

MARINEMAX INC  
Form 10-Q  
August 02, 2007

**Table of Contents**

**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, 2007.**

**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, or a non-accelerated filer. See definition of "accelerated filer and large accelerated filer" in Rule 12b-2 of the Exchange Act. (Check one):

Large accelerated filer  Accelerated filer  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  No

The number of outstanding shares of the registrant's Common Stock on July 27, 2007 was 18,806,341.

MARINEMAX, INC. AND SUBSIDIARIES  
**Table of Contents**

<b>Item No.</b>		<b>Page</b>
<b><u>PART I FINANCIAL INFORMATION</u></b>		
1.	<b><u>Financial Statements (Unaudited):</u></b>	
	<b><u>Condensed Consolidated Statements of Operations for the Three and Nine Months Ended June 30, 2006 and 2007</u></b>	3
	<b><u>Condensed Consolidated Balance Sheets as of September 30, 2006 and June 30, 2007</u></b>	4
	<b><u>Condensed Consolidated Statements of Comprehensive Income for the Three and Nine Months Ended June 30, 2006 and 2007</u></b>	5
	<b><u>Condensed Consolidated Statements of Stockholders' Equity for the Nine Months Ended June 30, 2007</u></b>	6
	<b><u>Condensed Consolidated Statements of Cash Flows for the Nine Months Ended June 30, 2006 and 2007</u></b>	7
	<b><u>Notes to Condensed Consolidated Financial Statements</u></b>	8
2.	<b><u>Management's Discussion and Analysis of Financial Condition and Results of Operations</u></b>	17
3.	<b><u>Quantitative and Qualitative Disclosures About Market Risk</u></b>	24
4.	<b><u>Controls and Procedures</u></b>	24
<b><u>PART II OTHER INFORMATION</u></b>		
1.	<b><u>Legal Proceedings</u></b>	26
1A.	<b><u>Risk Factors</u></b>	26
2.	<b><u>Unregistered Sales of Equity Securities and Use of Proceeds</u></b>	26
3.	<b><u>Defaults Upon Senior Securities</u></b>	26
4.	<b><u>Submission of Matters to a Vote of Security Holders</u></b>	26
5.	<b><u>Other Information</u></b>	26
6.	<b><u>Exhibits</u></b>	26
<b><u>SIGNATURES</u></b>		27
	<b><u>EX-31.1</u></b>	
	<b><u>EX-31.2</u></b>	
	<b><u>EX-32.1</u></b>	
	<b><u>EX-32.2</u></b>	

**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,	
	2006	2007	2006	2007
Revenue	\$ 421,348	\$ 379,780	\$ 889,919	\$ 940,585
Cost of sales	321,089	291,248	676,737	721,479
Gross profit	100,259	88,532	213,182	219,106
Selling, general, and administrative expenses	65,229	63,541	155,789	180,931
Income from operations	35,030	24,991	57,393	38,175
Interest expense	5,900	7,458	12,955	21,545
Income before income tax provision	29,130	17,533	44,438	16,630
Income tax provision	11,607	3,636	17,663	3,187
Net income	\$ 17,523	\$ 13,897	\$ 26,775	\$ 13,443
Basic net income per common share	\$ 0.95	\$ 0.75	\$ 1.49	\$ 0.73
Diluted net income per common share	\$ 0.90	\$ 0.73	\$ 1.42	\$ 0.70
Weighted average number of common and common equivalent shares used in computing net income per common share:				
Basic	18,476,365	18,440,752	17,930,991	18,368,482
Diluted	19,426,294	19,034,148	18,900,843	19,086,507

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)

	<b>September 30, 2006</b>	<b>June 30, 2007 (Unaudited)</b>
<b>ASSETS</b>		
<b>CURRENT ASSETS:</b>		
Cash and cash equivalents	\$ 25,113	\$ 25,327
Accounts receivable, net	57,589	72,043
Inventories, net	462,847	491,656
Prepaid expenses and other current assets	8,445	9,241
Deferred tax assets	4,486	5,515
<b>Total current assets</b>	<b>558,480</b>	<b>603,782</b>
Property and equipment, net	122,215	118,447
Goodwill and other intangible assets, net	116,195	121,182
Other long-term assets	4,673	4,752
<b>Total assets</b>	<b>\$ 801,563</b>	<b>\$ 848,163</b>
<b>LIABILITIES AND STOCKHOLDERS EQUITY</b>		
<b>CURRENT LIABILITIES:</b>		
Accounts payable	\$ 37,398	\$ 30,635
Customer deposits	17,170	28,578
Accrued expenses	24,415	30,716
Short-term borrowings	321,500	339,994
Current maturities of long-term debt	4,532	4,375
<b>Total current liabilities</b>	<b>405,015</b>	<b>434,298</b>
Deferred tax liabilities	11,639	11,774
Long-term debt, net of current maturities	32,654	27,542
Other long-term liabilities	2,368	2,484
<b>Total liabilities</b>	<b>451,676</b>	<b>476,098</b>
<b>STOCKHOLDERS EQUITY:</b>		
Preferred stock, \$.001 par value, 1,000,000 shares authorized, none issued or outstanding at September 30, 2006 and June 30, 2007		
Common stock, \$.001 par value, 24,000,000 shares authorized, 18,529,524 and 18,747,176 shares issued and outstanding at September 30, 2006 and June 30, 2007, respectively	19	19
Additional paid-in capital	156,618	165,785

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Retained earnings	200,306	213,749
Accumulated other comprehensive income	507	75
Treasury stock, at cost, 336,300 shares held at September 30, 2006 and June 30, 2007	(7,563)	(7,563)
Total stockholders' equity	349,887	372,065
Total liabilities and stockholders' equity	\$ 801,563	\$ 848,163

See accompanying notes to condensed consolidated financial statements.

