Malibu Boats, Inc.
Form 10-Q
November 02, 2016
Table of Contents

UNITED STATES
SECURITIES AND EXCHANGE COMMISSION
Washington, D.C. 20549

FORM 10-Q
QUARTERLY REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934
For the quarterly period ended September 30, 2016
Commission file number: 001-36290

MALIBU BOATS, INC.
(Exact Name of Registrant as specified in its charter)

Delaware	5075 Kimberly Way Loudon, Tennessee 37774	46-4024640
(State or other jurisdiction of incorporation or organization)	(Address of principal executive offices, including zip code)	(I.R.S. Employer Identification No.)
	(865) 458-5478	
	(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 þ 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 þ No ¨
Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, a non-accelerated filer, or a smaller reporting company. See the definitions of "large accelerated filer," "accelerated filer" and "smaller reporting company" in Rule 12b-2 of the Exchange Act (Check one):

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

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

Class A Common Stock, par value $0.01, outstanding as of November 1, 2016:	17,722,056	shares
Class B Common Stock, par value $0.01, outstanding as of November 1, 2016:	22	shares

Table of Contents

TABLE OF CONTENTS

Table of Contents

Part I - Financial Information

Item 1. Financial Statements

MALIBU BOATS, INC. AND SUBSIDIARIES
Condensed Consolidated Statements of Operations and Comprehensive Income (Loss) (Unaudited)
(In thousands, except share and per share data)

	Three Months Ended September 30,	
	2016	2015
Net sales	$62,021	$ 57,240
Cost of sales	46,198	42,530
Gross profit	15,823	14,710
Operating expenses:		
Selling and marketing	2,423	2,262
General and administrative	6,064	4,626
Amortization	550	547
Operating income	6,786	7,275
Other (expense) income:		
Other	17	7
Interest expense	(430)	(1,316)
Other expense	(413)	(1,309)
Income before provision for income taxes	6,373	5,966
Provision for income taxes	2,147	1,986
Net income	4,226	3,980
Net income attributable to non-controlling interest	446	422
Net income attributable to Malibu Boats, Inc.	$3,780	$ 3,558
Comprehensive income:		
Net income	$4,226	$ 3,980
Other comprehensive income (loss), net of tax:		
Change in cumulative translation adjustment	357	(1,257)
Other comprehensive income (loss), net of tax	357	(1,257)
Comprehensive income, net of tax	4,583	2,723
Less: comprehensive income attributable to non-controlling interest, net of tax	484	289
Comprehensive income attributable to Malibu Boats, Inc., net of tax	$4,099	$ 2,434
Weighted average shares outstanding used in computing net income per share:		
Basic	17,734,390	17,942,085
Diluted	17,761,768	17,948,835
Net income available to Class A Common Stock per share:		
Basic	$0.21	$ 0.20
Diluted	$0.21	$ 0.20

The accompanying notes are an integral part of the Condensed Consolidated Financial Statements (Unaudited).

MALIBU BOATS, INC. AND SUBSIDIARIES
Condensed Consolidated Balance Sheets (Unaudited)
(In thousands, except share data)

	September 30, 2016	June 30, 2016
Assets		
Current assets		
Cash	$ 16,293	$ 25,921
Trade receivables, net	15,593	14,690
Inventories, net	24,293	20,431
Prepaid expenses and other current assets	2,269	2,707
Income tax receivable	392	965
Total current assets	58,840	64,714
Property and equipment, net	17,776	17,813
Goodwill	12,646	12,470
Other intangible assets, net	11,231	11,703
Deferred tax assets	112,892	113,798
Other assets	30	32
Total assets	$ 213,415	$ 220,530
Liabilities		
Current liabilities		
Current maturities of long-term debt	$ 1,117	$ 8,000
Accounts payable	18,332	16,158
Accrued expenses	20,096	19,055
Income taxes and tax distribution payable	523	427
Payable pursuant to tax receivable agreement, current portion	4,189	4,189
Total current liabilities	44,257	47,829
Deferred tax liabilities	678	685
Payable pursuant to tax receivable agreement, less current portion	89,561	89,561
Long-term debt, less current maturities	55,030	63,086
Other long-term liabilities	895	1,136
Total liabilities	190,421	202,297
Commitments and contingencies (See Note 13)		
Stockholders' Equity		
Class A Common Stock, par value $0.01 per share, 100,000,000 shares authorized; 17,699,056 shares issued and outstanding as of September 30, 2016; 17,690,874 issued and outstanding as of June 30, 2016	176	176
Class B Common Stock, par value $0.01 per share, 25,000,000 shares authorized; 23 shares issued and outstanding as of September 30, 2016 and June 30, 2016	—	—
Preferred Stock, par value $0.01 per share; 25,000,000 shares authorized; no shares issued and outstanding as of September 30, 2016 and June 30, 2016	—	—
Additional paid in capital	44,571	44,151
Accumulated other comprehensive loss	(2,114)	(2,471)
Accumulated deficit	(24,522)	(28,302)
Total stockholders' equity attributable to Malibu Boats, Inc.	18,111	13,554
Non-controlling interest	4,883	4,679
Total stockholders’ equity	22,994	18,233

Total liabilities and stockholders' equity	$ 213,415	$220,530

The accompanying notes are an integral part of the Condensed Consolidated Financial Statements (Unaudited).

