

Malibu Boats, Inc.
Form 10-Q
March 11, 2014
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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 December 31, 2013
Commission file number: 001-36290

MALIBU BOATS, INC.

(Exact Name of Registrant as specified in its charter)

Delaware	5075 Kimberly Way Loudon, Tennessee 37774 (Address of principal executive offices, including zip code) (865) 458-5478 (Registrant's telephone number, including area code)	46-4024640 (I.R.S. Employer Identification No.)
(State or other jurisdiction of incorporation or organization)		

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, 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	<input type="checkbox"/>	Accelerated filer	<input type="checkbox"/>
Non-accelerated filer	<input checked="" type="checkbox"/>	Smaller reporting company	<input type="checkbox"/>
	(Do not check if a smaller reporting company)		

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

Class A Common Stock, par value \$0.01, outstanding as of March 7, 2014: 11,054,830 shares
Class B Common Stock, par value \$0.01, outstanding as of March 7, 2014: 34 shares

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Part I - Financial Information

Item 1. Financial Statements

MALIBU BOATS, INC.

Condensed Balance Sheet

December 31, 2013

Assets

Cash	\$10
------	------

Total assets	\$10
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Liabilities and Stockholder's Equity

Class A Common Stock, par value \$0.01 per share, 100,000,000 shares authorized, 100 shares issued and outstanding	1
--------------------------------------------------------------------------------------------------------------------	---

Class B Common Stock, par value \$0.01 per share, 25,000,000 shares authorized, no shares issued and outstanding	—
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Preferred stock, par value \$0.01 per share, 25,000,000 shares authorized, no shares issued and outstanding	\$—
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Additional paid-in-capital	9
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Total liabilities and stockholder's equity	\$10
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The accompanying notes are an integral part of the Condensed Balance Sheet (Unaudited).

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MALIBU BOATS, INC.

Notes to Condensed Balance Sheet

1. Organization, Basis of Presentation, and Summary of Significant Accounting Policies

Overview

Malibu Boats, Inc. (the "Company" or "Malibu") was formed as a Delaware corporation on November 1, 2013, as a holding company for the purposes of facilitating an initial public offering (the "IPO") of shares of common stock. As of December 31, 2013, the Company had not engaged in any business or other activities except in connection with its formation and registration with the Securities and Exchange Commission ("SEC"). Following the internal reorganization of Malibu Boats Holdings, LLC (the "LLC") and the initial public offering of the Company's common stock on February 5, 2014, the Company became the sole managing member of and has a controlling interest in the LLC. Malibu's only business following the IPO is to act as the sole managing member of Malibu Boats Holdings, LLC and, as such, the Company operates and controls all of the LLC's business and affairs and consolidates its financial results into Malibu's consolidated financial statements for the periods ending on or after the closing of the IPO on February 5, 2014. 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. Malibu Boats Holdings, 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.

Basis of Presentation

The accompanying condensed balance sheet has been prepared in accordance with accounting principles generally accepted in the United States ("GAAP"). Separate statements of operations, changes in stockholder's equity and cash flows have not been presented in the financial statements because there have been no activities of this entity.

2. Stockholder's Equity

The Company is authorized to issue 150,000,000 shares of capital stock, consisting of 100,000,000 shares of Class A Common Stock, par value \$0.01 per share ("Class A Common Stock"), 25,000,000 shares of Class B Common Stock, par value \$0.01 per share ("Class B Common Stock"), and 25,000,000 shares of Preferred Stock, par value \$0.01 per share. The Company has issued 100 shares of Class A Common Stock in exchange for \$10.00, all of which were held by BC-Malibu Boats GP, an affiliate of Black Canyon Capital LLC, at December 31, 2013.

3. Related Party Transactions

In connection with the filing of its registration statement on Form S-1 with the SEC on December 13, 2013, the Company paid a registration fee of \$14,812, which was reimbursed by the LLC.

