Stock-Based Compensation

Effective October 1, 2005, we adopted the provisions of Statement of Financial Accounting Standards No. 123R, *Share-Based Payment* (SFAS 123R) for our share-based compensation plans. We adopted SFAS 123R using the modified prospective transition method. Under this transition method, compensation cost recognized includes (a) the compensation cost for all share-based awards granted prior to, but not yet vested as of October 1, 2005, based on the grant-date fair value estimated in accordance with the original provisions of SFAS 123 and (b) the compensation cost for all share-based awards granted subsequent to September 30, 2005, based on the grant-date fair value estimated in accordance with the provisions of SFAS 123R. Results for prior periods have not been restated.

Income Taxes

We account for income taxes in accordance with Statement of Financial Accounting Standards No. 109, *Accounting for Income Taxes* (SFAS 109) and Financial Accounting Standard Board Interpretation No. 48, *Accounting for Uncertainty in Income Taxes* (FIN 48). Under SFAS 109, we recognize deferred tax assets and liabilities for the future tax consequences attributable to temporary differences between the financial statement carrying amounts of existing assets and liabilities and their respective tax basis. We measure deferred tax assets and liabilities using enacted tax rates expected to apply to taxable income in the years in which those temporary differences are expected to be recovered or settled. We record valuation allowances to reduce our deferred tax assets to the amount expected to be realized by considering all available positive and negative evidence.

Effective October 1, 2007, we adopted FIN 48 and established a recognition threshold and measurement principles for the financial statement recognition and measurement of tax positions taken or expected to be taken on a tax return. We also follow the guidance provided by FIN 48 on derecognition, classification, interest and penalties, accounting in interim periods, disclosure and transition.

We operate in multiple states with varying tax laws and are subject to both federal and state audits of our tax filings. We make estimates to determine that our tax reserves are adequate to cover audit adjustments, if any. Actual audit results could vary from the estimates recorded by us. As the number of years that are open for tax audits vary depending on tax jurisdiction, a number of years may elapse before a particular matter is audited and finally resolved. While it is often difficult to predict the final outcome or timing of resolution of a particular tax matter, we believe that our consolidated financial statements reflect the appropriate outcome of known tax contingencies.

Table of Contents***Use of Estimates and Assumptions***

The preparation of consolidated financial statements in conformity with accounting principles generally accepted in the United States requires us to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the consolidated financial statements and the reported amounts of revenue and expenses during the reporting periods. Significant estimates made by us in the accompanying consolidated financial statements relate to valuation allowances, valuation of goodwill and intangible assets, valuation of long-lived assets, and valuation of accruals. Actual results could differ from those estimates.

Consolidated Results of Operations

The following discussion compares the three and nine months ended June 30, 2008 with the three and nine months ended June 30, 2007 and should be read in conjunction with the Condensed Consolidated Financial Statements, including the related notes thereto, appearing elsewhere in this Report.

Three Months Ended June 30, 2008 Compared with Three Months Ended June 30, 2007

Revenue. Revenue decreased \$108.5 million, or 28.6%, to \$271.3 million for the three months ended June 30, 2008 from \$379.8 million for the three months ended June 30, 2007. Of this decrease, \$98.2 million was attributable to a 27% decline in comparable-store sales, and approximately \$10.3 million, net, was attributable to stores opened or closed that are not eligible for inclusion in the comparable-store base. The decline in our comparable-store sales was due to softer economic conditions, which have adversely impacted our retail sales.

Gross Profit. Gross profit decreased \$26.7 million, or 30.1%, to \$61.8 million for the three months ended June 30, 2008 from \$88.5 million for the three months ended June 30, 2007. Gross profit as a percentage of revenue decreased to 22.8% for the three months ended June 30, 2008 from 23.3% for the three months ended June 30, 2007. The decrease in gross profit as a percentage of revenue was due primarily to the softer economic environment which has pressured retail prices, however margins on boats sold were generally stable.