Table of Contents

MALIBU BOATS, INC. AND SUBSIDIARIES
Condensed Consolidated Statements of Stockholders' Equity (Unaudited)
(In thousands, except number of Class B shares)

	Class A Common Stock		Class B Common Stock		Additional Paid In Capital	Accumulated Other Comprehensive (Loss) Income	Accumulated Deficit	Non-controlling Interest in LLC	Total Stockholders' Equity
	Shares	Amount	Shares	Amount					
Balance at June 30, 2016	17,690	$ 176	23	$ —	$ 44,151	$ (2,471)	$ (28,302)	$ 4,679	$ 18,233
Net income	—	—	—	—	—	—	3,780	446	4,226
Stock based compensation, net of withholding taxes on vested equity awards	8	—	—	—	357	—	—	—	357
Issuances of equity for services	1	—	—	—	63	—	—	—	63
Distributions to LLC Unit holders	—	—	—	—	—	—	—	(242)	(242)
Foreign currency translation adjustment	—	—	—	—	—	357	—	—	357
Balance at September 30, 2016	17,699	$ 176	23	$ —	$ 44,571	$ (2,114)	$ (24,522)	$ 4,883	$ 22,994

The accompanying notes are an integral part of the Condensed Consolidated Financial Statements (Unaudited).

Table of Contents

MALIBU BOATS, INC. AND SUBSIDIARIES
Condensed Consolidated Statements of Cash Flows (Unaudited)
(In thousands)

	Three Months Ended September 30, 2016	2015
Operating activities:		
Net income	$4,226	$3,980
Adjustments to reconcile net income to net cash provided by operating activities:		
Non-cash compensation expense	465	340
Depreciation	968	775
Amortization of intangible assets	550	547
Gain on sale-leaseback transaction	(3)	(3)
Amortization of deferred financing costs	61	66
Change in fair value of interest rate swap	(245)	557
Deferred income taxes	929	620
Gain on sale of equipment	(16)	—
Change in operating assets and liabilities:		
Trade receivables	(899)	(1,790)
Inventories	(3,834)	(3,700)
Prepaid expenses and other assets	440	61
Accounts payable	2,183	5,430
Accrued expenses and other liabilities	1,832	(1,332)
Net cash provided by operating activities	6,657	5,551
Investing activities:		
Purchases of property and equipment	(860)	(1,287)
Proceeds from sale or disposal of property, plant and equipment	16	—
Net cash used in investing activities	(844)	(1,287)
Financing activities:		
Principal payments on long-term borrowings	(15,000)	(1,500)
Cash paid for withholding taxes on vested restricted stock	(108)	—
Distributions to LLC Unit holders	(341)	(188)
Net cash used in financing activities	(15,449)	(1,688)
Effect of exchange rate changes on cash	8	(104)
Changes in cash	(9,628)	2,472
Cash—Beginning of period	25,921	8,387
Cash—End of period	$16,293	$10,859
Supplemental cash flow information:		
Cash paid for interest	$646	$1,038
Cash paid for income taxes	401	1,112
Non-cash investing and financing activities:		
Establishment of deferred tax assets from step-up in tax basis	—	142
Establishment of amounts payable under tax receivable agreements	—	118
Tax distributions payable to non-controlling LLC Unit holders	242	262
Equity issued to directors for services	63	63
Accrual for tax withholdings on vested restricted stock units	—	80
Capital expenditures in accounts payable	47	—

The accompanying notes are an integral part of the Condensed Consolidated Financial Statements (Unaudited).

MALIBU BOATS, INC. AND SUBSIDIARIES
Notes to Condensed Consolidated Financial Statements (Unaudited)
(Dollars in thousands, except per unit and per share data)
1. Organization, Basis of Presentation, and Summary of Significant Accounting Policies
Organization
Malibu Boats, Inc. (together with its subsidiaries, the “Company” or “Malibu”), a Delaware corporation formed on November 1, 2013, is the sole managing member of Malibu Boats Holdings, LLC (the “LLC”). The Company operates and controls all of the LLC's business and affairs and, therefore, pursuant to Financial Accounting Standards Board (“FASB”) Accounting Standards Codification (“ASC”) Topic 810, Consolidation, consolidates the financial results of the LLC and its subsidiaries, and records a non-controlling interest for the economic interest in the Company held by the non-controlling holders of units in the LLC (“LLC Units”). See Note 2. Malibu Boats Holdings, LLC was formed in 2006 with the acquisition by an investor group, including affiliates of Black Canyon Capital LLC, Horizon Holdings, LLC and then-current management. The LLC is engaged in the design, engineering, manufacturing and marketing of innovative, high-quality, performance sports boats that are sold through a world-wide network of independent dealers. On October 23, 2014, the Company acquired all the outstanding shares of Malibu Boats Pty. Ltd. (the “Licensee”), Malibu's Australian licensee manufacturer with exclusive distributions rights in Australia and New Zealand markets. As a result of the acquisition, the Company also consolidates the financial results of the Licensee. The Company reports its results of operations under two reportable segments called U.S. and Australia based on their respective manufacturing footprints. Each segment participates in the manufacturing, distribution, marketing and sale of performance sport boats. The U.S. operating segment primarily serves markets in North America, South America, Europe, and Asia while the Australia operating segment principally serves the Australian and New Zealand markets.
Basis of Presentation
The accompanying unaudited interim condensed consolidated financial statements of the Company have been prepared in accordance with U.S. generally accepted accounting principles (“GAAP”) for interim condensed financial statements and with the instructions to Form 10-Q and Article 10 of Regulation S-X. Accordingly, they do not include all information and disclosures of results of operations, financial position and changes in cash flow in conformity with GAAP for complete financial statements. Such statements should be read in conjunction with the audited consolidated financial statements and notes thereto of Malibu Boats, Inc. and subsidiaries for the year ended June 30, 2016 included in the Company's Annual Report on Form 10-K. In the opinion of management, the accompanying unaudited interim condensed consolidated financial statements reflect all adjustments considered necessary to present fairly the Company’s financial position at September 30, 2016 and the results of its operations and the cash flows for the three month periods ended September 30, 2016 and September 30, 2015. Operating results for the three months ended September 30, 2016 are not necessarily indicative of the results that may be expected for the full year ending June 30, 2017. Certain reclassifications have been made to the prior period presentation to conform to the current period presentation. Units and shares are presented as whole numbers while all dollar amounts are presented in thousands, unless otherwise noted.
Principles of Consolidation
The accompanying unaudited condensed consolidated financial statements include the operations and accounts of the Company and all subsidiaries thereof. All intercompany balances and transactions have been eliminated upon consolidation.
Recent Accounting Pronouncements
In May 2014, the FASB and International Accounting Standards Board jointly issued a final standard on revenue recognition which outlines a single comprehensive model for entities to use in accounting for revenue arising from contracts with customers. This standard will supersede most current revenue recognition guidance. Under the new standard, entities are required to identify the contract with a customer; identify the separate performance obligations in the contract; determine the transaction price; allocate the transaction price to the separate performance obligations in the contract; and recognize the appropriate amount of revenue when (or as) the entity satisfies each performance obligation. Accounting Standards Update (“ASU”) 2014-09 will now become effective for fiscal years beginning after December 15, 2017. In August 2015, FASB issued ASU 2015-14, Revenue from Contracts with Customers (Topic