4. Subsequent Events

Initial Public Offering

On February 5, 2014, Malibu completed its IPO of 8,214,285 shares of Class A Common Stock at a price to the public of \$14.00 per share, raising net proceeds of \$99.5 million to the Company after underwriting discounts and commissions but before expenses. Of the shares of Class A Common Stock sold to the public, 7,642,996 shares were issued and sold by the Company and 571,289 shares were sold by selling stockholders. This included 899,252 shares issued and sold by the Company and 172,175 shares sold by selling stockholders pursuant to the over-allotment option granted to the underwriters, which was exercised prior to the completion of the IPO.

The Company used \$69.8 million of the net proceeds from the IPO to purchase units of the LLC ("LLC Units") from the LLC and caused the LLC to use these proceeds (i) to pay down all of the amounts owed under the LLC's credit facilities and term loans in an amount equal to \$63.4 million, (ii) to pay Malibu Boats Investor, LLC, an affiliate of the LLC, a fee of \$3.75 million upon the consummation of the IPO in connection with the termination of the LLC's

management agreement, and (iii) approximately \$2.7 million for other general corporate purposes. The Company used all of the remaining net proceeds from the IPO, or \$29.8 million, to purchase LLC Units from the existing owners of the LLC at a purchase price equal to the initial public offering price per share of Class A Common Stock in the IPO, after deducting underwriting discounts and commissions.

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Recapitalization and IPO Transactions

Immediately prior to the closing of the IPO, LLC Units were allocated among the existing owners of the LLC pursuant to the distribution provisions of the former limited liability company agreement of the LLC based upon the liquidation value of the LLC, assuming the LLC was liquidated with a value implied by the IPO price of the shares of Class A Common Stock (the “Recapitalization”). Further, in connection with the Recapitalization, the Company issued to each existing owner of the LLC, for nominal consideration, one share of Class B Common Stock of the Company, each of which provides its owner with no economic rights but entitles the holder to one vote on matters presented to the Company’s stockholders for each LLC Unit held by such existing owner.

Further, on February 4, 2014, two holders of membership interests in the LLC merged with and into two newly-formed subsidiaries of the Company. As a result of these mergers, the sole stockholders of each of the two merging entities received shares of Class A Common Stock in exchange for shares of capital stock of the merging entities and the 100 shares of Class A Common Stock initially issued to BC-Malibu Boats GP, which were redeemed for nominal consideration. The two former sole stockholders of the merging entities were the selling stockholders in the IPO.

First Amended and Restated Limited Liability Company Agreement

In connection with the Recapitalization and the IPO, the Company became the sole managing member of the LLC and, through the LLC, operates the business of the LLC. Accordingly, although the Company acquired a 49.3% economic interest in the LLC immediately following the closing of the IPO, the Company has 100% of the voting power and controls the management of the LLC. Holders of LLC Units generally do not have voting rights under the first amended and restated limited liability company agreement of the LLC, as amended (the “LLC Agreement”).

Pursuant to the LLC Agreement, the Company has the right to determine when distributions will be made to holders of LLC Units 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.

Voting Agreement

In connection with the Recapitalization, the Company entered into a voting agreement (the “Voting Agreement”) with certain affiliates. Under the Voting Agreement, Black Canyon Management LLC is entitled to nominate to the Company’s board of directors a number of designees equal to (i) 20% of the total number of directors comprising the Company’s board of directors for so long as Black Canyon Management LLC and its affiliates and Jack Springer, Wayne Wilson and Ritchie Anderson, together, beneficially own 15% or more of the voting power of the shares of Class A Common Stock and Class B Common Stock entitled to vote generally in the election of directors, voting together as a single class, and (ii) 10% of the total number of directors comprising the Company’s board of directors for so long as Black Canyon Management LLC and its affiliates and Messrs. Springer, Wilson and Anderson, together, beneficially own more than 5% but less than 15% of the voting power of the shares of Class A Common Stock and Class B Common Stock entitled to vote generally in the election of directors, voting together as a single class. For purposes of calculating the number of directors that Black Canyon Management LLC is entitled to nominate pursuant to this formula, any fractional amounts would be rounded up to the nearest whole number and the calculation would be made on a pro forma basis, taking into account any increase in the size of the board of directors (e.g., one and one-third (1 $\frac{1}{3}$) directors equates to two directors). In addition, Black Canyon Management LLC has the right to remove and replace its director-designees at any time and for any reason and to nominate any individual(s) to fill any such vacancies. Messrs. Springer, Wilson and Anderson are required to vote any of their LLC Units in favor of the director or directors nominated by Black Canyon Management LLC.