4

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**Table of Contents**

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

	<b>Three Months Ended</b>		<b>Nine Months Ended</b>	
	<b>June 30,</b>		<b>June 30,</b>	
	<b>2006</b>	<b>2007</b>	<b>2006</b>	<b>2007</b>
Net income	\$ 17,523	\$ 13,897	\$ 26,775	\$ 13,443
Other comprehensive income:				
Change in fair market value of derivative instruments, net of tax of \$282 and \$21 for the three months ended June 30, 2006 and 2007, respectively, and net of tax of \$432 and tax benefit of \$270 for the nine months ended June 30, 2006 and 2007, respectively	451	33	690	(432)
Reclassification adjustment for losses included in net income, net of tax of \$65 for the three months ended June 30, 2007, and net of tax of \$52 for the nine months ended June 30, 2007		(103)		(84)
Comprehensive income	\$ 17,974	\$ 13,827	\$ 27,465	\$ 12,927

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)

	<b>Common Stock Shares</b>	<b>Common Stock Amount</b>	<b>Additional Paid-in Capital</b>	<b>Retained Earnings</b>	<b>Accumulated Other Comprehensive Income</b>	<b>Treasury Stock</b>	<b>Total Stockholders Equity</b>
BALANCE, September 30, 2006	18,529,524	\$ 19	\$ 156,618	\$ 200,306	\$ 507	\$ (7,563)	\$ 349,887
Net income				13,443			13,443
Shares issued under employee stock purchase plan	78,665		1,631				1,631
Shares issued upon exercise of stock options	135,507		1,445				1,445
Stock-based compensation	3,480		5,367				5,367
Tax benefits of options exercised			724				724
Change in fair market value of derivative instruments, net of tax					(432)		(432)
BALANCE, June 30, 2007	18,747,176	\$ 19	\$ 165,785	\$ 213,749	\$ 75	\$ (7,563)	\$ 372,065

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)**

	<b>Nine Months Ended</b>	
	<b>June 30,</b>	
	<b>2006</b>	<b>2007</b>
<b>CASH FLOWS FROM OPERATING ACTIVITIES:</b>		
Net income	\$ 26,775	\$ 13,443
Adjustments to reconcile net income to net cash provided by (used in) operating activities:		
Depreciation and amortization	5,875	7,382
Deferred income tax provision (benefit)	2,513	(894)
Gain on sale of property and equipment	(73)	(1,044)
Gain on involuntary conversion of property and equipment		(613)
Stock-based compensation expense	3,933	5,367
Tax benefits of options exercised	1,093	724
Excess tax benefits from stock-based compensation	(937)	(494)
(Increase) decrease in		
Accounts receivable, net	(44,344)	(14,454)
Inventories, net	1,852	(28,809)
Prepaid expenses and other assets	(1,974)	(1,346)
Increase (decrease) in		
Accounts payable	17,004	(6,763)
Customer deposits	(10,646)	11,408
Accrued expenses and other liabilities	10,457	6,417
Net cash provided by (used in) operating activities	11,528	(9,676)
<b>CASH FLOWS FROM INVESTING ACTIVITIES:</b>		
Cash used in business investment	(4,007)	
Purchases of property and equipment	(8,258)	(6,914)
Net cash used in acquisitions of businesses, net assets, and intangible assets	(81,275)	(4,847)
Proceeds from sale of property and equipment	95	2,849
Proceeds from involuntary conversion of property and equipment		2,007
Net cash used in investing activities	(93,445)	(6,905)
<b>CASH FLOWS FROM FINANCING ACTIVITIES:</b>		
Net borrowings on short-term borrowings	72,229	18,494
Borrowings of long-term debt	12,240	
Repayments of long-term debt	(4,020)	(5,269)
Net proceeds from issuance of common stock under option and employee purchase plans	3,635	3,076
Excess tax benefits from stock-based compensation	937	494
Purchases of treasury stock	(2,162)	
Net cash provided by financing activities	82,859	16,795

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NET INCREASE IN CASH AND CASH EQUIVALENTS	942	214
CASH AND CASH EQUIVALENTS, beginning of period	27,271	25,113
CASH AND CASH EQUIVALENTS, end of period	\$ 28,213	\$ 25,327

Supplemental Disclosures of Cash Flow Information:

Cash paid for:

Interest	\$ 11,637	\$ 20,407
Income taxes	\$ 8,927	\$ 18,169

Supplemental schedule of non-cash investing activities:

Common stock issued in connection with business acquisitions	\$ 22,418	\$
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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, 2007 we operated through 88 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 Yachts, and Hatteras Yachts, all of which are manufactured by Brunswick Corporation (Brunswick), the world's largest manufacturer of marine products. Sales of new Brunswick boats accounted for approximately 59% of our revenue in fiscal 2006. We believe we represented approximately 13% of all Brunswick marine product sales, including approximately 40% of its Sea Ray boat sales, during our 2006 fiscal year.

We have dealer agreements with Sea Ray, Boston Whaler, Meridian, Cabo Yachts, Hatteras Yachts, Mercury Marine, and Baja Marine Corporation, all subsidiaries or divisions of Brunswick. We also have dealer agreements with Ferretti Group, Bertram, Grady White, and Azimut. 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.

Each of our operating dealership subsidiaries that carry the Sea Ray product line is party to a multi-year dealer agreement with Brunswick covering Sea Ray products and is the exclusive dealer of Sea Ray boats in its geographic markets. Our subsidiary, MarineMax Motor Yachts, LLC, is a party to a multi-year dealer agreement with Hatteras Yachts. The agreement 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. Our subsidiary, MarineMax International, LLC, is a party to a dealer agreement with Ferretti Group and Bertram Yachts. The agreement appoints us as the exclusive dealer for Ferretti Yachts, Pershing, Riva, Apremare, and Mochi Craft mega-yachts, 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, or the agreements discussed above, 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.



