MARINEMAX INC
Form 10-Q
July 31, 2018

UNITED STATES

SECURITIES AND EXCHANGE COMMISSION

WASHINGTON, DC 20549

FORM 10-Q

QUARTERLY REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934 FOR THE QUARTERLY PERIOD ENDED JUNE 30, 2018.
Commission File Number. 1-14173

MARINEMAX, INC.

(Exact Name of Registrant as Specified in Its Charter)

Florida	59-3496957
(State or Other Jurisdiction of Incorporation or Organization)	(I.R.S. Employer Identification Number)
2600 McCormick Drive, Suite 200	
Clearwater, Florida	33759
(Address of Principal Executive Offices)	(ZIP Code)

727-531-1700

(Registrant's Telephone Number, Including Area Code)

Indicate by check mark whether the registrant: (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days.

Yes No

Indicate by check mark whether the registrant has submitted electronically and posted on its corporate Web site, if any, every Interactive Data File required to be submitted and posted pursuant to Rule 405 of Regulation S-T (§ 232.405 of this chapter) during the preceding 12 months (or for such shorter period that the registrant was required to submit and post such files).

Yes No

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

Large accelerated filer		Accelerated filer
Non-accelerated filer	(Do not check if a smaller reporting company)	Smaller reporting company
		Emerging growth company

If an emerging growth company, indicate by check mark if the registrant has elected not to use the extended transition period for complying with any new or revised financial accounting standards provided pursuant to Section 13(a) of the Exchange Act.

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, 2018 was 26,985,409.

MARINEMAX, INC. AND SUBSIDIARIES

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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 June 30,		Nine Months Ended June 30,	
	2017	2018	2017	2018
Revenue	$329,809	$361,254	$801,702	$868,780
Cost of sales	245,017	270,567	602,713	649,551
Gross profit	84,792	90,687	198,989	219,229
Selling, general, and administrative expenses	59,557	64,089	161,433	172,994
Income from operations	25,235	26,598	37,556	46,235
Interest expense	1,897	2,499	5,511	7,881
Income before income tax provision	23,338	24,099	32,045	38,354
Income tax provision	9,094	6,723	12,409	10,582
Net income	$14,244	$17,376	$19,636	$27,772
Basic net income per common share	$0.59	$0.78	$0.81	$1.25
Diluted net income per common share	$0.57	$0.75	$0.78	$1.21
Weighted average number of common shares used in computing net income per common share:				
Basic	24,336,777	22,399,079	24,293,512	22,185,736
Diluted	25,095,398	23,182,546	25,045,046	22,944,581

See accompanying notes to condensed consolidated financial statements.

MARINEMAX, INC. AND SUBSIDIARIES

Condensed Consolidated Balance Sheets

(Amounts in thousands, except share data)

(Unaudited)

	September 30, 2017	June 30, 2018
ASSETS		
CURRENT ASSETS:		
Cash and cash equivalents	$ 41,952	$ 62,108
Accounts receivable, net	24,661	42,683
Inventories, net	401,301	379,425
Prepaid expenses and other current assets	5,842	6,001
Total current assets	473,756	490,217
Property and equipment, net of accumulated depreciation of $69,485 and $76,669	127,160	130,684
Goodwill and other long-term assets, net	30,305	31,916
Deferred tax assets, net	8,769	3,095
Total assets	$ 639,990	$ 655,912
LIABILITIES AND SHAREHOLDERS' EQUITY		
CURRENT LIABILITIES:		
Accounts payable	$ 26,432	$ 20,773
Customer deposits	21,032	22,865
Accrued expenses	33,046	35,391
Short-term borrowings	254,177	232,764
Total current liabilities	334,687	311,793
Long-term liabilities	3,105	2,497
Total liabilities	337,792	314,290
SHAREHOLDERS' EQUITY:		
Preferred stock, $.001 par value, 1,000,000 shares authorized, none issued or outstanding as of September 30, 2017 and June 30, 2018	—	—
Common stock, $.001 par value, 40,000,000 shares authorized, 26,314,066 and 26,983,074 shares issued and 21,887,579 and 22,512,343 shares outstanding as of September 30, 2017 and June 30, 2018, respectively	26	27
Additional paid-in capital	249,974	262,320
Retained earnings	126,759	154,531
Treasury stock, at cost, 4,426,487 and 4,470,731 shares held as of September 30, 2017 and June 30, 2018, respectively	(74,561)	(75,256)
Total shareholders' equity	302,198	341,622