606): Deferral of the Effective Date, to extend the mandatory effective date by one year. Entities have the option of using either retrospective transition or a modified approach in applying the new standard. The Company is currently evaluating the approach it will use to apply the new standard and the impact that the adoption of the new standard will have on the Company’s consolidated financial statements.

Table of Contents

In July 2015, the FASB issued ASU 2015-11, Simplifying the Measurement of Inventory. This ASU changes the measurement principle for inventories valued under the FIFO or weighted-average methods from the lower of cost or market to the lower of cost and net realizable value. Net realizable value is defined by the FASB as estimated selling prices in the ordinary course of business, less reasonably predictable costs of completion, disposal and transportation. This ASU does not change the measurement principles for inventories valued under the last-in, first-out (“LIFO”) method. This amendment is effective for fiscal years beginning after December, 15, 2016, including interim periods within those fiscal years and should be applied prospectively with earlier application permitted as of the beginning of an interim or annual reporting period. The Company is currently evaluating the impact of adopting this ASU, but does not expect it will have a material impact.

In February 2016, the FASB issued ASU 2016-02, Leases (Topic 842). This guidance establishes a right-of-use (“ROU”) model that requires a lessee to record a ROU asset and a lease liability on the balance sheet for all leases with terms longer than 12 months. Leases will be classified as either finance or operating, with classification affecting the pattern of expense recognition in the income statement. The new standard is effective for fiscal years beginning after December 15, 2018, including interim periods within those fiscal years. A modified retrospective transition approach is required for lessees for capital and operating leases existing at, or entered into after, the beginning of the earliest comparative period presented in the financial statements, with certain practical expedients available. The Company is currently assessing the potential impact of this ASU on its consolidated financial statements and footnote disclosures.

In August 2016, the FASB issued ASU 2016-15, Statement of Cash Flows (Topic 230): Classification of Certain Cash Receipts and Cash Payments. This ASU is effective for fiscal years beginning after December 15, 2017 and interim periods within those fiscal years with early adoption permitted. This guidance provides specific classification of how certain cash receipts and cash payments are presented in the statement of cash flows. The ASU should be applied using a retrospective transition method. If it is impracticable to apply the amendments retrospectively for some of the cash flow issues, the amendments for those issues should then be applied prospectively at the earliest date practicable. The Company is currently assessing the potential impact of this ASU on its presentation of the consolidated financial statements.

There are no other new accounting pronouncements that are expected to have a significant impact on the Company's unaudited condensed consolidated financial statements and related disclosures.

2. Non-controlling Interest

The non-controlling interest on the unaudited condensed consolidated statement of operations and comprehensive income (loss) represents the portion of earnings or loss attributable to the economic interest in the Company's subsidiary, Malibu Boats Holdings, LLC, held by the non-controlling LLC Unit holders. Non-controlling interest on the unaudited condensed consolidated balance sheets represents the portion of net assets of the Company attributable to the non-controlling LLC Unit holders, based on the portion of the LLC Units owned by such Unit holders. The ownership of Malibu Boats Holdings, LLC is summarized as follows:

	As of September 30, 2016			As of June 30, 2016		
	Units	Ownership %		Units	Ownership %	
Non-controlling LLC Unit holders ownership in Malibu Boats Holdings, LLC	1,404,923	7.4	%	1,404,923	7.4	%
Malibu Boats, Inc. ownership in Malibu Boats Holdings, LLC	17,699,056	92.6	%	17,690,874	92.6	%
	19,103,979	100.0	%	19,095,797	100.0	%

The changes in the balance of the Company's non-controlling interest are as follows:

Balance of non-controlling interest as of June 30, 2016	$4,679
Allocation of income to non-controlling LLC Unit holders for period	446
Distributions paid and payable to non-controlling LLC Unit holders for period	(242)
Balance of non-controlling interest as of September 30, 2016	$4,883

Issuance of Additional LLC Units

Under the first amended and restated limited liability agreement of the LLC, as amended (the "LLC Agreement"), the Company is required to cause the LLC to issue additional LLC Units to the Company when the Company issues additional shares of Class A Common Stock. Other than in connection with the issuance of Class A Common Stock in connection with an equity incentive program, the Company must contribute to the LLC net proceeds and property, if any, received by the Company with respect to the issuance of such additional shares of Class A Common Stock. The Company shall cause the LLC to issue a number of LLC Units equal to the number of shares of Class A Common Stock issued such that, at all times, the number of LLC Units held by the Company equals the number of outstanding shares of Class A Common Stock. During the three months ended September 30, 2016, the LLC issued a total of 11,581 LLC Units to the Company in connection with the Company's issuance of Class A Common Stock to a non-employee director for his services and the issuance of Class A Common Stock for the vesting of awards granted under the Malibu Boats, Inc. Long-Term Incentive Plan (the "Incentive Plan"). During the three months ended September 30, 2016, 3,399 LLC Units were canceled in connection with the vesting of share-based equity awards to satisfy employee tax withholding requirements and the retirement of 3,399 treasury shares in accordance with the LLC Agreement.