Selling, General, and Administrative Expenses. Selling, general, and administrative expenses decreased \$11.9 million, or 18.8%, to \$51.6 million for the three months ended June 30, 2008 from \$63.5 million for the three months ended June 30, 2007. However, the three months ended June 30, 2008 included \$1.0 million in gains recorded as an expense offset related to proceeds from business interruption insurance claims associated with ice storm damage at certain Missouri locations in 2007 and the favorable settlement of certain interest rate swaps accounted for as cash flow hedges. During the three months ended June 30, 2007, \$1.6 million in gains were recorded from the sale of our corporate jet and insurance proceeds we received associated with the snow and ice storm damage at certain Missouri locations in 2007. Excluding these items results in a comparable selling, general, and administrative expense reduction of \$12.5 million, or 19.2%. This decrease in selling, general, and administrative expenses was primarily attributable to decreases of \$11.4 million in personnel costs, resulting from reductions in commissions, manager bonuses and benefits, and \$1.1 million in reduced other costs, resulting from cost reduction efforts.

Goodwill and intangible asset impairment. During the three months ended June 30, 2008, we were required to write-off our goodwill and indefinite lived intangible assets as a result of the decline in our market valuation and the continuation of the difficult marine environment, as prescribed by SFAS 142.

Interest Expense. Interest expense decreased \$2.7 million, or 36.1%, to \$4.8 million for the three months ended June 30, 2008 from \$7.5 million for the three months ended June 30, 2007. Interest expense as a percentage of revenue decreased to 1.8% for the three months ended June 30, 2008 from 2.0% for the three months ended June 30, 2007. The decrease in interest expense was primarily a result of a more favorable interest rate environment.

Income Tax (Benefit) Provision. Income tax expense decreased \$7.0 million, to a tax benefit of \$3.4 million for the three months ended June 30, 2008 from a tax expense of \$3.6 million for the three months ended June 30, 2007. The effective tax rate for the third quarter of fiscal 2008 differed from previous periods primarily due to the recording of a non-cash valuation allowance of approximately \$38 million that offsets the majority of income tax benefit that would have arisen from the goodwill and intangible asset impairment charge.

Table of Contents***Nine Months Ended June 30, 2008 Compared with Nine Months Ended June 30, 2007***

Revenue. Revenue decreased \$220.8 million, or 23.5%, to \$719.8 million for the nine months ended June 30, 2008 from \$940.6 million for the nine months ended June 30, 2007. Of this decrease, \$208.7 million was attributable to a 23% decline in comparable-store sales, and \$12.1 million was attributable to stores opened or closed that were not eligible for inclusion in the comparable-store base. The decline in our comparable-store sales was due to softer economic conditions, which have adversely impacted our retail sales.

Gross Profit. Gross profit decreased \$54.5 million, or 24.9%, to \$164.5 million for the nine months ended June 30, 2008 from \$219.1 million for the nine months ended June 30, 2007. Gross profit as a percentage of revenue decreased to 22.8% for the nine months ended June 30, 2008 from 23.3% for the nine months ended June 30, 2007. The decrease in gross profit as a percentage of revenue was due to margin pressure arising from the current difficult retail environment and a mix shift to larger products, which historically carry lower gross margins.