Total liabilities and shareholders’ equity	$639,990	$655,912

See accompanying notes to condensed consolidated financial statements.

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MARINEMAX, INC. AND SUBSIDIARIES

Condensed Consolidated Statement of Shareholders' Equity

(Amounts in thousands, except share data)

(Unaudited)

	Common Stock Shares	Amount	Additional Paid-in Capital	Retained Earnings	Treasury Stock	Total Shareholders' Equity
BALANCE, September 30, 2017	26,314,066	$ 26	$ 249,974	$ 126,759	$ (74,561)	$ 302,198
Net income	-	-	-	27,772	-	27,772
Purchase of treasury stock	-	-	-	-	(695)	(695)
Shares issued pursuant to employee stock purchase plan	67,187	1	950	-	-	951
Shares issued upon vesting of equity awards, net of minimum tax withholding	13,129	-	(118)	-	-	(118)
Shares issued upon exercise of stock options	581,364	-	6,653	-	-	6,653
Stock-based compensation	7,328	-	4,861	-	-	4,861
BALANCE, June 30, 2018	26,983,074	$ 27	$ 262,320	$ 154,531	$ (75,256)	$ 341,622

See accompanying notes to condensed consolidated financial statements.

MARINEMAX, INC. AND SUBSIDIARIES

Condensed Consolidated Statements of Cash Flows

(Amounts in thousands)

(Unaudited)

	Nine Months Ended June 30, 2017	2018
CASH FLOWS FROM OPERATING ACTIVITIES:		
Net income	$19,636	$27,772
Adjustments to reconcile net income to net cash (used in) provided by operating activities:		
Depreciation and amortization	6,877	7,853
Deferred income tax provision	9,322	5,674
(Gain) loss on sale of property and equipment and assets held for sale	(62)	78
Gain on insurance settlements	—	(1,082)
Proceeds from insurance settlements	—	2,342
Stock-based compensation expense	4,600	4,861
(Increase) decrease in —		
Accounts receivable, net	(16,769)	(19,833)
Inventories, net	(41,083)	24,386
Prepaid expenses and other assets	(1,413)	(417)
Increase (decrease) in —		
Accounts payable	16,037	(5,686)
Customer deposits	(7,922)	1,794
Accrued expenses and long-term liabilities	5,098	4,636
Net cash (used in) provided by operating activities	(5,679)	52,378
CASH FLOWS FROM INVESTING ACTIVITIES:		
Purchases of property and equipment	(12,354)	(10,839)
Proceeds from insurance settlements	—	685
Net cash used in acquisition of businesses, primarily property and equipment and inventory	(18,725)	(2,433)
Proceeds from sale of property and equipment and assets held for sale	946	168
Net cash used in investing activities	(30,133)	(12,419)
CASH FLOWS FROM FINANCING ACTIVITIES:		
Net borrowings (payments) on short-term borrowings	58,284	(23,568)
Net proceeds from issuance of common stock under incentive compensation and employee purchase plans	3,029	7,604
Contingent acquisition consideration payments	(150)	(3,026)
Payments on tax withholdings for equity awards	(87)	(118)
Purchase of treasury stock	(4,919)	(695)

Net cash provided by (used in) financing activities	56,157	(19,803)
NET INCREASE IN CASH AND CASH EQUIVALENTS	20,345	20,156
CASH AND CASH EQUIVALENTS, beginning of period	38,585	41,952
CASH AND CASH EQUIVALENTS, end of period	$58,930	$62,108
Supplemental Disclosures of Cash Flow Information:		
Cash paid for:		
Interest	$6,211	$9,530
Income taxes	457	4,608
Non-cash items:		
Contingent consideration liabilities from acquisitions	$3,720	$-

See accompanying notes to condensed consolidated financial statements.