Distributions and Other Payments to Non-controlling Unit Holders

Distributions for Taxes

As a limited liability company (treated as a partnership for income tax purposes), Malibu Boats Holdings, LLC does not incur significant federal, state or local income taxes, as these taxes are primarily the obligations of its members. As authorized by the LLC Agreement, the LLC is required to distribute cash, to the extent that the LLC has cash available, on a pro rata basis, to its members to the extent necessary to cover the members' tax liabilities, if any, with respect to their share of LLC earnings. The LLC makes such tax distributions to its members based on an estimated tax rate and projections of taxable income. If the actual taxable income of the LLC multiplied by the estimated tax rate exceeds the tax distributions made in a calendar year, the LLC may make true-up distributions to its members, if cash or borrowings is available for such purposes. As of September 30, 2016 and 2015, tax distributions payable to non-controlling LLC Unit holders were $242 and $262, respectively. During the three months ended September 30, 2016 and 2015, tax distributions paid to the non-controlling LLC Unit holders were $341 and $150, respectively.

Other Distributions

Pursuant to the LLC Agreement, the Company has the right to determine when distributions will be made to LLC members and the amount of any such distributions. If the Company authorizes a distribution, such distribution will be made to the members of the LLC (including the Company) pro rata in accordance with the percentages of their respective LLC units.

3. Inventories

Inventories, net consisted of the following:

	As of September 30, 2016	As of June 30, 2016
Raw materials	$ 17,031	$ 14,858
Work in progress	2,581	1,250
Finished goods	4,681	4,323
Total inventories	$ 24,293	$ 20,431

4. Property and Equipment

Property and equipment, net consisted of the following:

	As of September 30, 2016	As of June 30, 2016
Land	$ 254	$ 254
Leasehold improvements	7,208	7,168
Machinery and equipment	21,091	20,035
Furniture and fixtures	2,790	2,765
Construction in process	172	356
	31,515	30,578
Less: Accumulated depreciation	(13,739)	(12,765)
Property and equipment, net	$ 17,776	$ 17,813

Depreciation expense was $968 and $775 for the three months ended September 30, 2016 and 2015, substantially all of which was recorded in cost of goods sold.

Table of Contents

5. Goodwill and Other Intangible Assets

The changes in the carrying amount of goodwill for the three months ended September 30, 2016 were as follows:

Goodwill as of June 30, 2016	$12,470
Effect of foreign currency changes on goodwill	176
Goodwill as of September 30, 2016	$12,646

The components of other intangible assets were as follows:

	As of September 30, 2016	As of June 30, 2016	Estimated Useful Life (in years)	Weighted Average Remaining Useful Life (in years)
Reacquired franchise rights	$ 1,374	$1,339	5	3.1
Dealer relationships	29,835	29,773	8-15	13.1
Patent	1,386	1,386	12	1.8
Trade name	24,667	24,667	15	4.9
Non-compete agreement	53	52	10	8.1
Backlog	95	93	0.3	0.0
Total	57,410	57,310		
Less: Accumulated amortization	(46,179)	(45,607)		
Total other intangible assets, net	$ 11,231	$11,703		

Amortization expense recognized on all amortizable intangibles was $550 and $547 for the three months ended September 30, 2016 and 2015.

The estimated future amortization of definite-lived intangible assets is as follows:

Fiscal years ending June 30:	
Remainder of 2017	$1,652
2018	2,203
2019	2,097
2020	1,898
2021	1,813
Thereafter	1,568
	$11,231

6. Product Warranties

Effective for model year 2016, the Company began providing a limited warranty for a period up to five years for both Malibu and Axis brand boats. For model years prior to 2016, the Company provided a limited warranty for a period of up to three years for its Malibu brand boats and two years for its Axis products. The Company's standard warranties require the Company or its dealers to repair or replace defective products during such warranty period at no cost to the consumer. The Company estimates the costs that may be incurred under its basic limited warranty and records as a liability in the amount of such costs at the time the product revenue is recognized. Factors that affect the Company's warranty liability include the number of units sold, historical and anticipated rates of warranty claims and cost per claim. The Company assesses the adequacy of its recorded warranty liabilities by brand on a quarterly basis and adjusts the amounts as necessary. The Company utilizes historical claims trends and analytical tools to assist in determining the appropriate warranty liability.

Changes in the Company's product warranty liability were as follows:

Table of Contents

	Three Months Ended September 30, 2016	September 30, 2015
Beginning balance	$8,083	$ 6,610
Add: Warranty expense	1,869	1,595
Less: Warranty claims paid	(1,219)	(1,025)
Ending balance	$8,733	$ 7,180

7. Financing

Outstanding debt consisted of the following:

	As of September 30, 2016	As of June 30, 2016
Term loan	$ 57,000	$72,000
Less unamortized debt issuance costs	(853)	(914)
Total debt	56,147	71,086
Less current maturities	(1,117)	(8,000)
Long term debt less current maturities	$ 55,030	$63,086

Long-Term Debt

Amended and Restated Line of Credit and Term Loan. On April 2, 2015, Malibu Boats, LLC (the "Borrower"), a wholly owned subsidiary of the LLC, entered into a credit agreement with a syndicate of banks led by SunTrust Bank that included a revolving credit facility and term loan (the “Amended and Restated Credit Agreement”). The obligations of Malibu Boats LLC under the Amended and Restated Credit Agreement are currently guaranteed by its parent, the LLC, and its subsidiary, Malibu Boats Domestic International Sales Corp. and Malibu Australian Acquisition Corp. Malibu Boats, Inc. is not a party to the Amended and Restated Credit Agreement. The lending arrangements are required to be guaranteed by the LLC and the present and future domestic subsidiaries of Malibu Boats, LLC and are secured by substantially all of the assets of the LLC, Malibu Boats, LLC and Malibu Boats Domestic International Sales Corp., and those of any future domestic subsidiary pursuant to a security agreement. The revolving credit facility and term loan mature on April 2, 2020.