**Table of Contents**

**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, 2006. 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 condensed consolidated financial statements. The operating results for the three and nine months ended June 30, 2007 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 maintain consistency and 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 May 2005, the FASB issued Statement of Financial Accounting Standard No. 154, Accounting Changes and Error Corrections (SFAS 154), which replaces Accounting Principles Board Opinion No. 20, Accounting Changes, (APB 20) and SFAS No. 3, Reporting Accounting Changes in Interim Financial Statements-An Amendment of APB Opinion No. 28 (SFAS 3). SFAS 154 provides guidance on the accounting for and reporting of accounting changes and error corrections. SFAS 154 is effective for accounting changes and correction of errors made in fiscal years beginning after December 15, 2005. The adoption of SFAS 154 during the first quarter of our 2007 fiscal year did not have an effect on our condensed consolidated financial statements.

During June 2006, the Emerging Issues Task Force (EITF) of the Financial Accounting Standards Board (FASB) reached a consensus on Issue No. 06-3, How Taxes Collected from Customers and Remitted to Governmental Authorities Should Be Presented in the Income Statement (That Is, Gross versus Net Presentation) (EITF 06-3). The consensus determined that the scope of EITF 06-3 includes any tax assessed by a governmental authority that is imposed concurrently on a specific revenue-producing transaction between a seller and a customer and may include, but is not limited to, sales, use, value added, and some excise taxes. EITF 06-3 also determined that the presentation of taxes on either a gross basis or a net basis within the scope of EITF 06-3 is an accounting policy decision that should be disclosed pursuant to APB Opinion No. 22, Disclosure of Accounting Policies (APB 22). EITF 06-3 does not require a company to reevaluate its existing policies related to taxes assessed by a governmental authority that are directly imposed on a revenue-producing transaction between a seller and a customer. EITF 06-3 is effective for interim and annual financial statements beginning after December 15, 2006, with early adoption permitted. The adoption of EITF 06-3 during the first quarter of our 2007 fiscal year did not have an effect on our condensed consolidated financial statements as taxes collected from customers and remitted to governmental authorities are presented net in our condensed consolidated statements of operations.

In September 2006, the SEC issued Staff Accounting Bulletin No. 108 Considering the Effects of Prior Year Misstatements when Quantifying Misstatements in Current Year Financial Statements (SAB 108), to address diversity in practice in quantifying financial statement misstatements and the potential for the build up of improper amounts on the balance sheet. SAB 108 identifies the approach that registrants should take when evaluating the



**Table of Contents**

effects of unadjusted misstatements on each financial statement, the circumstances under which corrections of misstatements should result in a revision to financial statements and disclosures related to the correction of misstatements. SAB 108 is effective for financial statements for an interim period of the first fiscal year ending after November 16, 2006. The adoption of SAB 108 during the first quarter of our 2007 fiscal year did not have an effect on our condensed consolidated financial statements.

**4. Acquisitions**

During January 2006, we acquired substantially all of the assets, including certain real estate, and assumed certain liabilities of the Port Arrowhead Group (Port Arrowhead), a privately held boat dealership with locations in Missouri and Oklahoma. Port Arrowhead operates six retail locations, including a large marina with more than 300 slips. During the March 2007 quarter, we adjusted the purchase price allocation and determined the final fair value of acquired intangible assets based on a third-party valuation, which resulted in the recognition of approximately \$6.0 million of tax deductible goodwill and approximately \$2.0 million of tax deductible indefinite-lived intangible assets (dealer agreements).

During March 2006, we acquired substantially all of the assets and assumed certain liabilities of Surfside-3 Marina, Inc. (Surfside), a privately held boat dealership with eight locations in New York and Connecticut, which expands our ability to serve consumers in the Northeast boating community. During the March 2007 quarter, to protect our interests, we filed a lawsuit against the sellers of Surfside requesting payment of sums we believe were owed to us. Subsequent to the filing of our lawsuit, the sellers of Surfside filed an answer and counterclaim, among other things, demanding the release of the 100,000 shares of common stock held in escrow as security under the Asset Purchase Agreement. We and the sellers of Surfside resolved the dispute related to the acquisition, the net result of the resolution was that during the June 2007 quarter we collected certain working capital adjustments and accounts receivable that, per the terms of the acquisition documents, were due us. As of June 30, 2007, we finalized the purchase price allocation and fair value of acquired intangible assets based on a third-party valuation, which resulted in approximately \$40.0 million of tax deductible goodwill and approximately \$16.3 million of tax deductible indefinite-lived intangible assets (dealer agreements).

**5. 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. If the carrying amount of goodwill or an identifiable intangible asset exceeds its fair value, we would recognize an impairment loss. We measure any potential impairment based on various business valuation methodologies, including a projected discounted cash flow method.

We have determined that our most significant acquired identifiable intangible assets are the dealer agreements of dealerships that we have acquired, which are indefinite-lived intangible assets. We completed the annual impairment test during the fourth quarter of fiscal 2006, based on financial information as of the third quarter of fiscal 2006, which resulted in no impairment of goodwill or identifiable intangible assets. We will continue to test goodwill and identifiable intangible assets for impairment at least annually and whenever events or changes in circumstances indicate that the carrying value may not be recoverable. To date, we have not recognized any impairment of goodwill or identifiable intangible assets in the application of SFAS 142.

The carrying amounts of goodwill and identifiable intangible assets for the period from September 30, 2006 to June 30, 2007 are as follows (amounts in thousands):

	<b>Goodwill</b>	<b>Identifiable Intangible Assets</b>	<b>Total</b>
Balance, September 30, 2006	\$ 94,068	\$ 22,127	\$ 116,195
Changes during the period	3,378	1,609	4,987
Balance, June 30, 2007	\$ 97,446	\$ 23,736	\$ 121,182





**Table of Contents**

Goodwill and identifiable intangible asset changes during the period relate to the adjustments of purchase price allocations and fair values of acquired intangible assets on the Port Arrowhead Group and Surfside acquisitions based on third-party valuations and the payment of an earn out provision of approximately \$326,000 in accordance with the June 2003 Sundance Marine, Inc. Asset Purchase Agreement.