Selling, General, and Administrative Expenses. Selling, general, and administrative expenses decreased \$19.8 million, or 10.9%, to \$161.1 million for the nine months ended June 30, 2008 from \$180.9 million for the nine months ended June 30, 2007. Selling, general, and administrative expenses as a percentage of revenue increased to 22.4% for the nine months ended June 30, 2008 from 19.2% for the nine months ended June 30, 2007. However, the nine months ended June 30, 2008 included \$1.0 million in gains recorded as an expense offset related to proceeds from business interruption insurance claims associated with ice storms damage at certain Missouri locations in 2007 and the favorable settlement of certain interest rate swaps accounted for as cash flow hedges. Additionally, the nine months ended June 30, 2007, included \$3.6 million in gains recorded as an expense offset related to business interruption insurance proceeds which was received for claims associated with Hurricane Wilma in 2006, the sale of our corporate jet and insurance proceeds we received associated with the ice storm damage at certain Missouri locations. Excluding these items results in a comparable selling, general, and administrative expense reduction of \$22.3 million, or 12.1%. The decrease in selling, general, and administrative expenses was attributable to decreases of \$18.6 million in personnel costs, resulting from reductions in commissions, manager bonuses and benefits and \$3.7 million in reduced marketing and other costs, resulting from cost reduction efforts. The increase in selling, general, and administrative expenses as a percentage of revenue was due to the lack of leverage caused by the decline in comparable-store sales.

Goodwill and intangible asset impairment. During the nine months ended June 30, 2008, we were required to write-off our goodwill and indefinite lived intangible assets as a result of the decline in our market valuation and the continuation of the difficult marine environment, as prescribed by SFAS 142.

Interest Expense. Interest expense decreased \$4.9 million, or 22.8%, to \$16.6 million for the nine months ended June 30, 2008 from \$21.5 million for the nine months ended June 30, 2007. Interest expense as a percentage of revenue remained flat at 2.3% for the nine months ended June 30, 2008 and 2007. The decrease in interest expense was primarily a result of the more favorable interest rate environment.

Income Tax (Benefit) Provision. Income tax expense decreased \$15.3 million, to a tax benefit of \$12.1 million for the nine months ended June 30, 2008 from a tax expense of \$3.2 million for the nine months ended June 30, 2007. The effective tax rate for the nine months ended June 30, 2008 differed from previous periods primarily due to the recording of a non-cash valuation allowance of approximately \$38 million that offsets the majority of income tax benefit that would have arisen from the goodwill and intangible asset impairment charge.

Liquidity and Capital Resources

Our cash needs are primarily for working capital to support operations, including new and used boat and related parts inventories, off-season liquidity, and growth through acquisitions and new store openings. We regularly monitor the aging of our inventories and current market trends to evaluate our current and future inventory needs. We also use this evaluation in conjunction with our review of our current and expected operating performance and expected growth to determine the adequacy of our financing needs. These cash needs have historically been financed with cash generated from operations and borrowings under our credit facility. We currently depend upon dividends and other payments from our consolidated operating subsidiaries and our credit facility to fund our current operations and meet our cash needs. Currently, no agreements exist that restrict this flow of funds from our operating subsidiaries.

Edgar Filing: MARINEMAX INC - Form 10-Q

For the nine months ended June 30, 2007 and 2008, cash used in operating activities approximated \$9.7 million and \$50.2 million, respectively. For the nine months ended June 30, 2007 and 2008, cash used in operating activities was

Table of Contents

primarily due to increased levels of inventories as a result of softer than expected retail sales, a decrease in accounts payable to tax authorities, and a decrease in customer deposits.

For the nine months ended June 30, 2007 and 2008, cash used in investing activities approximated \$6.9 million and \$7.1 million, respectively, and was primarily used to purchase property and equipment associated with opening new retail facilities or improving and relocating existing retail facilities.

For the nine months ended June 30, 2007 and 2008, cash provided by financing activities approximated \$16.8 million and \$48.5 million, respectively, and was primarily attributable to an increase in net short-term borrowings as a result of increased inventory levels and net proceeds from common shares issued upon the exercise of stock options and stock purchases under the Stock Purchase Plan, partially offset by repayments of long-term debt.