The Amended and Restated Credit Agreement is comprised of a $25,000 revolving commitment, none of which was outstanding as of September 30, 2016, and a $80,000 term loan, which was subject to quarterly installments of $1,500 per quarter until March 31, 2016. The quarterly installments are now $2,000 per quarter until March 31, 2019 and $2,500 per quarter thereafter. Borrowings under the Amended and Restated Credit Agreement bear interest at a rate equal to either, at the Borrower's option, (i) the highest of the prime rate, the Federal Funds Rate plus 0.5%, or one-month LIBOR plus 1.00% (the “Base Rate”) or (ii) LIBOR, in each case plus an applicable margin ranging from 1.00% to 1.75% with respect to Base Rate borrowings and 2.00% to 2.75% with respect to LIBOR borrowings. The applicable margin will be based upon the consolidated leverage ratio of the LLC and its subsidiaries calculated on a consolidated basis. The Borrower will also be required to pay a commitment fee for the unused portion of the revolving credit facility, which will range from 0.25% to 0.40% per annum, depending on the LLC’s and its subsidiaries’ consolidated leverage ratio. The weighted average interest rate on the term loan was 3.00% for the three month period ended September 30, 2016.

The Company also has a swingline line of credit from SunTrust Bank in the principal amount of up to $5,000 due on or before April 2, 2020. Any amounts drawn under the swingline line of credit reduce the capacity under the revolving credit facility. As of September 30, 2016, the Company had no outstanding balance under the swingline facility.

Under the Amended and Restated Credit Agreement, the Company also has the ability to issue letters of credit up to $5,000. This letter of credit availability may be reduced by borrowings under the revolving line of credit. The Company’s access to these letters of credit expires April 2, 2020 with the expiration of access to the revolving commitment. As of September 30, 2016, the Company had issued letters of credit for $100.

The Amended and Restated Credit Agreement permits prepayment without any penalties. It also requires prepayments from the net cash proceeds received by the Borrower or any guarantors from certain asset sales and recovery events, subject to certain reinvestment rights, and from excess cash flow, subject to the terms and conditions of the Amended and Restated Credit Agreement. It contains certain customary representations and warranties, and notice requirements for the occurrence of specific events such as the occurrence of any event of default, or pending or threatened litigation. The Amended and Restated Credit Agreement requires compliance with certain financial covenants that the Company believes are usual for facilities and transactions of this type, including a minimum ratio of EBITDA to fixed charges and a maximum ratio of total debt to EBITDA. The Amended and Restated Credit Agreement also contains certain restrictive covenants, which, among other things, place limits on the LLC's activities and those of its subsidiaries, the incurrence of additional indebtedness and additional liens on property and limit the future payment of dividends or distributions. For example, the Amended and Restated Credit Agreement generally prohibits the LLC, Malibu Boats, LLC, and Malibu Domestic International Sales Corp. from paying dividends or making distributions, including to Malibu Boats, Inc. The Amended and Restated Credit Agreement permits, however, distributions based on a member’s allocated taxable income, distributions to fund payments that are required under the tax receivable agreement, payments pursuant to stock option and other benefit plans up to $2,000 in any fiscal year, dividends and distributions within the loan parties and dividends payable solely in interests of classes of securities. In addition, the LLC may make dividends and distributions of up to $6,000 in any fiscal year and dividends and distributions up to $15,000 in connection with the Company's stock repurchase program, in each case, subject to compliance with other financial covenants. The credit agreement specifies permitted liens, permitted investments and permitted debt. Affirmative covenants governing the timing of monthly, quarterly and annual financial reporting are also included in the credit agreement.

In connection with the Amended and Restated Credit Agreement, the Company capitalized $1,224 in deferred financing costs. These costs are being amortized over the term of the Amended and Restated Credit Agreement into interest expense using the effective interest method and presented as a direct offset to the total debt outstanding as of September 30, 2016.

On August 4, 2016, in accordance with the Amended and Restated Credit Agreement, the Company exercised its option to prepay $15,000 of its outstanding term loan and elected to apply this prepayment to principal installments through June 30, 2018. As of September 30, 2016, the Company included $1,117 of long term debt as current due to the consolidated excess cash flow prepayment requirement under the terms of its Amended and Restated Credit Agreement.

Covenant Compliance

As of September 30, 2016, the Company is in full compliance with the terms of the Amended and Restated Credit Agreement, including all related covenants.

Interest Rate Swap

On July 1, 2015, the Company entered into a five year floating to fixed interest rate swap with an effective start date of July 1, 2015. The swap is based on a one-month LIBOR rate versus a 1.52% fixed rate on a notional value of $39,250, which under terms of the Amended and Restated Credit Agreement is equal to 50% of the outstanding balance of the term loan at the time of the swap arrangement. Under ASC Topic 815, Derivatives and Hedging, all derivative instruments are recorded on the consolidated balance sheets at fair value as either short term or long term assets or liabilities based on their anticipated settlement date. Refer to Fair Value Measurements in Note 9. The Company has elected not to designate its interest rate swap as a hedge; therefore, changes in the fair value of the derivative instrument are being recognized in earnings in the Company's unaudited condensed consolidated statements of operations and comprehensive income (loss). During the three months ended September 30, 2016 and September 30, 2015, the Company recorded a gain of $245 and a loss of $557, respectively, for the change in fair value of the interest rate swap, which is included in interest expense in the unaudited condensed consolidated statements of operations and comprehensive income (loss). As of September 30, 2016 and June 30, 2016 the the fair value of the swap liability was $618 and $863, respectively.