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MARINEMAX, INC. AND SUBSIDIARIES

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

(UNAUDITED)

1. COMPANY BACKGROUND:
We are the largest recreational boat and yacht 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. We also offer the charter of power and sailing yachts in the British Virgin Islands. As of June 30, 2018, we operated through 63 retail locations in 16 states, consisting of Alabama, Connecticut, Florida, Georgia, Maryland, Massachusetts, Minnesota, Missouri, New Jersey, New York, North Carolina, Ohio, Oklahoma, Rhode Island, South Carolina and Texas. Our MarineMax Vacations operation maintains a facility in Tortola, British Virgin Islands.

We are the nation's largest retailer of Sea Ray and Boston Whaler recreational boats and yachts, which are manufactured by Brunswick Corporation ("Brunswick"). Sales of new Brunswick boats accounted for approximately 42% of our revenue in fiscal 2017. Sales of new Sea Ray and Boston Whaler boats, both divisions of Brunswick, accounted for approximately 23% and 17%, respectively, of our revenue in fiscal 2017. Brunswick is a world leading manufacturer of marine products and marine engines. We believe we represented approximately 55% of Brunswick's Sea Ray boat sales, during our fiscal 2017.

In June 2018 Brunswick announced it will discontinue Sea Ray sport yacht and yacht models. Sea Ray sport yacht and yacht models represented approximately 10% of our rolling 12-month revenue in the period ending June 30, 2018. We believe our brand and product diversification should allow us to replace the Sea Ray sport yacht and yacht revenue.

We have dealership agreements with Sea Ray, Boston Whaler, Harris, Meridian, and Mercury Marine, all subsidiaries or divisions of Brunswick. We also have dealer agreements with Italy-based Azimut-Benetti Group's product line for Azimut Yachts. 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.

We have multi-year dealer agreements with Brunswick covering Sea Ray products that appoint us as the exclusive dealer of Sea Ray boats in our geographic markets. We are the exclusive dealer for Boston Whaler through multi-year dealer agreements for many of our geographic markets. In addition, we are the exclusive dealer for Azimut Yachts for the entire United States through a multi-year dealer agreement. Sales of new Azimut boats accounted for approximately 9% of our revenue in fiscal 2017. We believe 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 most of our manufacturers, other than Sea Ray, Boston Whaler, Meridian, and Azimut 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 Sea Ray and Azimut 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.

General economic conditions and consumer spending patterns can negatively impact our operating results. Unfavorable local, regional, national, or global economic developments or uncertainties regarding future economic prospects could reduce consumer spending in the markets we serve and adversely affect our business. Economic conditions in areas in which we operate dealerships, particularly Florida in which we generated approximately 53%, 55%, and 55% of our revenue during fiscal 2015, 2016, and 2017, respectively, can have a major impact on our operations. Local influences, such as corporate downsizing, military base closings, inclement weather such as Hurricane Sandy in 2012 or Hurricanes Harvey and Irma in 2017, environmental conditions, and specific events, such as the BP oil spill in the Gulf of Mexico in 2010, also could adversely affect, and in certain instances have adversely affected, our operations in certain markets.

In an economic downturn, consumer discretionary spending levels generally decline, at times resulting in disproportionately large reductions in the sale of luxury goods. Consumer spending on luxury goods also may decline as a result of lower consumer confidence levels, even if prevailing economic conditions are favorable. As a result, an economic downturn could impact us more than certain of our competitors due to our strategic focus on a higher end of our market. Although we have expanded our operations during periods of stagnant or modestly declining industry trends, the cyclical nature of the recreational boating industry or the lack of industry growth may adversely affect our business, financial condition, and results of operations. Any period of adverse economic conditions or low consumer confidence is likely to have a negative effect on our business.

