MARINEMAX INC
Form 10-Q
May 11, 2009

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 MARCH 31, 2009.
Commission File No. 1-14173
MARINEMAX, INC.
(Exact name of registrant as specified in its charter)

Delaware	**59-3496957**
(State or other jurisdiction of incorporation or organization)	(I.R.S. Employer Identification Number)
18167 U.S. Highway 19 North, Suite 300 Clearwater, Florida	**33764**
(Address of principal executive offices)	(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 þ No o

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 (§223.405 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 o No þ

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

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

Indicate by check mark whether the registrant is a shell company (as defined in Rule 12b-2 of the Exchange Act).

Yes o No þ

The number of outstanding shares of the registrant s Common Stock on April 30, 2009 was 18,512,104.

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 March 31,		Six Months Ended March 31,	
	2008	2009	2008	2009
Revenue	$ 233,262	$ 129,608	$ 448,530	$ 229,832
Cost of sales	178,783	109,894	345,927	186,415
Gross profit	54,479	19,714	102,603	43,417
Selling, general, and administrative expenses	56,198	36,360	109,389	75,222
Loss from operations	(1,719)	(16,646)	(6,786)	(31,805)
Interest expense	5,952	3,774	11,833	7,836
Loss before income tax benefit	(7,671)	(20,420)	(18,619)	(39,641)
Income tax benefit	4,162	151	8,691	5,032
Net loss	$ (3,509)	$ (20,269)	$ (9,928)	$ (34,609)
Basic and Diluted net loss per common share	$ (0.19)	$ (1.09)	$ (0.54)	$ (1.87)
Weighted average number of common stock and common stock equivalent shares used in computing net loss per common share:				
Basic and Diluted	18,363,692	18,512,104	18,364,187	18,465,325

See accompanying notes to condensed consolidated financial statements.

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

	September 30, 2008	March 31, 2009 (Unaudited)
ASSETS		
CURRENT ASSETS:		
Cash and cash equivalents	$ 30,264	$ 14,982
Accounts receivable, net	35,675	28,228
Inventories, net	468,629	399,116
Prepaid expenses and other current assets	7,949	7,731
Deferred tax assets	307	298
Total current assets	542,824	450,355
Property and equipment, net	113,869	111,257
Other long-term assets	3,424	3,261
Deferred tax assets	1,206	1,206
Total assets	$ 661,323	$ 566,079
LIABILITIES AND STOCKHOLDERS EQUITY		
CURRENT LIABILITIES:		
Accounts payable	$ 4,481	$ 21,922
Customer deposits	6,505	6,495
Accrued expenses	25,380	23,668
Short-term borrowings	372,000	294,000
Total current liabilities	408,366	346,085
Other long-term liabilities	4,374	2,522
Total liabilities	412,740	348,607
STOCKHOLDERS EQUITY:		
Preferred stock, $.001 par value, 1,000,000 shares authorized, none issued or outstanding at September 30, 2008 and March 31, 2009		
Common stock, $.001 par value, 24,000,000 shares authorized, 19,215,387 and 19,303,004 shares issued and 18,424,487 and 18,512,104 shares outstanding at September 30, 2008 and March 31, 2009, respectively	19	19
Additional paid-in capital	178,830	182,328
Retained earnings	85,544	50,935
	(15,810)	(15,810)

Treasury stock, at cost, 790,900 shares held at September 30, 2008 and March 31, 2009				
Total stockholders equity		248,583		217,472
Total liabilities and stockholders equity	$	661,323	$	566,079

See accompanying notes to condensed consolidated financial statements.

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

	Three Months Ended March 31,		Six Months Ended March 31,	
	2008	**2009**	**2008**	**2009**
Net loss	$ (3,509)	(20,269)	$ (9,928)	$ (34,609)
Other comprehensive loss:				
Change in fair market value of derivative instruments, net of tax benefit of $105 for the three months ended March 31, 2008 and $137 for the six months ended March 31, 2008	(167)		(219)	
Comprehensive loss	$ (3,676)	$ (20,269)	$ (10,147)	$ (34,609)

See accompanying notes to condensed consolidated financial statements.