8. Tax Receivable Agreement Liability

The Company has a Tax Receivable Agreement with the pre-IPO owners of the LLC that provides for the payment by the Company to the pre-IPO owners (or their permitted assignees) of 85% of the amount of the benefits, if any, that the Company is deemed to realize as a result of (i) increases in tax basis and (ii) certain other tax benefits related to the Company entering into the Tax Receivable Agreement, including those attributable to payments under the Tax Receivable Agreement. These contractual payment obligations are obligations of the Company and not of the LLC. The Company's Tax Receivable Agreement liability was determined on an undiscounted basis in accordance with ASC 450, Contingencies, since the contractual payment obligations were deemed to be probable and reasonably estimable.

For purposes of the Tax Receivable Agreement, the benefit deemed realized by the Company will be computed by comparing the actual income tax liability of the Company (calculated with certain assumptions) to the amount of such taxes that the Company would have been required to pay had there been no increase to the tax basis of the assets of the LLC as a result of the purchases or exchanges, and had the Company not entered into the Tax Receivable Agreement.

Table of Contents

The following table reflects the changes to the Company's Tax Receivable Agreement liability:

	As of September 30, 2016	As of June 30, 2016
Beginning balance	$ 93,750	$ 96,470
Additions to tax receivable agreement:		
Exchange of LLC Units for Class A Common Stock	—	111
Payments under tax receivable agreement	—	(2,831)
	93,750	93,750
Less current portion under tax receivable agreement	(4,189)	(4,189)
Ending balance	$ 89,561	$ 89,561

The Tax Receivable Agreement further provides that, upon certain mergers, asset sales or other forms of business combinations or other changes of control, the Company (or its successor) would owe to the pre-IPO owners of the LLC a lump-sum payment equal to the present value of all forecasted future payments that would have otherwise been made under the Tax Receivable Agreement that would be based on certain assumptions, including a deemed exchange of LLC Units and that the Company would have sufficient taxable income to fully utilize the deductions arising from the increased tax basis and other tax benefits related to entering into the Tax Receivable Agreement. The Company also is entitled to terminate the Tax Receivable Agreement, which, if terminated, would obligate the Company to make early termination payments to the pre-IPO owners of the LLC. In addition, a pre-IPO owner may elect to unilaterally terminate the Tax Receivable Agreement with respect to such pre-IPO owner, which would obligate the Company to pay to such existing owner certain payments for tax benefits received through the taxable year of the election.

As of September 30, 2016, the Company recorded deferred tax assets of $111,060 associated with basis differences in assets upon acquiring an interest in Malibu Boats Holdings, LLC and pursuant to making an election under Section 754 of the Internal Revenue Code of 1986 (the "Internal Revenue Code"), as amended. The aggregate Tax Receivable Agreement liability represents 85% of the tax benefits that the Company expects to receive in connection with the Section 754 election. In accordance with the Tax Receivable Agreement, the next annual payment is anticipated approximately 75 days after filing the federal tax return due on March 15, 2017.

9. Fair Value Measurements

In determining the fair value of certain assets and liabilities, the Company employs a fair value hierarchy that prioritizes the inputs to valuation techniques used to measure fair value. As defined in ASC Topic 820, Fair Value Measurements and Disclosures, fair value is the amount that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date (i.e., the exit price). Financial assets and financial liabilities recorded on the consolidated balance sheets at fair value are categorized based on the reliability of inputs to the valuation techniques as follows:

- Level 1—Financial assets and financial liabilities whose values are based on unadjusted quoted prices in active markets for identical assets.
- Level 2—Financial assets and financial liabilities whose values are based on quoted prices for similar assets or liabilities in active markets; quoted prices for identical or similar assets or liabilities in non-active markets; or valuation models whose inputs are observable, directly or indirectly, for substantially the full term of the asset or liability.
- Level 3—Financial assets and financial liabilities whose values are based on prices or valuation techniques that require inputs that are both unobservable and significant to the overall fair value measurement. These inputs reflect the Company’s estimates of the assumptions that market participants would use in valuing the financial assets and financial liabilities.

The hierarchy gives the highest priority to Level 1 inputs and the lowest priority to Level 3 inputs. In certain cases, the inputs used to measure fair value may fall into different levels of the fair value hierarchy. In such cases, the level in the fair value hierarchy within which the fair value measurement in its entirety falls has been determined based on the lowest level input that is significant to the fair value measurement in its entirety. The Company’s assessment of the significance of a particular input to the fair value measurement in its entirety requires judgment and considers factors specific to the asset or liability.

Table of Contents

Assets and liabilities that had recurring fair value measurements were as follows:

	Total	Fair Value Measurements at Reporting Date Using Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)
As of September 30, 2016:				
Interest rate swap not designated as cash flow hedge	$618	$ —	$ 618	$ —
Total liabilities at fair value	$618	$ —	$ 618	$ —
As of June 30, 2016:				
Interest rate swap not designated as cash flow hedge	$863	$ —	$ 863	$ —
Total liabilities at fair value	$863	$ —	$ 863	$ —

Fair value measurements for the Company's interest rate swap are classified under Level 2 because such measurements are based on significant other observable inputs. There were no transfers of assets or liabilities between Level 1 and Level 2 as of September 30, 2016 or June 30, 2016.

The Company's nonfinancial assets and liabilities that have nonrecurring fair value measurements include property, plant and equipment, goodwill and intangibles.