During March 2008, we entered into an amendment to modify certain financial covenants and terms of our second amended and restated credit and security agreement entered into in June 2006. The amendment modified the threshold of the Fixed Charge Coverage Ratio and the Current Ratio. During June 2007, we entered into an amendment to extend the term of our second amended and restated credit and security agreement entered into in June 2006. The credit facility provides us a line of credit with asset-based borrowing availability of up to \$500 million for working capital and inventory financing, with the amount of permissible borrowings determined pursuant to a borrowing base formula. The credit facility also permits approved-vendor floorplan borrowings of up to \$20 million. The credit facility accrues interest at the London Interbank Offered Rate (LIBOR) plus 150 to 260 basis points, with the interest rate based upon the ratio of our net outstanding borrowings to our tangible net worth. The credit facility is secured by our inventory, accounts receivable, equipment, furniture, and fixtures. The amended credit facility matures in May 2012, with two one-year renewal options. At June 30, 2008, we were in compliance with all of the credit facility covenants.

As of June 30, 2008, our indebtedness totaled approximately \$404.0 million, and was associated with financing our inventory and working capital needs. All indebtedness associated with our real estate holdings was repaid during the three months ended June 30, 2008. At June 30, 2007 and 2008, the interest rate on the outstanding short-term borrowings was 6.8% and 4.0%, respectively. At June 30, 2008, our additional available borrowings under our credit facility were approximately \$96 million.

We issued a total of 204,459 shares of our common stock in conjunction with our Incentive Stock Plans and Employee Stock Purchase Plan during the nine months ended June 30, 2008 for approximately \$2.2 million in cash. Our Incentive Stock Plans provide for the grant of incentive and non-qualified stock options to acquire our common stock, the grant of restricted stock awards and restricted stock units, the grant of common stock, the grant of stock appreciation rights, and the grant of other cash awards to key personnel, directors, consultants, independent contractors, and others providing valuable services to us. Our Employee Stock Purchase Plan is available to all our regular employees who have completed at least one year of continuous service.

Except as specified in this Management's Discussion and Analysis of Financial Condition and Results of Operations and in the attached unaudited condensed consolidated financial statements, we have no material commitments for capital for the next 12 months. We believe that our existing capital resources will be sufficient to finance our operations for at least the next 12 months, except for possible significant acquisitions.

Impact of Seasonality and Weather on Operations

Our business, as well as the entire recreational boating industry, is highly seasonal, with seasonality varying in different geographic markets. With the exception of Florida, we generally realize significantly lower sales and higher levels of inventories, and related short-term borrowings, in the quarterly periods ending December 31 and March 31. The onset of the public boat and recreation shows in January stimulates boat sales and allows us to reduce our inventory levels and related short-term borrowings throughout the remainder of the fiscal year. Our business will become substantially more seasonal as we acquire dealers that operate in colder regions of the United States.

Our business is also subject to weather patterns, which may adversely affect our results of operations. For example, drought conditions (or merely reduced rainfall levels) or excessive rain may close area boating locations or render boating dangerous or inconvenient, thereby curtailing customer demand for our products. In addition, unseasonably cool weather and prolonged winter conditions may lead to a shorter selling season in certain locations. Hurricanes and other storms could result in disruptions of our operations or damage to our boat inventories and facilities. Although

our geographic diversity is likely to reduce the overall impact to us of adverse weather conditions in any one market area, these conditions will continue to represent potential, material adverse risks to us and our future financial performance.

Table of Contents**ITEM 3. QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK**

At June 30, 2008, approximately 100% of our short-term debt bore interest at variable rates, generally tied to a reference rate such as the LIBOR rate or the prime rate of interest of certain banks. Changes in interest rates on loans from these financial institutions could affect our earnings because of interest rates charged on certain underlying obligations that are variable. At June 30, 2008, a hypothetical 100 basis point increase in interest rates on our variable rate obligations would have resulted in an increase of approximately \$4.0 million in annual pre-tax interest expense. This estimated increase is based upon the outstanding balances of all of our variable rate obligations and assumes no mitigating changes by us to reduce the outstanding balances or additional interest assistance that would be received from vendors due to the hypothetical interest rate increase.