**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. Our interest rate hedge is designated as a cash flow hedge.

From time to time, we enter into foreign currency cash flow hedges to reduce the variability of cash flows associated with forecasted purchases of boats and yachts from certain of our foreign suppliers in Euro dollars. These cash flow hedges are designed to offset changes in expected cash flows due to fluctuations in the Euro dollar from the time the contracts are entered into until actual delivery date of the inventory and corresponding payments are made. At June 30, 2007, we had no outstanding contracts. For closed contracts related to inventory on hand at June 30, 2007, we recorded approximately \$26,000 of unrealized gains as a contra inventory on the condensed consolidated balance sheet. These unrealized gains will be recognized as a reduction to the cost of sale when the related boat is sold. All of the existing gains are expected to be reclassified into earnings in the next 12 months as the related boats are sold.

We have entered into an interest rate swap agreement with a notional amount of \$4.0 million, maturing in June 2015, which is designated as a cash flow hedge and which effectively converts a portion of the floating rate debt to a fixed rate of 5.67%. Since all of the critical terms of the swap exactly match those of the hedged debt, no ineffectiveness has been identified in the hedging relationship. Consequently, we record all changes in fair value as a component of other comprehensive income. We periodically determine the effectiveness of the swap by determining that the critical terms still match, determining that the future interest payments are still probable of occurrence, and evaluating the likelihood of the counterparty's compliance with the terms of the swap. At June 30, 2007, the swap agreement had a fair value of approximately \$122,000, which was recorded in other long-term assets on the condensed consolidated balance sheet.

**7. Short-Term Borrowings**

During June 2006, we entered into a second amended and restated credit and security agreement with eight financial institutions. 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 credit facility requires us to satisfy certain covenants, including maintaining a leverage ratio tied to our tangible net worth. The other terms and conditions of the credit facility are generally similar to the previous credit facility.

**Table of Contents**

During June 2007, we entered into an amendment of our existing credit facility, which modified the definition of Fixed Charges Coverage Ratio and extended the term of the existing credit facility with the same lenders. The amended credit facility matures in May 2012, with two one-year renewal options. As of June 30, 2007, we were in compliance with all of the credit facility covenants and our additional available borrowings under our credit facility were approximately \$148.3 million.

**8. Stockholders Equity**

We issued a total of 217,652 shares of our common stock in conjunction with our 1998 Incentive Stock Plan (1998 Plan), our 2007 Incentive Stock Plan (2007 Plan), and our Employee Stock Purchase Plan (ESPP) during the nine months ended June 30, 2007. Until replaced by our 2007 Incentive Stock Plan, our 1998 Plan and 2007 Plan provided for the grant of incentive and non-qualified stock options to acquire our common stock, 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 ESPP is available to all our regular employees who have completed at least one year of continuous service.

**9. 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 ESPP. Compensation for restricted stock awards is 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. Compensation cost for all awards is recognized 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, 2006 and 2007, we recognized stock-based compensation expense of approximately \$3.9 million and \$5.4 million, respectively, in selling, general, and administrative expenses on the condensed consolidated statements of operations. Tax benefits realized for tax deductions from option exercises for the nine months ended June 30, 2006 and 2007, were approximately \$1.1 million and \$725,000, respectively.

Cash received from option exercises under all share-based payment arrangements for the nine months ended June 30, 2006 and 2007, was approximately \$3.6 million and \$3.1 million, respectively. We currently expect to satisfy share-based awards with registered shares available to be issued.

**10. Incentive Stock Plans**

During February 2007, our stockholders voted in favor of a proposal to approve our 2007 Incentive Stock Plan (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, 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 which 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 becoming fully vested at either the end of the first year or the end of year five. 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 for the period from September 30, 2006 through June 30, 2007:

	<b>Shares Available for Grant</b>	<b>Options Outstanding</b>	<b>Aggregate Intrinsic Value (in thousands)</b>	<b>Weighted Average Exercise Price</b>	<b>Weighted Average Remaining Contractual Life</b>
Balance at September 30, 2006	394,728	2,364,538	\$ 22,583	\$ 16.80	5.9
Options authorized	1,000,000				
Options granted	(110,000)	110,000		\$ 26.67	
Options cancelled	165,894	(165,894)		\$ 21.34	
Restricted stock units	(222,100)				
Options exercised		(135,507)		\$ 10.67	
Balance at June 30, 2007	1,228,522	2,173,137	\$ 11,782	\$ 17.38	5.4
Exercisable at June 30, 2007		993,786	\$ 7,907	\$ 13.11	3.5

The weighted-average grant date fair value of options granted during the nine months ended June 30, 2006 and 2007, was \$12.55 and \$12.56, respectively. The total intrinsic value of options exercised during the nine months ended June 30, 2006 and 2007, was approximately \$4.9 million and \$1.8 million, respectively.

As of June 30, 2007, there was approximately \$5.1 million of unrecognized compensation costs related to non-vested options that is expected to be recognized over a weighted average period of 3.5 years. The total fair value of options vested during the nine months ended June 30, 2006 and 2007, was approximately \$1.0 million and \$1.5 million respectively.