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

	Common Stock Shares	Common Stock Amount	Additional Paid-in Capital	Retained Earnings	Treasury Stock	Total Stockholders Equity
BALANCE, September 30, 2008	18,424,487	$ 19	$ 178,830	$ 85,544	$ (15,810)	$ 248,583
Net loss				(34,609)		(34,609)
Shares issued under employee stock purchase plan	67,172		411			411
Net shares issued upon the vesting of equity awards	20,445		10			10
Stock-based compensation			3,077			3,077
BALANCE, March 31, 2009	18,512,104	$ 19	$ 182,328	$ 50,935	$ (15,810)	$ 217,472

See accompanying notes to condensed consolidated financial statements.

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MARINEMAX, INC. AND SUBSIDIARIES
CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS
(Amounts in thousands)
(Unaudited)

	Six Months Ended March 31, 2008	Six Months Ended March 31, 2009
CASH FLOWS FROM OPERATING ACTIVITIES:		
Net loss	$ (9,928)	$ (34,609)
Adjustments to reconcile net loss to net cash provided by (used in) operating activities:		
Depreciation and amortization	4,604	4,289
Deferred income tax provision	(1,023)	9
Gain on sale of property and equipment	(22)	(45)
Cumulative effect of adoption of FIN 48	(554)	
Stock-based compensation expense	3,880	3,077
Tax benefits from equity awards	220	
Excess tax benefits from stock-based compensation	(177)	
(Increase) decrease in		
Accounts receivable, net	(3,004)	7,447
Inventories, net	(75,851)	69,513
Prepaid expenses and other assets	3,038	237
(Decrease) increase in		
Accounts payable	(3,616)	17,441
Customer deposits	(15,023)	(10)
Accrued expenses and other liabilities	4,581	(3,564)
Net cash provided by (used in) operating activities	(92,875)	63,785
CASH FLOWS FROM INVESTING ACTIVITIES:		
Purchases of property and equipment	(5,066)	(1,578)
Proceeds from sale of property and equipment	22	90
Net cash used in investing activities	(5,044)	(1,488)
CASH FLOWS FROM FINANCING ACTIVITIES:		
Net borrowings (repayments) on short-term borrowings	93,000	(78,000)
Repayments of long-term debt	(2,189)	
Net proceeds from issuance of common stock under incentive compensation and employee purchase plans	1,707	421
Purchase of treasury stock	(1,035)	
Excess tax benefits from stock-based compensation	177	
Net cash provided by (used in) financing activities	91,660	(77,579)
NET DECREASE IN CASH AND CASH EQUIVALENTS	(6,259)	(15,282)

CASH AND CASH EQUIVALENTS, beginning of period	30,375	30,624
CASH AND CASH EQUIVALENTS, end of period	$ 24,116	$ 14,982
Supplemental Disclosures of Cash Flow Information:		
Cash paid for:		
Interest	$ 11,683	$ 7,752
Income taxes	$ 2,093	$

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 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 March 31, 2009, we operated through 74 retail locations in 22 states, consisting of Alabama, Arizona, California, Colorado, Connecticut, Delaware, Florida, Georgia, Maryland, Minnesota, Missouri, Nevada, New Jersey, New York, North Carolina, Ohio, Oklahoma, Rhode Island, South Carolina, Tennessee, Texas, and Utah.

We are the nation s largest retailer of Sea Ray, Boston Whaler, Meridian, Cabo, and Hatteras recreational boats and yachts, all of which are manufactured by Brunswick Corporation (Brunswick). Sales of new Brunswick boats accounted for approximately 49% of our revenue for fiscal 2008. Brunswick is the world s largest manufacturer of marine products and marine engines. We believe we represented in excess of 10% of all Brunswick marine sales, including approximately 40% of its Sea Ray boat sales, for fiscal 2008.