Lower consumer spending resulting from a downturn in the housing market and other economic factors adversely affected our business in fiscal 2007, and continued weakness in consumer spending and depressed economic conditions had a substantial negative effect on our business and industry for several years after fiscal 2007. These conditions caused us to substantially reduce our acquisition program, delay new store openings, reduce our inventory purchases, engage in inventory reduction efforts, close a number of our retail locations, reduce our headcount, and amend and replace our credit facility. Acquisitions and new store openings remain important strategies to our company, and we plan to accelerate our growth through these strategies as economic conditions continue to improve. However, we cannot predict the length of unfavorable economic or industry conditions or the extent to which they will continue to adversely affect our operating results nor can we predict the effectiveness of the measures we have taken to address this environment.

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, 2017. Accordingly, these unaudited condensed consolidated financial statements 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. As of June 30, 2018, our financial instruments consisted of cash and cash equivalents, accounts receivable, accounts payable, customer deposits, and short-term borrowings. The carrying amounts of our financial instruments reported on the balance sheet as of June 30, 2018, approximated fair value due either to length to maturity or existence of variable interest rates, which approximate prevailing market rates. The operating results for the three and nine months ended June 30, 2018, 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 as of the date of the unaudited condensed consolidated financial statements and the reported amounts of revenue and expenses during the reporting periods. Significant 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.

Unless the context otherwise requires, all references to “MarineMax” mean MarineMax, Inc. prior to its acquisition of five previously independent recreational boat dealers in March 1998 (including their related real estate companies) and all references to the “Company,” “our company,” “we,” “us,” and “our” mean, as a combined company, MarineMax, Inc. a the 28 recreational boat dealers, two boat brokerage operations, and two full-service yacht repair operations acquired as of June 30, 2018 (the “acquired dealers,” and together with the brokerage and repair operations, “operating subsidiaries” or the “acquired companies”).

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 for 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:

In May 2014, the FASB issued Accounting Standards Update No. 2014-09, “Revenue from Contracts with Customers (Topic 606)” (“ASU 2014-09”), a converged standard on revenue recognition. The new pronouncement requires revenue recognition to depict the transfer of promised goods or services to customers in an amount that reflects the consideration to which the entity expects to be entitled in exchange for those goods or services. The guidance also specifies the accounting for some costs to obtain or fulfill a contract with a customer, as well as enhanced disclosure requirements. ASU 2014-09 is effective for annual reporting periods beginning after December 15, 2017, including interim reporting periods within that reporting period. Early adoption is permitted for annual reporting periods beginning after December 15, 2016. While we have not completed the implementation process, we currently do not believe the adoption of this standard will have a material impact on our unaudited condensed consolidated financial statements, or will cause a significant change to our current accounting policies or internal control over financial reporting for revenue recognition on boat, motor, and trailer sales, brokerage commissions, slip and storage services, charter rentals, and fee income generated from finance and insurance products. However, the timing of revenue recognition for certain parts and service operations will be accelerated, as we have determined these performance obligations are satisfied over time under the new standard. We currently anticipate adopting the standard using the modified retrospective approach applied only to contracts not completed as of the date of adoption, with no restatement of comparative periods and if material a cumulative effect adjustment recognized as of the date of adoption. We plan to adopt ASU 2014-09 in fiscal 2019.