In assessing the need for goodwill impairment, management relies on a number of factors, including operating results, business plans, economic projections, anticipated future cash flows, transactions and marketplace data. Accordingly, these fair value measurements fall in Level 3 of the fair value hierarchy. The Company generally uses projected cash flows, discounted as necessary, to estimate the fair values of property, plant and equipment and intangibles using key inputs such as management's projections of cash flows on a held-and-used basis (if applicable), management's projections of cash flows upon disposition and discount rates. Accordingly, these fair value measurements fall in Level 3 of the fair value hierarchy. These assets and certain liabilities are measured at fair value on a nonrecurring basis as part of the Company's impairment assessments and as circumstances require.

10. Income Taxes

Malibu Boats, Inc. is taxed as a C corporation for U.S. income tax purposes and is therefore subject to both federal and state taxation at a corporate level. The LLC continues to operate in the United States as a partnership for U.S. federal income tax purposes.

Income taxes are computed in accordance with ASC Topic 740, Income Taxes, and reflect the net tax effects of temporary differences between the financial reporting carrying amounts of assets and liabilities and the corresponding income tax amounts. The Company has deferred tax assets and liabilities and maintains valuation allowances where it is more likely than not that all or a portion of deferred tax assets will not be realized. To the extent the Company determines that it will not realize the benefit of some or all of its deferred tax assets, such deferred tax assets will be adjusted through the Company's provision for income taxes in the period in which this determination is made. As of September 30, 2016 and June 30, 2016, the Company maintained a valuation allowance of $9,700 against deferred tax assets related to state net operating losses and future amortization deductions (with respect to the Section 754 election) that are reported in the Tennessee corporate tax return without offsetting income, which is taxable at the LLC.

The Company's consolidated interim effective tax rate is based upon expected annual income from operations, statutory tax rates and tax laws in the various jurisdictions in which the Company operates. Significant or unusual items, including adjustments to accruals for tax uncertainties, are recognized in the quarter in which the related event occurs. For the three months ended September 30, 2016 and 2015, the Company's effective tax rate was 33.7% and 33.3%, respectively. The principal differences in the Company's effective tax rate with comparable historical periods presented and the statutory federal income tax rate of 35% relate to the impact of the non-controlling interests in the LLC, which is a pass-through entity for U.S. federal tax purposes, and state taxes. The Company's effective tax rate for the three months ended September 30, 2016 and 2015 also reflects the impact of the Company's share of the LLC's permanent items such as non-deductible stock compensation expense attributable to profits interests. Additionally, the Company's effective tax rate for the three months ended September 30, 2016 includes the benefit of deductions under Section 199 of the Internal Revenue Code.

Table of Contents

11. Stock-Based Compensation

On January 6, 2014, the Company's Board of Directors adopted the Incentive Plan. The Incentive Plan, which became effective on January 1, 2014, reserves for issuance up to 1,700,000 shares of Malibu Boats, Inc. Class A Common Stock for the Company's employees, consultants, members of its board of directors and other independent contractors at the discretion of the compensation committee. Incentive stock awards authorized under the Incentive Plan include unrestricted shares of Class A Common Stock, stock options, stock appreciation rights, restricted stock, restricted stock units, dividend equivalent awards and performance awards. As of September 30, 2016, 1,391,469 shares remain available for future issuance under the Incentive Plan.

On November 6, 2015, the Company granted 130,564 restricted stock unit and restricted stock awards to certain key employees. The grant date fair value of these awards was $1,994 based on a stock price of $15.27 per share on the date of grant. Under the terms of the agreements, approximately 12% of the awards vested immediately on the grant date, approximately 38% vest in substantially equal annual installments over a three or four year period, and the remaining 50% of the awards vest in tranches based on the achievement of annual or cumulative performance targets. Compensation costs associated with performance based awards are recognized over the requisite service period based on probability of achievement in accordance with ASC Topic 718, Compensation—Stock Compensation. On September 14, 2016, 18,863 restricted stock units and restricted stock awards vested based on a stock price of $14.10 for the achievement of the Company's annual performance target. Readers should refer to Note 14 to the fiscal 2016 audited consolidated financial statements contained in the Company's Annual Report on Form 10-K for the fiscal year ended June 30, 2016, for additional information related to the Company's other awards and the Incentive Plan.

The following is a summary of the changes in non-vested restricted stock units and restricted stock awards for the three months ended September 30, 2016:

	Number of Restricted Stock Units and Restricted Stock Awards Outstanding	Weighted Average Grant Date Fair Value
Total Non-vested Restricted Stock Units as of June 30, 2016	140,908	$ 16.17
Granted	3,171	14.90
Vested	(22,034)	(15.22)
Forfeited	(975)	(20.18)
Total Non-vested Restricted Stock Units as of September 30, 2016	121,070	$ 16.28

Stock compensation expense attributable to the Company's share-based equity awards was $465 and $340 for the three months ended September 30, 2016 and 2015, respectively. Stock compensation expense attributed to share-based equity awards issued under the Incentive Plan and under the previously existing LLC Agreement is recognized on a straight-line basis over the terms of the respective awards and is included in general and administrative expense in the Company's unaudited condensed consolidated statement of operations and comprehensive income (loss). The cash flow effects resulting from share-based awards were reflected as noncash operating activities. As of September 30, 2016 and June 30, 2016, unrecognized compensation cost related to nonvested, share-based compensation was $1,646 and $2,131, respectively. As of September 30, 2016, the weighted average years outstanding for unvested awards under the Incentive Plan was 2.5. All awards under the previously existing LLC Agreement were fully vested as of September 30, 2016. During the three months ended September 30, 2016, the Company withheld approximately 8,062 shares at an aggregate cost of approximately $108, as permitted by the applicable equity award agreements, to satisfy employee tax withholding requirements for employee share-based equity awards that have vested and were issued. Awards vesting during the three months ended September 30, 2016 include 3,171 fully vested restricted stock units issued to non-employee directors for their services as directors for the Company.