We have dealer agreements with Sea Ray, Boston Whaler, Cabo, Hatteras, Meridian, and Mercury Marine, all subsidiaries or divisions of Brunswick. We also have a dealer agreement with 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 are parties to a multi-year dealer agreement with Brunswick covering Sea Ray products that appoints us as the exclusive dealer of Sea Ray boats in our geographic markets. We are party to a multi-year dealer agreement with Hatteras Yachts that gives us the exclusive right to sell Hatteras Yachts throughout the states of Florida (excluding the Florida panhandle), New Jersey, New York, and Texas. We are also the exclusive dealer for Cabo Yachts throughout the states of Florida, New Jersey, and New York through a multi-year dealer agreement. We are also the exclusive dealer for Italy-based Azimut-Benetti Group s product line, Azimut Yachts, for the Northeast United States from Maryland to Maine and for the state of Florida through a multi-year dealer agreement. 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, Hatteras, Cabo, 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 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 46%, 44%, and 43% of our revenue during fiscal 2006, 2007, and 2008, respectively, can have a major impact on our operations. Local influences, such as corporate downsizing and military base closings, also could adversely affect 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. 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, or results of operations. Any period of adverse economic conditions or low consumer confidence has 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 resulting from substantial weakness in the financial markets and deteriorating economic conditions had a very substantial negative effect on our business in fiscal 2008 and 2009. These conditions caused us to defer our acquisition program, slow our new store openings, reduce our inventory purchases, engage in inventory reduction efforts, close some of our retail locations, and reduce our headcount. We cannot predict the length or severity of these unfavorable economic or financial conditions or the extent to which they will adversely affect our operating results nor can we predict the effectiveness of the measures we have taken to address this environment or whether additional measures will be necessary.

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, 2008. 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. The operating results for the six months ended March 31, 2009 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.

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, I the 20 recreational boat dealers, two boat brokerage operations, and two full-service yacht repair operations acquired to date (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 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:

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

4. 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. We state new boat, motor, and trailer inventories at the lower of cost, determined on a specific-identification basis, or market. We state used boat, motor, and trailer inventories, including trade-ins, at the lower of cost, determined on a specific-identification basis, or market. We state parts and accessories at the lower of cost, determined on the first-in, first-out basis, or market. We utilize our historical experience, the aging of the inventories, and our consideration of current market trends as the basis for determining lower of cost or market valuation allowance. During the six months ended March 31, 2009, we incurred losses and increased our inventory reserves for expected losses associated with market declines in brands we no longer carry by approximately $4.9 million. As of March 31, 2009, our lower of cost or market valuation allowance was not material to the consolidated financial statements taken as a whole. If events occur and market conditions change, causing the fair value to fall below carrying value, the lower of cost or market valuation allowance could increase.

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. The first step in the assessment is the estimation of fair value. If step one indicates that impairment potentially exists, we perform the second step to measure the amount of impairment, if any. Goodwill and identifiable intangible asset impairment exists when the estimated fair value is less than its carrying value.

During the three months ended June 30, 2008, we experienced a significant decline in stock market valuation, driven primarily by weakness in the marine retail industry and an overall soft economy, which adversely affected our financial performance. Accordingly, we completed a step one analysis (as noted above) and estimated the fair value of the reporting unit as prescribed by SFAS 142, which indicated potential impairment. As a result, we completed a fair value analysis of indefinite lived intangible assets and a step two goodwill impairment analysis, as required by SFAS 142. We determined that all indefinite lived intangible assets and goodwill were impaired and recorded a non-cash charge of $121.1 million based on our assessment. We will not be required to make any current or future cash expenditures as a result of this impairment charge.

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, all derivative instruments are recorded on the balance sheet at their respective fair values.

We utilize certain derivative instruments, from time to time, including interest rate swaps and forward contracts, to manage variability in cash flows associated with interest rates and forecasted purchases of boats and yachts from certain of our foreign suppliers in euros. At March 31, 2009, no such instruments were outstanding.