ITEM 4. CONTROLS AND PROCEDURES**Evaluation of Disclosure Controls and Procedures**

We maintain disclosure controls and procedures that are designed to ensure that material information required to be disclosed by us in Securities Exchange Act reports is recorded, processed, summarized and reported within the time periods specified in the Securities and Exchange Commission's rules and forms, and that such information is accumulated and communicated to our management, including the Chief Executive Officer and Chief Financial Officer, as appropriate, to allow timely decisions regarding required disclosure. Our Chief Executive Officer and Chief Financial Officer have evaluated the effectiveness of the design and operation of our disclosure controls and procedures (as defined in Rules 13a-15(e) and 15d-15(e) under the Securities Exchange Act of 1934) as of the end of the period covered by this report. Based on such evaluation, such officers have concluded that, as of the end of the period covered by this report, our disclosure controls and procedures were effective.

Changes in Internal Controls

During the quarter ended June 30, 2008, there were no changes in our internal controls over financial reporting that materially affected, or were reasonably likely to materially affect, our internal control over financial reporting.

Limitations on the Effectiveness of Controls

Our management, including our CEO and CFO, does not expect that our disclosure controls and internal controls will prevent all errors and all fraud. A control system, no matter how well conceived and operated, can provide only reasonable, not absolute, assurance that the objectives of the control system are met. Further, the design of a control system must reflect the fact that there are resource constraints, and the benefits of controls must be considered relative to their costs. Because of the inherent limitations in all control systems, no evaluation of controls can provide absolute assurance that all control issues and instances of fraud, if any, within the company have been detected. These inherent limitations include the realities that judgments in decision-making can be faulty, and that breakdowns can occur because of simple error or mistake. Additionally, controls can be circumvented by the individual acts of some persons, by collusion of two or more people, or by management override of the control. The design of any system of controls also is based in part upon certain assumptions about the likelihood of future events, and there can be no assurance that any design will succeed in achieving its stated goals under all potential future conditions; over time, a control may become inadequate because of changes in conditions, or the degree of compliance with the policies or procedures may deteriorate. Because of the inherent limitations in a cost-effective control system, misstatements due to error or fraud may occur and not be detected.

CEO and CFO Certifications

Exhibits 31.1 and 31.2 are the Certifications of the CEO and the CFO, respectively. The Certifications are required in accordance with Section 302 of the Sarbanes-Oxley Act of 2002 (the Section 302 Certifications). This Item of this report, which you are currently reading is the information concerning the Evaluation referred to in the Section 302 Certifications and this information should be read in conjunction with the Section 302 Certifications for a more complete understanding of the topics presented.

Table of Contents

**PART II
OTHER INFORMATION**

ITEM 1. LEGAL PROCEEDINGS

Not applicable.

ITEM 1A. RISK FACTORS

Not applicable.

ITEM 2. UNREGISTERED SALES OF EQUITY SECURITIES AND USE OF PROCEEDS

Not applicable.

ITEM 3. DEFAULTS UPON SENIOR SECURITIES

Not applicable.

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

Not applicable.

ITEM 5. OTHER INFORMATION

Not applicable.

ITEM 6. EXHIBITS

- 31.1 Certification of Chief Executive Officer pursuant to Rule 13a-14(a) and Rule 15d-14(a), promulgated under the Securities Exchange Act of 1934, as amended.
- 31.2 Certification of Chief Financial Officer pursuant to Rule 13a-14(a) and Rule 15d-14(a), promulgated under the Securities Exchange Act of 1934, as amended.
- 32.1 Certification pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002.
- 32.2 Certification pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002.

Table of Contents

SIGNATURES

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

MARINEMAX, INC.

August 11, 2008

By: /s/ Michael H. McLamb
Michael H. McLamb
Executive Vice President,
Chief Financial Officer, Secretary, and
Director
(Principal Accounting and Financial
Officer)

25