In February 2016, the FASB issued ASU 2016-02, "Leases (Topic 842)" ("ASU 2016-02"). This update requires organizations to recognize lease assets and lease liabilities on the balance sheet and also disclose key information about leasing arrangements. ASU 2016-02 is effective for annual reporting periods beginning on or after December 15, 2018, and interim periods within those annual periods. Earlier application is permitted for all entities as of the beginning of an interim or annual period. While we are continuing to evaluate the impact of the adoption of ASU 2016-02 on our unaudited condensed consolidated financial statements, we believe the adoption of ASU 2016-02 may have a significant and material impact to our unaudited condensed consolidated balance sheet given our current lease agreements for our leased retail locations. We are currently evaluating the impact the adoption of ASU 2016-02 will have on our other unaudited condensed consolidated financial statements. Based on a preliminary assessment, we expect that most of our operating lease commitments will be subject to the new guidance and recognized as operating lease liabilities and right-of-use assets upon adoption, resulting in a material increase in the assets and liabilities recorded on our unaudited condensed consolidated balance sheet. We are continuing our assessment, which may identify additional impacts this standard will have on our consolidated financial statements and related disclosures and internal control over financial reporting. We plan to adopt ASU 2016-02 in fiscal 2020.

In January 2017, the FASB issued ASU 2017-04, "Simplifying the Test for Goodwill Impairment (Topic 350)" ("ASU 2017-04"). This update removes the requirement to compare the implied fair value of goodwill with its carrying amount as part of step 2 of the goodwill impairment test. As a result, under ASU 2017-04, an entity should perform its annual, or interim, goodwill impairment test by comparing the fair value of a reporting unit with its carrying amount and should recognize an impairment charge for the amount by which the carrying amount exceeds the reporting unit's fair value; however, the impairment loss recognized should not exceed the total amount of goodwill allocated to that reporting unit. This guidance is effective prospectively for fiscal years beginning after December 15, 2019. Early adoption is permitted for interim or annual goodwill impairment tests performed after January 1, 2017. The adoption of ASU 2017-04 is not expected to have a significant impact on the Company's unaudited condensed consolidated financial statements or internal control over financial reporting.

4. 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 the service is completed. We recognize deferred revenue from service operations and slip and storage services on a straight-line basis over the term of the contract as services are completed. We recognize commissions earned from a brokerage sale at the time the related brokerage transaction closes. We recognize income from the rentals of chartering power and sailing yachts on a straight-line basis over the term of the contract as services are completed. 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 recognize marketing fees earned on credit, life, accident, disability, gap, 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. 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 minimum period of time. We base the chargeback allowance, which was not material to the unaudited condensed consolidated financial statements taken as a whole as of June 30, 2018, on our experience with repayments or defaults on the related finance or insurance contracts.

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. We determined the chargeback allowance, which was not material to the unaudited condensed consolidated financial statements taken as a whole as of June 30, 2018, based upon our experience with terminations or defaults on the service contracts.

5. INVENTORIES:

Inventory costs consist of the amount paid to acquire inventory, net of vendor consideration and purchase discounts, the cost of equipment added, reconditioning costs, and transportation costs relating to acquiring inventory for sale. We state new and used boat, motor, and trailer inventories at the lower of cost, determined on a specific-identification basis, or net realizable value. We state parts and accessories at the lower of cost, determined on an average cost basis, or net realizable value. We utilize our historical experience, the aging of the inventories, and our consideration of current market trends as the basis for determining a lower of cost or net realizable value valuation allowance. As of September 30, 2017 and June 30, 2018, our lower of cost or net realizable value valuation allowance for new and used boat, motor, and trailer inventories was $1.8 million and $2.5 million, respectively. If events occur and market conditions change, causing the fair value to fall below carrying value, the lower of cost or net realizable value valuation allowance could increase.

6. IMPAIRMENT OF LONG-LIVED ASSETS:

FASB Accounting Standards Codification 360-10-40, “Property, Plant, and Equipment - Impairment or Disposal of Long-Lived Assets” (“ASC 360-10-40”), 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 our best estimate based on currently available information and reasonable and supportable assumptions. Any impairment recognized in accordance with ASC 360-10-40 is permanent and may not be restored. The analysis is performed at a regional level for indicators of permanent impairment given the geographical interdependencies among our locations. Based upon our most recent analysis, which excludes fixed assets classified as held for sale which are recorded at fair value, we believe no impairment of long-lived assets existed as of June 30, 2018.

7. INCOME TAXES:

We account for income taxes in accordance with FASB Accounting Standards Codification 740, “Income Taxes” (“ASC 740”). Under ASC 740, 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 bases. We measure deferred tax assets and liabilities using enacted tax rates expected to apply to taxable income in the years in which we expect those temporary differences 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. As of September 30, 2017 and June 30, 2018, we had a valuation allowance on our deferred tax assets of $246,000 and $299,000, respectively.

During the three months ended June 30, 2017 and 2018 we recognized an income tax provision of $9.1 million and $6.7 million, respectively. During the nine months ended June 30, 2017 and 2018 we recognized an income tax provision of $12.4 million and $10.6 million, respectively. The effective income tax rate for the three months ended June 30, 2017 and 2018 was 39.0% and 27.9%, respectively. The effective income tax rate for the nine months ended June 30, 2017 and 2018 was 38.7% and 27.6%, respectively. Due to the passage of the Tax Cuts and Jobs Act legislation in December 2017, which lowered the federal corporate tax rate from 35% to 21% (among other changes), our deferred tax assets were re-measured as of December 31, 2017 resulting in an approximately $889,000 reduction in our beginning deferred tax assets and corresponding increase in our income tax provision for the nine months ended

June 30, 2018. The final impact of the Tax Cuts and Jobs Act legislation may differ due to, among other things, changes in interpretations, our assumptions used, issuance of additional guidance, and actions we may take as a result of the new legislation.

8. SHORT-TERM BORROWINGS:

In May 2017, we amended and restated our Inventory Financing Agreement (the “Amended Credit Facility”), originally entered into in June 2010, as subsequently amended, with Wells Fargo Commercial Distribution Finance LLC (formerly GE Commercial Distribution Finance Corporation). The May 2017 amendment and restatement extended the maturity date of the Credit Facility to October 2020, and the Amended Credit Facility includes two additional one-year extension periods, with lender approval. The May 2017 amendment and restatement, among other things, modified the amount of borrowing availability and maturity date of the Credit Facility. The Amended Credit Facility provides a floor plan financing commitment of up to $350.0 million, an increase from the previous limit of $300.0 million, subject to borrowing base availability resulting from the amount and aging of our inventory.

The Amended Credit Facility has certain financial covenants as specified in the agreement. The covenants include provisions that our leverage ratio must not exceed 2.75 to 1.0 and that our current ratio must be greater than 1.2 to 1.0. The interest rate for amounts outstanding under the Amended Credit Facility is 345 basis points above the one-month London Inter-Bank Offering Rate (“LIBOR”). There is an unused line fee of ten basis points on the unused portion of the Amended Credit Facility.

Advances under the Amended Credit Facility are initiated by the acquisition of eligible new and used inventory or are re-advances against eligible new and used inventory that have been partially paid-off. Advances on new inventory will generally mature

1,080 days from the original invoice date. Advances on used inventory will mature 361 days from the date we acquire the used inventory. Each advance is subject to a curtailment schedule, which requires that we pay down the balance of each advance on a periodic basis starting after six months. The curtailment schedule varies based on the type and value of the inventory. The collateral for the Amended Credit Facility is all of our personal property with certain limited exceptions. None of our real estate has been pledged for collateral for the Amended Credit Facility.

As of June 30, 2018, our indebtedness associated with financing our inventory and working capital needs totaled approximately $232.8 million. As of June 30, 2017 and 2018, the interest rate on the outstanding short-term borrowings was approximately 4.5% and 5.1%, respectively. As of June 30, 2018, our additional available borrowings under our Amended Credit Facility were approximately $36.2 million based upon the outstanding borrowing base availability.

As is common in our industry, we receive interest assistance directly from boat manufacturers, including Brunswick. The interest assistance programs vary by manufacturer, but generally include periods of free financing or reduced interest rate programs. The interest assistance may be paid directly to us or our lender depending on the arrangements the manufacturer has established. We 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.

The availability and costs of borrowed funds can adversely affect our ability to obtain adequate boat inventory and the holding costs of that inventory as well as the ability and willingness of our customers to finance boat purchases. As of June 30, 2018, we had no long-term debt. However, we rely on our Amended Credit Facility to purchase our inventory of boats. The aging of our inventory limits our borrowing capacity as defined curtailments reduce the allowable advance rate as our inventory ages. Our access to funds under our Amended Credit Facility also depends upon the ability of our lenders to meet their funding commitments, particularly if they experience shortages of capital or experience excessive volumes of borrowing requests from others during a short period of time. Unfavorable economic conditions, weak consumer spending, turmoil in the credit markets, and lender difficulties, among other potential reasons, could interfere with our ability to utilize our Amended Credit Facility to fund our operations. Any inability to utilize our Amended Credit Facility could require us to seek other sources of funding to repay amounts outstanding under the credit agreements or replace or supplement our credit agreements, which may not be possible at all or under commercially reasonable terms.

Similarly, decreases in the availability of credit and increases in the cost of credit adversely affect the ability of our customers to purchase boats from us and thereby adversely affect our ability to sell our products and impact the profitability of our finance and insurance activities.

9. STOCK-BASED COMPENSATION:

We account for our stock-based compensation plans following the provisions of FASB Accounting Standards Codification 718, “Compensation — Stock Compensation” (“ASC 718”). In accordance with ASC 718, we use the Black-Scholes valuation model for valuing all stock-based compensation and shares purchased under our Employee Stock Purchase Plan. We measure compensation for restricted stock awards and restricted stock units 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 operations, net of estimated forfeitures, on a straight-line basis over the requisite service period for each separately vesting portion of the award.

During the three months ended June 30, 2017 and 2018, we recognized stock-based compensation expense of approximately $1.3 million and $1.7 million, respectively, and for the nine months ended June 30, 2017 and 2018, we recognized stock-based compensation expense of approximately $4.6 million and $4.9 million, respectively, in selling, general, and administrative expenses in the unaudited condensed consolidated statements of operations.

Cash received from option exercises under all share-based compensation arrangements and the employee stock purchase plan for the three months ended June 30, 2017 and 2018, was approximately $1.0 million and $3.7 million, respectively, and for the nine months ended June 30, 2017 and 2018, was approximately $3.0 million and $7.6 million, respectively. We currently expect to satisfy share-based awards with registered shares available to be issued.

10. THE INCENTIVE STOCK PLANS:

During February 2017, our shareholders approved a proposal to amend the 2011 Stock-Based Compensation Plan (“2011 Plan”) to increase the 2,200,456 share threshold by 1,000,000 shares to 3,200,456 shares. During January 2011, our shareholders approved a proposal to authorize our 2011 Plan, which replaced our 2007 Incentive Compensation Plan (“2007 Plan”). Our 2011 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 2011 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 shareholder value. Subsequent to the February 2017 amendment described above, the total number of shares of our common stock that may be subject to awards under the 2011 Plan is equal to 3,000,000 shares, plus: (i) any shares available for issuance and not subject to an award under the 2007 Plan, which was 200,456 shares at the time of approval of the 2011 Plan; (ii) the number of shares with respect to which awards granted under the 2011 Plan and the 2007 Plan terminate without the issuance of the shares or where the shares are forfeited or repurchased; (iii) with respect to awards granted under the 2011 Plan and the 2007 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 2011 Plan or the 2007 Plan. The 2011 Plan terminates in January 2021, and awards may be granted at any time during the life of the 2011 Plan. The dates on which awards vest are determined by the Board of Directors or the Plan Administrator. The Board of Directors has appointed the Compensation Committee as 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 2011 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.

The following table summarizes activity from our incentive stock plans from September 30, 2017 through June 30, 2018:

Shares Available for Grant	Options Outstanding	Aggregate Intrinsic Value (in thousands)