We continued using the Black-Scholes model to estimate the fair value of options granted during fiscal 2007. 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:

	<b>Three Months Ended June 30,</b>		<b>Nine Months Ended June 30,</b>	
	<b>2006</b>	<b>2007</b>	<b>2006</b>	<b>2007</b>
Dividend yield	0.0%	0.0%	0.0%	0.0%
Risk-free interest rate	5.0%	5.0%	4.6%	4.7%
Volatility	43.4%	43.1%	44.5%	42.6%
Expected life	4.5 years	7.5 years	4.5 years	6.4 years

**11. Employee Stock Purchase Plan (the Stock Purchase Plan)**

The Stock Purchase Plan provides for up to 750,000 shares of common stock to be issued and is available to all our regular employees who have completed at least one year of continuous service. The Stock Purchase Plan provides for implementation of up to 10 annual offerings beginning on the first day of October in the years 1998 through 2007, 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.

**Table of Contents**

We used the Black-Scholes model to estimate the fair value of options granted to purchase shares issued pursuant to the Stock Purchase Plan, during fiscal 2006 and 2007. 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:

	<b>Three Months Ended</b>		<b>Nine Months Ended</b>	
	<b>June 30,</b>		<b>June 30,</b>	
	<b>2006</b>	<b>2007</b>	<b>2006</b>	<b>2007</b>
Dividend yield	0.0%	0.0%	0.0%	0.0%
Risk-free interest rate	5.0%	5.0%	4.7%	5.1%
Volatility	36.6%	44.1%	34.0%	40.9%
Expected life	six-months	six-months	six-months	six-months

**12. Restricted Stock Awards**

During the first quarter of fiscal 2006 and fiscal 2007, we granted non-vested (restricted) stock awards and restricted stock units, respectively, (collectively restricted stock awards), to certain key employees pursuant to the 1998 Plan, which vest as to one-third on each of the third, fourth, and fifth anniversaries of the date of grant. The stock underlying the vested restricted stock units will be delivered upon vesting.

The fair value of the restricted stock awards granted in fiscal 2006 and 2007 is measured on the grant date and recognized in earnings over the requisite service period for each separately vesting portion of the award.

The following table summarizes restricted stock award activity from September 30, 2006 through June 30, 2007:

	<b>Shares</b>	<b>Weighted Average Grant Date Fair Value</b>
Non-vested balance at September 30, 2006	278,000	\$ 28.18
Changes during the period		
Awards granted	222,100	\$ 28.44
Non-vested balance at June 30, 2007	500,100	\$ 28.30

As of June 30, 2007, there was approximately \$8.9 million of total unrecognized compensation cost related to restricted stock awards granted under the Plan. That cost is expected to be recognized over a weighted-average period of 3.7 years.

**Table of Contents****13. Earnings Per Share**

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

	<b>Three Months Ended</b>		<b>Nine Months Ended</b>	
	<b>June 30,</b>		<b>June 30,</b>	
	<b>2006</b>	<b>2007</b>	<b>2006</b>	<b>2007</b>
Weighted average common shares outstanding used in calculating basic earnings per share	18,476,365	18,440,752	17,930,991	18,368,482
Effect of dilutive options	949,929	593,396	969,852	718,025
 Weighted average common and common equivalent shares used in calculating diluted earnings per share	 19,426,294	 19,034,148	 18,900,843	 19,086,507

Options to purchase 180,200 and 721,400 shares of common stock were outstanding for the three months ended June 30, 2006 and 2007, respectively, but were not included in 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 have been anti-dilutive. Options to purchase 207,400 and 692,900 shares of common stock were outstanding for the nine months ended June 30, 2006 and 2007, respectively, but were not included in 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 have been anti-dilutive.

**14. Contingencies**

We are party to various legal actions arising in the ordinary course of business. During the March 2007 quarter, we received the final ruling involving a lawsuit award that we were appealing, which upheld certain aspects of the original ruling. During the March 2007 quarter, we paid \$2.0 million in settlement of this lawsuit, which relieved the related litigation accrual that was established during prior periods.

During the March 2007 quarter, to protect our interests, we filed a lawsuit against the sellers of Surfside requesting payment of sums we believe were owed to us. Subsequent to the filing of our lawsuit, the sellers of Surfside filed an answer and counterclaim, among other things, demanding the release of the 100,000 shares of common stock held in escrow as security under the Asset Purchase Agreement. We and the sellers of Surfside resolved the dispute related to the acquisition, the net result of the resolution was that during the June 2007 quarter we collected certain working capital adjustments and accounts receivable that, per the terms of the acquisition documents, were due us.

Associated with the December 2006 snow and ice storms in Missouri, we have received approximately \$2.0 million of insurance proceeds to date, of which approximately \$1.4 million offset the related losses associated with the destruction of marina docks and significant expenses we incurred regarding damage and related clean up after the storm. The additional insurance proceeds received of approximately \$600,000 were recorded as a gain during the June 2007 quarter. The insurance proceeds, received to date, were recorded as a reduction to selling, general, and administrative expenses on the condensed consolidated statements of operations when received during the March and June 2007 quarters.

During the March 2007 quarter, we received \$2.0 million of business interruption insurance proceeds for claims associated with Hurricane Wilma which occurred in October 2005. The business interruption insurance proceeds were to reimburse us for the interruption in our operations that resulted in lost revenue and related profits in addition to the significant expenses incurred to move and repair inventory and to reimburse us for uninsured losses

**Table of Contents**

recognized by certain locations. These proceeds were recorded as a reduction to selling, general, and administrative expenses on the condensed consolidated statements of operations during the March 2007 quarter.

During the quarter ended June 30, 2007, we settled certain tax positions under an initiative offered by one of the states in which we conduct operations. As a result of this settlement, we reduced our reserve for contingent income tax liabilities by approximately \$5.2 million. Due to the amount paid under the settlement, the reduction in income tax expense was approximately \$3.8 million for the three- and nine-month periods ended June 30, 2007. Without this reduction, the effective tax rate would have been approximately 42.1% and 41.7% for the three- and nine-months ended June 30, 2007.

With respect to other matters, the ultimate liability, if any, was not material at June 30, 2007. While it was not feasible to determine the actual outcome of these actions as of June 30, 2007, 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, 2006.