12. Net Earnings Per Share

Basic net earnings per share of Class A Common Stock is computed by dividing net earnings attributable to the Company's earnings by the weighted average number of shares of Class A Common Stock outstanding during the period. The weighted average number of shares of Class A Common Stock outstanding used in computing basic net earnings per share includes fully vested restricted stock units awarded to directors that are entitled to participate in distributions to common stockholders through receipt of additional units of equivalent value to the dividends paid to Class A Common stockholders. The portion of consideration paid in Class A Common Stock related to the acquisition of Malibu Boats Pty. Ltd. that is subject to a time-based restriction is also included in the denominator.
Diluted net earnings per share of Class A Common Stock is computed similarly to basic net earnings per share except the weighted average shares outstanding are increased to include additional shares from the assumed exercise of any common stock

Table of Contents

equivalents using the treasury method, if dilutive. The Company’s LLC Units are considered common stock equivalents for this purpose. The number of additional shares of Class A Common Stock related to these common stock equivalents is calculated using the treasury stock method.

Basic and diluted net earnings per share of Class A Common Stock for the three months ended September 30, 2016 and 2015 have been computed as follows (in thousands, except share and per share amounts):

	Three Months Ended	
	September 30, 2016	September 30, 2015
Basic:		
Net income attributable to Malibu Boats, Inc.	$3,780	$ 3,558
Shares used in computing basic net income per share:		
Weighted-average Class A Common Stock	17,620,852	17,869,406
Weighted-average participating restricted stock units convertible into Class A Common Stock	113,538	72,679
Basic weighted-average shares outstanding	17,734,390	17,942,085
Basic net income per share	$0.21	$ 0.20
Diluted:		
Net income attributable to Malibu Boats, Inc.	$3,780	$ 3,558
Shares used in computing diluted net income per share:		
Basic weighted-average shares outstanding	17,734,390	17,942,085
Restricted stock units granted to employees	27,378	6,750
Diluted weighted-average shares outstanding [1]	17,761,768	17,948,835
Diluted net income per share	$0.21	$ 0.20

[1] The Company excluded 1,462,150 and 1,416,973 potentially dilutive shares from the calculation of diluted net income per share for the three months ended September 30, 2016 and 2015, as these shares would have been antidilutive.

The shares of Class B Common Stock do not share in the earnings or losses of Malibu Boats, Inc. and are therefore not included in the calculation. Accordingly, basic and diluted net earnings per share of Class B Common Stock has not been presented.

13. Commitments and Contingencies

Repurchase Commitments

In connection with its dealers’ wholesale floor-plan financing of boats, the Company has entered into repurchase agreements with various lending institutions for sales generated from both the U.S. and Australia operating segments. The reserve methodology used to record an estimated expense and loss reserve in each accounting period is based upon an analysis of likely repurchases based on current field inventory and likelihood of repurchase. Subsequent to the inception of the repurchase commitment, the Company evaluates the likelihood of repurchase and adjusts the estimated loss reserve and related statement of operations account accordingly. This potential loss reserve is presented in accrued liabilities in the accompanying unaudited condensed consolidated balance sheets. If the Company were obligated to repurchase a significant number of units under any repurchase agreement, its business, operating results and financial condition could be adversely affected.

Repurchases and subsequent sales are recorded as a revenue transaction. The net difference between the original repurchase price and the resale price is recorded against the loss reserve and presented in cost of goods sold in the accompanying unaudited condensed consolidated statement of operations and comprehensive income (loss). No units were repurchased during the three months ended September 30, 2016. During the fiscal year ended June 30, 2016, the Company agreed to repurchase three units from the lender of two of its former dealers. Other than these repurchase commitments, the Company has not repurchased another unit from lenders since July 1, 2010. Accordingly, the Company did not carry a reserve for repurchases as of September 30, 2016 or June 30, 2016, respectively.

Contingencies

15

Table of Contents

Certain conditions may exist which could result in a loss, but which will only be resolved when future events occur. The Company, in consultation with its legal counsel, assesses such contingent liabilities, and such assessments inherently involve an exercise of judgment. If the assessment of a contingency indicates that it is probable that a loss has been incurred, the Company accrues for such contingent loss when it can be reasonably estimated. If the assessment indicates that a potentially material loss contingency is not probable but reasonably estimable, or is probable but cannot be estimated, the nature of the contingent liability, together with an estimate of the range of possible loss if determinable and material, is disclosed. Estimates of potential legal fees and other directly related costs associated with contingencies are not accrued but rather are expensed as incurred. Except as disclosed below under "Legal Proceedings," management does not believe there are any pending claims (asserted or unasserted) at September 30, 2016 (unaudited) or June 30, 2016 that may have a material adverse impact on the Company's financial condition, results of operations or cash flows.

Legal Proceedings

On June 29, 2015, the Company filed suit against MasterCraft Boat Company, LLC, or "MasterCraft," in the U.S. District Court for the Eastern District of Tennessee, seeking monetary and injunctive relief. The Company's complaint alleged MasterCraft's infringement of a utility patent related to wake surfing technology (U.S. Patent No. 8,578,873). MasterCraft denied liability arising from the causes of action alleged in the Company's complaint and filed a counterclaim alleging non-infringement and invalidity of the asserted patent. On August 13, 2015, MasterCraft filed a motion for summary judgment of non-infringement, which the Company opposed. On February 11, 2016, the Court denied MasterCraft's motion for summary judgment as premature, without prejudice to MasterCraft re-filing the motion after claim construction and further discovery. On December 11, 2015, the Court issued a scheduling order setting deadlines for discovery and other events in the litigation, leading up to a trial beginning on May 1, 2017. The parties are currently engaged in fact discovery and claim construction proceed