Exchange Agreement

In connection with the Recapitalization, the Company entered into an exchange agreement (the “Exchange Agreement”) with the existing owners of the LLC, several of whom are directors and/or officers of the Company. Under the Exchange Agreement, each existing owner of the LLC (and certain permitted transferees thereof) may generally exchange its LLC Units for shares of Class A Common Stock of the Company on a one-for-one basis, subject to customary conversion rate adjustments for stock splits, stock dividends and reclassifications, or for cash (except in the event of a change in control), at the Company’s election. Notwithstanding the foregoing, within the 180-day period following the closing of the IPO, a holder of LLC Units may only exchange those LLC Units for Class A Common Stock if such holder executed a lock-up agreement. Further, an existing owner of the LLC does not have the right to exchange LLC Units if the Company determines that such exchange would be prohibited by law or regulation or would violate other agreements with the Company to which the existing owner may be subject.

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Registration Rights Agreement

In connection with the Recapitalization, the Company entered into a registration rights agreement (the “Registration Rights Agreement”) with Black Canyon Management LLC and certain affiliates of Black Canyon Capital LLC pursuant to which Black Canyon Management LLC may request registration or inclusion of shares of Class A Common Stock held by affiliates of Black Canyon Capital LLC in any registration of Class A Common Stock in compliance with the Securities Act of 1933, as amended. In addition, the Registration Rights Agreement provides that, as soon as practicable following the one-year anniversary of the closing of the IPO, the Company is required to use all reasonable efforts to cause a resale shelf registration statement to become effective and remain effective until the eighth anniversary of the closing of the IPO. The Registration Rights Agreement will remain in effect until (i) there are no more securities registrable under the Registration Rights Agreement outstanding or (ii) termination of the Registration Rights Agreement by both (a) Black Canyon Management LLC and (b) affiliates of Black Canyon Capital LLC owning two-thirds of the outstanding LLC Units. In addition, the LLC Agreement permits members that own securities that the Company proposes or is required to register with the SEC, pursuant to the Registration Rights Agreement or otherwise, the right to include their securities in such registration, subject to the limitations set forth in the LLC Agreement.

Tax Receivable Agreement

In connection with the Recapitalization, the Company entered into a tax receivable agreement (the “Tax Receivable Agreement”) with the existing owners of the LLC that provides for the payment from time to time by the Company to the existing owners of 85% of the amount of the benefits, if any, that the Company has deemed to realize as a result of (i) increases in tax basis resulting from the purchase or exchange of LLC Units and (ii) certain other tax benefits related to the Company entering into the Tax Receivable Agreement. These payment obligations are obligations of the Company and not of the LLC. 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.

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 existing 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 existing owners of the LLC. In addition, an existing owner may elect to unilaterally terminate the Tax Receivable Agreement with respect to such existing 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.

Effects of the Recapitalization and IPO

As a result of the Recapitalization and the IPO:

Investors in the IPO collectively own 8,214,285 shares of Class A Common Stock;

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The two selling stockholders in the IPO, who were former holders of LLC Units, continue to collectively own 2,840,545 shares of Class A Common Stock;

• The Company owns 11,054,830 LLC Units, representing 49.3% of the economic interest in the LLC;

• Existing owners of the LLC collectively own 11,373,737 LLC Units, representing 50.7% of the economic interest in the LLC;

• Investors in the IPO collectively have 36.6% of the voting power in the Company;

• The two selling stockholders in the IPO who were former holders of LLC Units, continue to collectively have 12.7% of the voting power in the Company; and

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Existing owners of the LLC, through their holdings of the Company's Class B Common Stock, collectively have 50.7% of the voting power in the Company.