**General**

We are the largest recreational boat retailer in the United States with fiscal 2006 revenue exceeding \$1.2 billion. Through 88 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.

We were incorporated in January 1998. We conducted no operations until the acquisition of five independent recreational boat dealers on March 1, 1998. Since the initial acquisitions in March 1998, we have acquired 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.

**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 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

**Table of Contents**

the insurance product as evidenced by contract execution or when we recognize the related boat sale. Pursuant to negotiated agreements with financial and insurance institutions, we are charged back for a portion of these fees should the customer terminate or default on the related finance or insurance contract before it is outstanding for a stipulated minimal period of time.

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, the cost of equipment added, reconditioning costs, and transportation costs relating to acquiring inventory for sale. New and used boat, motor, and trailer inventories are stated at the lower of cost, determined on a specific-identification basis, or market. Parts and accessories are stated 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 market 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. If the carrying amount of goodwill or an identifiable intangible asset exceeds its fair value, we would recognize an impairment loss. We measure any potential impairment based on various business valuation methodologies, including a projected discounted cash flow method.

We have determined that our most significant acquired identifiable intangible assets are our dealer agreements, which are indefinite-lived intangible assets. We completed the annual impairment test during the fourth quarter of fiscal 2006, based on financial information as of the third quarter of fiscal 2006, which resulted in no impairment of goodwill or identifiable intangible assets. We will continue to test goodwill and identifiable intangible assets for impairment at least annually and whenever events or changes in circumstances indicate that the carrying value may not be recoverable. To date, we have not recognized any impairment of goodwill or identifiable intangible assets in the application of SFAS 142. Net goodwill and identifiable intangible assets amounted to approximately \$97.4 million and \$23.7 million, respectively, as of June 30, 2007. The most significant estimates used in our goodwill valuation model include estimates of the future growth in our cash flows and future working capital needs to support our projected growth. Should circumstances change causing these assumptions to differ materially from our expectations, goodwill may become impaired, resulting in a material adverse effect on our operating margins.

**Table of Contents*****Impairment of Long-Lived Assets***

We review property, plant, and equipment for impairment in accordance with Statement of Financial Accounting Standards No.144, Accounting for Impairment or Disposal of Long-Lived Assets (SFAS 144). 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 the 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 our 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 the application of SFAS 144.

***Insurance***

We retain varying levels of risk relating to the insurance policies we maintain, most significantly workers compensation insurance and employee medical benefits. We are responsible for the claims and losses incurred under these programs, limited by per occurrence deductibles and paid claims or losses up to pre-determined maximum exposure limits. Any losses above the pre-determined exposure limits are paid by our third-party insurance carriers. We estimate our liability for incurred but not reported losses using our historical loss experience, our judgment, and industry information.

***Derivative Instruments***

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, all derivative instruments are recorded on the balance sheet at their respective fair values. Generally, if a derivative instrument is designated as a cash flow hedge, the change in the fair value of the derivative is recorded in other comprehensive income to the extent the derivative is effective, and recognized in the statement of operations when the hedged item affects earnings. If a derivative instrument is designated as a fair value hedge, the change in fair value of the derivative and of the hedged item attributable to the hedged risk are recognized in earnings in the current period.

***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 ESPP. Compensation for restricted stock awards is 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. Compensation cost for all awards is recognized in earnings, net of estimated forfeitures, on a straight-line basis over the requisite service period for each separately vesting portion of the award.

***Income Taxes***

We account for income taxes in accordance with Statement of Financial Accounting Standards No. 109, Accounting for Income Taxes (SFAS 109). 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.

**Table of Contents**

For a more comprehensive list of our accounting policies, including those which involve varying degrees of judgment, see Note 3 Significant Accounting Policies of Notes to Consolidated Financial Statements included in our Annual Report on Form 10-K for the fiscal year ended September 30, 2006.

**Consolidated Results of Operations**

The following discussion compares the three and nine months ended June 30, 2007 with the three and nine months ended June 30, 2006 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, 2007 Compared with Three Months Ended June 30, 2006***

**Revenue.** Revenue decreased \$41.5 million, or 9.9%, to \$379.8 million for the three months ended June 30, 2007 from \$421.3 million for the three months ended June 30, 2006. Of this decrease, \$36.0 million was attributable to a 9% decline in comparable-store sales, and \$5.5 million was a net reduction attributable to stores recently opened, acquired, or closed that were not eligible for inclusion in the comparable-store base. The decrease in comparable-store sales for the three months ended June 30, 2007 resulted primarily from a decrease in boat sales of approximately \$44.5 million due to the generally weaker marine retail environment, offset by increased revenue from our finance, insurance, service, and parts products of approximately \$2.9 million. The decrease in boat sales was primarily attributable to increased pricing pressure as a result of the softer marine retail environment.

**Gross Profit.** Gross profit decreased \$11.8 million, or 11.8%, to \$88.5 million for the three months ended June 30, 2007 from \$100.3 million for the three months ended June 30, 2006. Gross profit as a percentage of revenue decreased to 23.3% for the three months ended June 30, 2007 from 23.8% for the three months ended June 30, 2006. The decrease was primarily attributable to increased pricing pressure and margin reduction on boat sales as a result of the softer marine retail environment, partially offset by incremental improvements in finance, insurance, brokerage, and parts, and service revenue, which generally yield higher gross margins than boat sales.

**Selling, General, and Administrative Expenses.** Selling, general, and administrative expenses decreased \$1.7 million, or 2.6%, to \$63.5 million for the three months ended June 30, 2007 from \$65.2 million for the three months ended June 30, 2006. Selling, general, and administrative expenses as a percentage of revenue increased approximately 120 basis points to 16.7% for the three months ended June 30, 2007 from 15.5% for the three months ended June 30, 2006. During the three months ended June 30, 2007, a \$1.0 million gain was recorded from the sale of the Company's jet and a \$600,000 gain was recorded related to insurance proceeds we received associated with the snow and ice storm damage at the Missouri location. These items were recorded as offsets against selling, general, and administrative expenses. Excluding these items, selling, general and administrative expenses as a percentage of revenue increased to 17.2% for the three months ended June 30, 2007, primarily due to the reported comparable store sales decline caused by the weaker marine retail environment.