7. INCOME TAXES:

We account for income taxes in accordance with Statement of Financial Accounting Standards No. 109, Accounting for Income Taxes (SFAS 109) and Financial Accounting Standard Board Interpretation No. 48, Accounting for Uncertainty in Income Taxes (FIN 48). Under SFAS 109, we recognize deferred tax assets and liabilities for the future tax consequences attributable to temporary differences between the financial statement carrying amounts of existing assets and liabilities and their respective tax basis. We measure deferred tax assets and liabilities using enacted tax rates expected to apply to taxable income in the years in which 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.

Substantially all of our goodwill and intangibles were deductible for tax purposes. During the fiscal year ended September 30, 2008, we wrote-off all of our goodwill and indefinite lived intangible assets. The write-off and our operating losses, combined with other timing differences, gave rise to a net operating loss, which resulted in a net deferred tax asset of approximately $41.3 million. Pursuant to SFAS 109, we must consider all positive and negative evidence regarding the realization of deferred tax assets, including past operating results and future sources of taxable income. Under the provisions of SFAS 109, we determined that our net deferred tax asset needed to be reserved given recent earnings and industry trends. Accordingly, recording of the valuation allowance resulted in a non-cash charge of approximately $39.2 million.

8. SHORT-TERM BORROWINGS:

During December 2008, we entered into an amendment of our second amended and restated credit and security agreement, originally entered into in June 2006. The amendment modified the amount of borrowing availability, financial covenants, inventory advance rates, and the collateral that secures the borrowings. With the amendment, the credit facility provides us a line of credit with asset-based borrowing availability of up to $425 million, stepping down to $350 million by September 30, 2009 and $300 million by May 31, 2010. However, the amendment also contains a provision that allows us to obtain commitments from existing or additional lenders, thereby increasing the capacity of the credit facility up to $500 million and enables us to obtain advances of up to $20 million against certain of our owned real estate. Amounts under the credit facility may be used 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 amendment replaced the fixed charge coverage ratio with an interest coverage ratio for years ending on or after September 30, 2010; it includes a fiscal year-to-date earnings before interest, taxes, depreciation, and amortization, or EBITDA (as defined in the agreement), covenant for each quarter; it modifies the current ratio requirements; it reduces the amount of allowable capital expenditures; it requires approval for any stock repurchases; and it requires approval for acquisitions. The amended credit facility provides for interest at the London Interbank Offered Rate (LIBOR) plus 425 basis points through September 30, 2010 and thereafter at LIBOR plus 150 to 400 basis points, pursuant to a performance pricing grid based upon our interest coverage ratio, as defined. Borrowings under the credit facility are secured by our inventory, accounts receivable, equipment, furniture, fixtures, and real estate. The amended credit facility matures in May 2011, with two one-year renewal options, subject to lender approval. As of March 31, 2009, we were in compliance with all of the credit facility covenants and our additional available borrowings under our credit facility were approximately $48 million.

The availability and costs of borrowed funds can adversely affect our ability to obtain and maintain adequate boat inventory as well as the ability and willingness of our customers to finance boat purchases. As of March 31, 2009, we had no long-term debt. However, we rely on our credit facility to purchase and maintain our inventory of boats. Our ability to borrow under our credit facility depends on our ability to continue to satisfy our covenants and other obligations under our credit facility. Our EBITDA covenant requires that our fiscal year-to-date EBITDA loss not exceed $20 million as of March 31, 2009, $15 million as of June 30, 2009, and $10 million as of September 30, 2009. The aging of our inventory limits our borrowing capacity as defined provisions reduce the allowable advance rate as our inventory ages. Our access to funds under our credit facility also depends upon the ability of the banks that are parties to that facility 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. A continuation of depressed economic conditions, weak consumer spending, turmoil in the credit markets, and lender difficulties could interfere with our ability to maintain compliance with our debt covenants and to utilize the credit agreement to fund our operations. Accordingly, it may be necessary for us to close additional stores, further reduce our expense structure or modify the covenants with our lenders. Any inability to utilize our credit facility or the acceleration of amounts owed, resulting from a covenant violation, insufficient collateral, or lender difficulties, could require us to seek other sources of funding to repay amounts outstanding under the credit agreement or replace or supplement our credit agreement, 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. Tight credit conditions, during fiscal 2008 and continuing in fiscal 2009, adversely affected the ability of customers to finance boat purchases, which had a negative affect on our operating results.