Unaudited Pro Forma Condensed Consolidated Financial Statements

The pro forma adjustments related to the pro forma condensed income statement represent adjustments that reflect events that are (i) directly attributable to a specific transaction, (ii) expected to have a continuing impact, and (iii) factually supportable.

The unaudited pro forma condensed consolidated balance sheet as of December 31, 2013 and the unaudited pro forma condensed consolidated statements of income for the three and six months ended December 31, 2013 present the results of the LLC and give pro forma effect to results of the Company and the Recapitalization and the IPO and the use of net proceeds from the IPO as if such transactions occurred on July 1, 2013 for the condensed consolidated statement of income and as of December 31, 2013 for the consolidated balance sheet.

The pro forma adjustments principally give effect to:

the termination of the management agreement between the LLC and Malibu Boats Investor, LLC, an affiliate, including the payment of a non-recurring fee of \$3.75 million to Malibu Boats Investor, LLC upon the consummation of the IPO;

the Recapitalization and the IPO;

the purchase by the Company of LLC Units with the proceeds of the IPO;

in the case of the unaudited pro forma consolidated statements of income, a provision for corporate income taxes on the income attributable to the Company at an effective rate of 39.1% and 37.3% for the three and six months ended December 31, 2013, respectively, which includes a provision for U.S. federal income taxes and assumes the highest statutory rates apportioned to each state and local tax jurisdiction;

adjustments that give effect to the Tax Receivable Agreement as described above;

payments due to the existing owners of the LLC as set forth in the Tax Receivable Agreement equal to 85% of the amount of cash savings, if any, in U.S. federal, foreign, state and local income and franchise tax that the Company actually realizes (or is deemed to realize in the case of certain payments required to be made upon certain occurrences under the Tax Receivable Agreement) as a result of the increases in the tax basis of the LLC's assets attributable to the Company's purchase of LLC Units from the existing owners of the LLC and of certain other tax benefits related to the Company entering into the Tax Receivable Agreement; and

adjustments to reflect the impact on deferred tax assets related to the difference in the historical tax basis in the LLC as compared to its GAAP carrying value.

The pro forma adjustments do not give effect to one time stock compensation costs of \$1.8 million we expect to incur in connection with the Recapitalization and IPO transactions as a result of the modification of certain profit interest awards previously granted in 2012 under the LLC Agreement, as amended and restated, as these costs do not have a continuing impact.

The unaudited pro forma consolidated financial information reflects the manner in which the Company accounted for the Recapitalization and IPO. Specifically, the Company accounted for the Recapitalization as a non-substantive

transaction in a manner similar to a transaction between entities under common control pursuant to Accounting Standards Codification ("ASC") Topic 805, Business Combinations. Accordingly, after the Recapitalization, the assets and liabilities of the Company are reflected at their carryover basis. The unaudited pro forma consolidated financial information is included for informational purposes only and does not purport to reflect the Company's results of operations or financial position that would have occurred had it operated as a public company during the periods presented. The unaudited pro forma condensed consolidated financial information should not be relied upon as being indicative of the Company's financial condition or results of operations had the Recapitalization and IPO and the contemplated use of the estimated net proceeds from the IPO occurred on the dates assumed. The unaudited pro forma condensed consolidated financial information also does not project the Company's results of operations or financial position for any future period or date.

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MALIBU BOATS, INC.

Pro Forma Condensed Consolidated Statement of Income (Unaudited)

Three Months Ended December 31, 2013

	Malibu Boats Holdings, LLC Historical (1)	Pro Forma Adjustments	Malibu Boats, Inc. (2) Pro Forma
	(In thousands, except per unit and per share data)		
Net sales	\$43,938	\$—	\$43,938
Cost of sales	32,242	—	32,242
Gross profit	11,696	—	11,696
Operating expenses:			
Selling and marketing	1,510	—	1,510
General and administrative	3,068	(21)(3) 3,047
Amortization	1,295	—	1,295
Operating income	5,823	21	5,844
Other income (expense):			
Other	6	—	6
Interest expense	(609) 609	(4) —
Other expense	(603) 609	6
Net income before provision for income taxes	5,220		