**Interest Expense.** Interest expense increased \$1.6 million, or 27.1%, to \$7.5 million for the three months ended June 30, 2007 from \$5.9 million for the three months ended June 30, 2006. Interest expense as a percentage of revenue increased to 2.0% for the three months ended June 30, 2007 from 1.4% for the three months ended June 30, 2006. The increase was primarily a result of increased borrowings associated with our revolving credit facility primarily due to the Port Arrowhead and Surfside acquisitions, which were completed in the March 2006 quarter, and mortgages primarily due to newly acquired locations, which accounted for an increase in interest expense of approximately \$1.2 million and a less favorable interest rate environment, which accounted for an increase of approximately \$300,000 in interest expense.

**Income Tax Provision.** Income tax expense decreased \$8.0 million, to \$3.6 million for the three months ended June 30, 2007 from \$11.6 million for the three months ended June 30, 2006. Our effective income tax rate decreased to 20.7% for the three months ended June 30, 2007 from 39.9% for the three months ended June 30, 2006, primarily as a result of the settlement of certain tax positions under an initiative offered by one of the states in which we conduct operations. As a result of this settlement, we reduced the reserve for contingent income taxes by approximately \$5.2 million and reduced income tax expense by approximately \$3.8 million for the three months ended June 30, 2007. Without this reduction, the effective tax rate would have been approximately 42.1% for the three months ended June 30, 2007.



**Table of Contents*****Nine Months Ended June 30, 2007 Compared with Nine Months Ended June 30, 2006***

**Revenue.** Revenue increased \$50.7 million, or 5.7%, to \$940.6 million for the nine months ended June 30, 2007 from \$889.9 million for the nine months ended June 30, 2006. Of this increase, \$56.5 million was attributable to recently opened or acquired stores that were not eligible for inclusion in the comparable-store base offset by \$5.8 million attributable to a less than 1% decline in comparable-store sales for the nine months ended June 30, 2007. The decline in comparable-store sales for the nine months ended June 30, 2007 was due primarily to softer marine retail conditions, resulting in a decrease in boat sales of approximately \$12.5 million, partially offset by increased revenue from our finance, insurance, service, and parts products of approximately \$6.7 million.

**Gross Profit.** Gross profit increased \$5.9 million, or 2.8%, to \$219.1 million for the nine months ended June 30, 2007 from \$213.2 million for the nine months ended June 30, 2006. Gross profit as a percentage of revenue decreased to 23.3% for the nine months ended June 30, 2007 from 24.0% for the nine months ended June 30, 2006. The decrease was primarily attributable to increased pricing pressure and margin reduction on boat sales as a result of the softer marine retail environment, partially offset by incremental improvements in finance, insurance, brokerage, and parts, and service revenue, which generally yield higher gross margins than boat sales.

**Selling, General, and Administrative Expenses.** Selling, general, and administrative expenses increased \$25.1 million, or 16.1%, to \$180.9 million for the nine months ended June 30, 2007 from \$155.8 million for the nine months ended June 30, 2006. Selling, general, and administrative expenses as a percentage of revenue increased approximately 170 basis points to 19.2% for the nine months ended June 30, 2007 from 17.5% for the nine months ended June 30, 2006. During the nine months ended June 30, 2007, we recorded \$2.0 million of business interruption insurance proceeds which was received for claims associated with Hurricane Wilma in 2006, a \$1.0 million gain was recorded from the sale of the Company's jet and a \$600,000 gain was recorded related to insurance proceeds we received associated with the snow and ice storm damage at certain Missouri locations. These items were recorded as offsets against selling, general, and administrative expenses. Excluding these items results in selling, general and administrative expenses as a percent of revenue of 19.6% for the nine months ended June 30, 2007. This approximate 210 basis point increase in selling, general, and administrative expenses as a percentage of revenue was primarily attributable to the reported same store sales decline and increased operations compared to the prior year.

**Interest Expense.** Interest expense increased \$8.5 million, or 65.5%, to \$21.5 million for the nine months ended June 30, 2007 from \$13.0 million for the nine months ended June 30, 2006. Interest expense as a percentage of revenue increased to 2.3% for the nine months ended June 30, 2007 from 1.5% for the nine months ended June 30, 2006. The increase was primarily a result of increased borrowings associated with our revolving credit facility primarily due to the Port Arrowhead and Surfside acquisitions, which were completed in the March 2006 quarter, and mortgages primarily due to newly acquired locations, which accounted for an increase in interest expense of approximately \$7.1 million and a less favorable interest rate environment, which accounted for an increase of approximately \$1.4 million in interest expense.

**Income Tax Provision.** Income tax expense decreased \$14.5 million, to \$3.2 million for the nine months ended June 30, 2007 from \$17.7 million for the nine months ended June 30, 2006. Our effective income tax rate decreased significantly to 19.2% for the nine months ended June 30, 2007 from 39.8% for the nine months ended June 30, 2006, primarily as a result of the settlement of certain tax positions under an initiative offered by one of the states in which we conduct operations. As a result of this settlement, we reduced the reserve for contingent income taxes by approximately \$5.2 million and reduced income tax expense by approximately \$3.8 million for the nine months ended June 30, 2007. Without this reduction, the effective tax rate would have been approximately 41.7% for the nine months ended June 30, 2007.

**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.

**Table of Contents**

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 line of credit facility. We currently depend upon dividends and other payments from our consolidated operating subsidiaries and our line of 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.

For the nine months ended June 30, 2006, cash provided by operating activities approximated \$11.5 million. For the nine months ended June 30, 2007, cash used in operating activities approximated \$9.7 million. For the nine months ended June 30, 2006, cash provided by operating activities was due primarily to net income, non-cash depreciation and amortization charges, non-cash stock-based compensation charges, and increases in accrued expenses and accounts payable due to the timing of certain payments to our manufacturers, partially offset by a decrease in customer deposits and an increase in accounts receivable due to increased revenues. For the nine months ended June 30, 2007, cash used in operating activities was due primarily to increases in inventories to ensure appropriate inventory levels moving into the summer boating season and accounts receivable as a result of our increased revenues, coupled with a decrease in accounts payable to tax authorities, partially offset by a increases in customer deposits and accrued expenses, non-cash depreciation and amortization charges, and non-cash stock-based compensation charges.

For the nine months ended June 30, 2006 and 2007, cash used in investing activities approximated \$93.4 million and \$6.9 million, respectively. For the nine months ended June 30, 2006, cash used in investing activities was primarily used in business acquisitions (Port Arrowhead and Surfside) and to purchase property and equipment associated with opening new retail facilities or improving and relocating existing retail facilities, and to invest in a joint venture. For the nine months ended June 30, 2007, cash used in investing activities was primarily used in business acquisitions (Port Arrowhead and Surfside) and to purchase property and equipment associated with opening new retail facilities or improving and relocating existing retail facilities, partially offset by proceeds received from the sale and involuntary conversion of property and equipment.

For the nine months ended June 30, 2006 and 2007, cash provided by financing activities approximated \$82.9 million and \$16.8 million, respectively. For the nine months ended June 30, 2006 and 2007, cash provided by financing activities was primarily attributable to increased borrowings on short-term borrowings, the exercise of stock options, and stock purchases under our employee stock purchase plan, partially offset by repayments on long-term debt.

We currently maintain a second amended and restated credit and security agreement with eight financial institutions. 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 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 credit facility requires us to satisfy certain covenants, including maintaining a leverage ratio tied to our tangible net worth. The credit facility matures in May 2012, with two one-year renewal options remaining. As of June 30, 2007, we were in compliance with all of the credit facility covenants.

As of June 30, 2007, our indebtedness totaled approximately \$371.9 million, of which approximately \$31.9 million was associated with our real estate holdings and approximately \$340.0 million was associated with financing our inventory and working capital needs. At June 30, 2006 and 2007, the interest rate on the outstanding short-term borrowings was 6.6% and 6.8%, respectively. At June 30, 2007, our additional available borrowings under our credit facility were approximately \$148.3 million.

We issued a total of 217,652 shares of our common stock in conjunction with our 2007 Plan, 1998 Plan, and Employee Stock Purchase Plan during the nine months ended June 30, 2007 in exchange for approximately \$3.1 million in cash. Our 2007 Plan and 1998 Plan provides for the grant of incentive and non-qualified stock options to acquire our common stock, 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





**Table of Contents**

to us. Our Employee Stock Purchase Plan is available to all our regular employees who have completed at least one year of continuous service. Our 1998 Plan was replaced by our 2007 Plan.

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 June 30. 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, 2007, approximately 98.3% of our short- and long-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, 2007, a hypothetical 100 basis point increase in interest rates on our variable rate obligations would have resulted in an increase of approximately \$3.7 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.

Products purchased from the Italy-based Ferretti Group and Azimut-Benetti Group are subject to fluctuations in the Euro to U.S. dollar exchange rate, which ultimately may impact the retail price at which we can sell such products. Accordingly, fluctuations in the value of the Euro compared with the U.S. dollar may impact the price points at which we can sell profitably Ferretti Group and Azimut-Benetti Group products, and such price points may not be competitive with other product lines in the United States. Accordingly, such fluctuations in exchange rates ultimately may impact the amount of revenue or cost of goods sold, cash flows, and earnings we recognize for the Ferretti Group and Azimut-Benetti Group product lines. The impact of these currency fluctuations could increase, particularly if our revenue from the Ferretti Group and Azimut-Benetti Group products increases as a percentage of our total revenue. We cannot predict the effects of exchange rate fluctuations on our operating results. We are not currently engaged in any foreign currency exchange hedging transactions to manage our foreign currency exposure that could have a significant impact on our operations. If and when we do engage in material foreign currency exchange hedging transactions, we cannot assure that our strategies will adequately protect our operating results from the effects of exchange rate fluctuations

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

We carried out an evaluation as required by Rules 13a-15(e) and 15d-15(e) under the Securities Exchange Act of 1934, with the participation of our Chief Executive Officer (CEO) and Chief Financial Officer (CFO), of the effectiveness of our disclosure controls and procedures as of June 30, 2007. Based on this evaluation, our CEO and CFO have each concluded that our disclosure controls and procedures are effective to ensure that we record, process, summarize, and report information required to be disclosed by us in our reports filed under the Securities Exchange Act within the time periods specified by the Securities and Exchange Commission's rules and forms.

**Changes in Internal Controls**

During the quarter ended June 30, 2007, 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 error 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

**Table of Contents**

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) and applicable rules of the SEC. This Item of this report is the information concerning the Evaluation referred to in the Section 302 Certifications and SEC rules 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**

During the March 2007 quarter, to protect our interests, we filed a lawsuit against the sellers of Surfside requesting payment of sums we believe were owed to us. Subsequent to the filing of our lawsuit, the sellers of Surfside filed an answer and counterclaim, among other things, demanding the release of the 100,000 shares of common stock held in escrow as security under the Asset Purchase Agreement. We and the sellers of Surfside resolved the dispute related to the acquisition, the net result of the resolution was that during the June 2007 quarter we collected certain working capital adjustments and accounts receivable that, per the terms of the acquisition documents, were due us.

**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 2, 2007

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

27