As is common in our industry, we receive interest assistance directly from boat manufacturers, including Brunswick. The interest assistance programs vary by manufacturer and generally include periods of free financing or reduced interest rate programs. The interest assistance may be paid directly to us or our lenders 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.

9. STOCK-BASED COMPENSATION:

Upon adoption of Statement of Financial Accounting Standards No. 123R, Share-Based Payment (FAS 123R), we used the Black-Scholes valuation model for valuing all stock-based compensation and shares granted under the Employee Stock Purchase Plan (ESPP). 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 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 six months ended March 31, 2008 and 2009, we recognized stock-based compensation expense of approximately $3.9 million and $3.1 million, respectively, in selling, general, and administrative expenses on the condensed consolidated statements of operations. A tax benefit realized for tax deductions from option exercises for the six months ended March 31, 2008 was approximately $220,000. There was no tax benefit realized for the six months ended March 31, 2009.

Cash received from option exercises under all share-based compensation arrangements for the six months ended March 31, 2008, was approximately $1.7 million. There was no cash received from option exercises during the six months ended March 31, 2009. We currently expect to satisfy share-based awards with registered shares available to be issued.

10. THE INCENTIVE STOCK PLANS:

During February 2007, our stockholders approved a proposal to approve our 2007 Incentive Compensation 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 shares that are forfeited or repurchased; (iii) with respect to awards granted under the 2007 Plan and the 1998 Plan, the number of shares that are not issued as a result of the award being settled for cash or otherwise not issued in connection with the exercise or payment of the award; and (iv) the number of shares that are surrendered or withheld in payment of the exercise price of any award or any tax withholding requirements in connection with any award granted under the 2007 Plan and the 1998 Plan. The 2007

Plan terminates in February 2017, and awards may be granted at any time during the

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life of the 2007 Plan. The date on which awards vest are determined by the Board of Directors or the Plan Administrator. The exercise prices of options are determined by the Board of Directors or the Plan Administrator and are at least equal to the fair market value of shares of common stock on the date of grant. The term of options under the 2007 Plan may not exceed ten years. The options granted have varying vesting periods. To date, we have not settled or been under any obligation to settle any awards in cash.

The following table summarizes option activity from September 30, 2008 through March 31, 2009:

	Shares Available for Grant	Options Outstanding	Aggregate Intrinsic Value (in thousands)	Weighted Average Exercise Price	Weighted Average Remaining Contractual Life
Balance at September 30, 2008	1,215,006	1,740,128	$	$18.41	5.1
Options authorized					
Options granted	(1,185,700)	1,185,700		$ 2.96	
Options cancelled/forfeited/expired	650,986	(650,986)		$15.03	
Restricted stock awards forfeited	81,390				
Options exercised					
Balance at March 31, 2009	761,682	2,274,842	$	$11.33	7.3
Exercisable at March 31, 2009		856,149	$	$14.86	4.9

The weighted-average grant date fair value of options granted during the six months ended March 31, 2008 and 2009 was $7.27 and $1.73, respectively. The total intrinsic value of options exercised during the six months ended March 31, 2008 was approximately $533,000. There were no options exercised during the six months ended March 31, 2009.

As of March 31, 2008 and 2009, there was approximately $2.7 million and $2.4 million, respectively, of unrecognized compensation costs related to non-vested options that are expected to be recognized over a weighted average period of 2.9 years and 2.8 years, respectively. The total fair value of options vested during the six months ended March 31, 2008 was approximately $1.3 million. There was no fair value associated with options that vested during the six months ended March 31, 2009 since the grant price was in excess of the market price.

We continued using the Black-Scholes model to estimate the fair value of options granted during fiscal 2009. 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: