Malibu Boats, Inc.
Form 10-K
September 06, 2018

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

FORM 10-K
ANNUAL REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE
SECURITIES EXCHANGE ACT OF 1934
For the fiscal year ended June 30, 2018
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)	

Securities Registered Pursuant to Section 12(b) of the Act:

Title of each class	Name of each exchange on which registered
Class A Common Stock ($0.01 par value per share)	Nasdaq Global Select Market

Indicate by check mark if the registrant is a well-known seasoned issuer, as defined in Rule 405 of the Securities Act. Yes þ No ¨
Indicate by check mark if the registrant is not required to file reports pursuant to Section 13 or Section 15(d) of the Act. Yes ¨ No þ
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 if disclosure of delinquent filers pursuant to Item 405 of Regulation S-K is not contained herein, and will not be contained, to the best of registrant's knowledge, in the definitive proxy or information statements incorporated by reference in Part III of this Form 10-K or any amendment to this Form 10-K. ¨
Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, a non-accelerated filer, smaller reporting company or an emerging growth company. See the definitions of “large accelerated filer,” “accelerated filer,” “smaller reporting company” and “emerging growth company” in Rule 12b-2 of the Exchange Act:

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

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

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

As of December 31, 2017, the last business day of the registrant’s most recently completed second fiscal quarter, the aggregate value of the registrant’s common stock held by non-affiliates was approximately $603.7 million, based on the number of shares of Class A common stock held by non-affiliates as of December 31, 2017 and the closing price of the registrant’s Class A common stock on the Nasdaq Global Select Market on December 29, 2017. Shares held by each executive officer, director and by each person who owns 10% or more of the outstanding Class A common stock have been excluded in that such persons may be deemed to be affiliates. This determination of affiliate status is not necessarily a conclusive determination for other purposes. The number of outstanding shares of the registrant’s Class A common stock, par value $0.01 per share, and Class B common stock, par value $0.01, as of September 5, 2018 was 20,555,734 and 17, respectively.

DOCUMENTS INCORPORATED BY REFERENCE

Portions of the registrant’s Proxy Statement for the 2018 Annual Meeting of Stockholders are incorporated into Part III of this Annual Report on Form 10-K where indicated. Such proxy statement will be filed with the Securities and Exchange Commission within 120 days of the registrant’s fiscal year ended June 30, 2018.

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SPECIAL NOTE REGARDING FORWARD-LOOKING STATEMENTS

This Annual Report on Form 10-K contains forward-looking statements. All statements other than statements of historical facts contained in this Form 10-K are forward-looking statements, including statements regarding the expected timing for the closing of our acquisition of the Pursuit division of S2 Yachts, Inc., or Pursuit, and the related financing and the expected financial and business impact of the transaction,the demand for our products and expected industry trends, our business strategy and plans, our prospective products or products under development, our vertical integration initiatives, our acquisition strategy, including our continuing integration of Cobalt Boats, LLC, or Cobalt, into our business, and management's objectives for future operations. In particular, many of the statements under the headings "Item 1A. Risk Factors," "Item 7. Management's Discussion and Analysis of Financial Condition and Results of Operations" and "Item 1."

Business" constitute forward-looking statements. In some cases, you can identify forward-looking statements by terminology such as "may," "will," "should," "expects," "plans," "anticipates," "believes," "estimates," "predicts," "potential," negative of these terms, or by other similar expressions that convey uncertainty of future events or outcomes to identify these forward-looking statements. These statements are only predictions, involving known and unknown risks, uncertainties and other factors that may cause our or our industry's actual results, levels of activity, performance or achievements to be materially different from any future results, levels of activity, performance or achievements expressed or implied by these forward-looking statements. Such factors include, but are not limited to: general industry, economic and business conditions; the satisfaction of the closing conditions to the acquisition of Pursuit and conditions for borrowing under our revolving credit facility; our ability to grow our business through acquisitions or strategic alliances and new partnerships; our growth strategy which may require us to secure significant additional capital; significant fluctuations in our annual and quarterly financial results; unfavorable weather conditions; our reliance on our network of independent dealers and increasing competition for dealers; the financial health of our dealers and their continued access to financing; our obligation to repurchase inventory of certain dealers; our failure to manage our manufacturing levels while addressing the seasonal retail pattern for our products; our large fixed cost base; intense competition within our industry; increased consumer preference for used boats or the supply of new boats by competitors in excess of demand; the successful introduction of new products; competition with other activities for consumers' scarce leisure time; the continued strength of our brands; our ability to execute our manufacturing strategy successfully; the success of our engine integration strategy; our reliance on certain suppliers for our engines; our ability to meet our manufacturing workforce needs; our exposure to claims for product liability and warranty claims; our dependence on key personnel; our ability to protect our intellectual property; disruptions to our network and information systems; exposure to workers' compensation claims and other workplace liabilities; risks inherent in operating in foreign jurisdictions; changes in currency exchange rates; an increase in energy and fuel costs; any failure to comply with laws and regulations including environmental and other regulatory requirements; a natural disaster or other disruption at our manufacturing facilities; increases in income tax rates or changes in income tax laws; covenants in our the credit agreement governing our revolving credit facility and term loan which may limit our operating flexibility; our variable rate indebtedness which subjects us to interest rate risk; and any failure to maintain effective internal control over financial reporting or disclosure controls or procedures.

We discuss many of these factors, risks and uncertainties in greater detail under the heading "Item 1A. Risk Factors" and elsewhere in this Form 10-K. These factors expressly qualify as forward-looking statements attributable to us or persons acting on our behalf.

You should not rely on forward-looking statements as predictions of future events. Although we believe that the expectations reflected in the forward-looking statements are reasonable, we cannot guarantee future results, levels of activity, performance or achievements. Actual results may differ materially from those suggested by the forward-looking statements for various reasons, including those discussed under "Item 1A. Risk Factors" in this Form 10-K. Except as required by law, we assume no obligation to update forward-looking statements for any reason after the date of this Form 10-K to conform these statements to actual results or to changes in our expectations.

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PART I.

Item 1. Business

Unless otherwise expressly indicated or the context otherwise requires, in this Annual Report on Form 10-K:

- we use the terms “Malibu Boats,” the “Company,” “we,” “us,” “our” or similar references to refer (1) prior to the consummatio of our IPO on February 5, 2014, to Malibu Boats Holdings, LLC, or the LLC, and its consolidated subsidiaries and (2) after our IPO, to Malibu Boats, Inc. and its consolidated subsidiaries;
- we refer to our initial public offering of Class A common stock on February 5, 2014, as our “IPO”;
- we refer to the owners of membership interests in the LLC immediately prior to the consummation of the IPO, collectively, as our “pre-IPO owners”;
- we refer to owners of membership interests in the LLC (the "LLC Units"), collectively, as our “LLC members”;
- references to “fiscal year” refer to the fiscal year of Malibu Boats, which ends on June 30 of each year;
- we refer to our Malibu branded boats as "Malibu", our Axis Wake Research branded boats as "Axis", and our Cobalt branded boats as "Cobalt";
- we use the term “recreational powerboat industry” to refer to our industry group, which includes performance sport boats, sterndrive and outboard boats;
- we use the term “performance sport boat category” to refer to our industry category, consisting primarily of fiberglass boats equipped with inboard propulsion and ranging from 19 feet to 26 feet in length, which we believe most closely corresponds to (1) the inboard ski/wakeboard category, as defined and tracked by the National Marine Manufacturers Association, or NMMA, and (2) the inboard skiboat category, as defined and tracked by Statistical Surveys, Inc., or SSI;
- we use the terms “sterndrive” and “outboard” to refer to the industry category, consisting primarily of sterndrive and outboard boats ranging from 20 feet to 40 feet, which most closely corresponds to (1) the sterndrive and outboard categories, as defined and tracked by NMMA, and (2) the sterndrive and outboard propulsion categories, as defined and tracked by SSI; and
- references to certain market and industry data presented in this Form 10-K are determined as follows: (1) U.S. boat sales and unit volume for the overall powerboat industry and any powerboat category during any calendar year are based on retail boat market data from the NMMA; (2) U.S. market share and unit volume for the overall powerboat industry and any powerboat category during any fiscal year ended June 30 or any calendar year ended December 31 are based on comparable same-state retail boat registration data from SSI, as reported by the 50 states for which data was available as of the date of this Form 10-K; and (3) market share among U.S. manufacturers of exports to international markets of boats in any powerboat category for any period is based on data from the Port Import Export Reporting Service, available through March 31, 2017, and excludes such data for Australia and New Zealand.

This Annual Report on Form 10-K includes our trademarks, such as “Surf Gate,” “Wakesetter,” “SurfBand,” “Swim Step,” and “TrueWave” which are protected under applicable intellectual property laws and are the property of Malibu Boats. This Form 10-K also contains trademarks, service marks, trade names and copyrights of other companies, which are the property of their respective owners. Solely for convenience, trademarks and trade names referred to in this Form 10-K may appear without the ® or TM symbols, but such references are not intended to indicate, in any way, that we will not assert, to the fullest extent under applicable law, our rights or the right of the applicable licensor to these trademarks and trade names.

Our Company

We are a leading designer, manufacturer and marketer of a diverse range of recreational powerboats, including performance sport boats, sterndrive and outboard boats under three brands—Malibu, Axis, and Cobalt. We have the #1 market share position in the United States in the performance sport boat category through our Malibu and Axis brands as well as the #1 market share position in the United States in the 24’—29’ segment of the sterndrive category through our Cobalt brand. Our product portfolio of premium brands are used for a broad range of recreational boating activities including, among others, water sports such as water skiing, wakeboarding and wake surfing, as well as general recreational boating. Our passion for consistent innovation, which has led to propriety technology such as Surf Gate, has allowed us to expand the market for our products by introducing consumers to new and exciting recreational activities. We design products that appeal to an expanding range of recreational

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boaters and water sports enthusiasts whose passion for boating and water sports is a key aspect of their lifestyle and provide consumers with a better customer-inspired experience. With performance, quality, value and multi-purpose features, our product portfolio has us well positioned to broaden our addressable market and achieve our goal of increasing our market share in the expanding recreational boating industry.

In addition to our current market leading brands, we recently entered into an agreement to acquire the assets of Pursuit Boats ("Pursuit") from S2 Yachts, Inc. for an aggregate purchase price of $100 million, subject to customary closing conditions. Pursuit is a leader in the saltwater outboard fishing boat market through its offering of 15 models of offshore, dual console and center console boats. Pursuit has the #2 market share position in the United States in the offshore boat category. We expect to close the acquisition in the second quarter of fiscal year 2019.

Our flagship Malibu boats offer our latest innovations in performance, comfort and convenience, and are designed for consumers seeking a premium performance sport boat experience. We launched our Axis boats in 2009 to appeal to consumers who desire a more affordable performance sport boat product but still demand high performance, functional simplicity and the option to upgrade key features. Our Cobalt boats consist of mid to large-sized luxury cruisers and bowriders that we believe offer the ultimate experience in comfort, performance and quality. Retail prices for our boat models range from $55,000 to $750,000.

Our boats are constructed of fiberglass, available in a range of sizes, hull designs and propulsion systems (i.e., inboard, sterndrive and outboard). We employ experienced product development and engineering teams that enable us to offer a range of models across each of our brands while consistently introducing innovative features in our product offerings. Our engineering teams closely collaborate with our manufacturing personnel in order to improve product quality and process efficiencies. The results of this collaboration are reflected in our receipt of numerous industry awards, including the Boating Industry Magazine's "Top Product" award for Surf Band in 2018 and for our Integrated Surf Platform ("ISP") in 2016 as well as the "WSIA Innovation of Year" for our Malibu Command Center in 2017.

We sell our boats through a dealer network that we believe is the strongest in the recreational powerboat industry. As of July 1, 2018, our distribution channel consisted of over 300 dealer locations globally. Our dealer base is an important part of our consumers' experience, our marketing efforts and our brands. We devote significant time and resources to find, develop and improve the performance of our dealers and believe our dealer network gives us a distinct competitive advantage.

Financial Information About Segments

We currently report our results of operations under three reportable segments: Malibu U.S., Malibu Australia, and Cobalt, based on our boat manufacturing operations. The Malibu U.S. and Malibu Australia segments participate in the manufacturing, distribution, marketing and sale of Malibu and Axis performance sport boats. The Malibu U.S. segment primarily serves markets in North America, South America, Europe, and Asia while the Malibu Australia operating segment principally serves the Australian and New Zealand markets. Our Cobalt segment participates in the manufacturing, distribution, marketing and sale of Cobalt boats throughout the world. Additional segment and geographic information required herein is contained in Note 17 - Segment Reporting, in the notes to our consolidated financial statements included elsewhere in this Annual Report on Form 10-K.

Our Market Opportunity

During calendar year 2017, retail sales of new recreational powerboats in the United States totaled $9.6 billion. Of the recreational powerboat categories defined and tracked by the NMMA, we serve the top three categories of outboard, sterndrive and performance sport boat representing an addressable market of nearly $8.0 billion in retail sales through our Malibu, Axis and Cobalt brands. The following table illustrates the size of our addressable market in units and retail sales for calendar year 2017:

Powerboat Category	Unit Sales	Retail Sales (Dollars in millions)
Outboard	170,800	$ 6,235
Sterndrive	11,500	849
Performance sport boat	9,500	923

Jet boat	5,400	219
Cruisers	1,900	1,378
Total addressable market	199,100	$ 9,604

With our acquisition of Cobalt in July 2017, we now have a product line designed specifically to target the outboard category of the recreational powerboat industry, and we will expand our outboard models if we complete our pending acquisition of Pursuit. We believe the outboard category will continue to be the largest and one of the strongest categories of the recreational powerboat industry, and that significant opportunity remains for us to enhance our outboard product portfolio and dealer distribution network to capitalize on the outboard category's performance.

Our Strengths

Leading Market Share Positions. According to SSI, we have held the number one market share position, based on unit volume, in the United States among manufacturers of performance sport boats for each calendar year since 2010 including 2017. We have grown our U.S. market share in this category through our Malibu and Axis brands from 24.5% in 2010 to 32.6% in 2017. Furthermore, we also have held the number one market share position in the 24'—29' segment of the sterndrive boat category, through our Cobalt brand according to SSI. Since 2010, Cobalt has expanded its market share in this segment from 14.2% in 2010 to 32.1% in 2017.

Industry-leading Product Design and Innovation. We believe that our innovation in the design of new boat models and new features has been a key to our success, helping us increase our market share within our categories and generally broaden the appeal of our products among recreational boaters. As a result of the features we have introduced, such as our Integrated Surf Platform which includes patented Surf Gate and Power Wedge technology along with Swim Step, our boats can be used for an increasingly wide range of activities. At the same time they are increasingly easier to use, while maintaining the highest level of performance characteristics that consumers expect. Additionally, by introducing new boat models across our portfolio of brands in a range of price points, sizes, bow and hull designs, engine propulsion, and optional performance features, we believe we have enhanced consumers' ability to select a boat suited to their individual preferences. Our commitment to developing new boat models and introducing new features are reflected in the fact we consistently and successfully bring multiple new model introductions year after year.

Focus on Vertical Integration Opportunities. We have vertically integrated a number of key components of our manufacturing process, including the manufacturing of boat trailers, towers and tower accessories, machined and billet parts, and tooling. Most recently, we have been engaged in the marinization of our own engines for our Malibu and Axis brands and have successfully incorporated them in select models. Vertical integration efforts around engines continue according to plan and we believe we will successfully incorporate our engines in all Malibu and Axis models by fiscal 2020. Vertical integration of key components of our boats gives us the ability to increase incremental margin per boat sold by reducing our cost base and improving the efficiency of our manufacturing process. Additionally, it allows us to have greater control over design, consumer customization options, construction quality, and our supply chain. We believe our engine marinization initiative will reduce our reliance on our two engine suppliers for our Malibu and Axis brands while reducing the risk that a change in cost or production from any engine supplier for such brands could adversely affect our business. We continually review our manufacturing process to identify opportunities for additional vertical integration investments across our portfolio of premium brands.

Intellectual Property. A key element of our growth and increased market share has been our intellectual property, which we believe is the best in our industry. Among the most innovative and sought after features on our boats has been Surf Gate. Together with Power Wedge and Surf Band, we believe that these patented technologies will continue to drive demand for our products and increase margins across our brands. In fiscal 2018 we acquired Swim Step, through our acquisition of Cobalt which further increases the appeal of our product portfolio. Consequently, there is an increased need to vigorously defend our patents and other intellectual property to ensure we maintain our competitive edge. Because of the appeal of these technologies, we have entered into agreements to license them to other manufacturers within the performance sport boat category. We believe licensing our products provides us with a significant strategic advantage over our competitors by allowing us to expand into other markets and broadening the appeal of these technologies into segments that would not otherwise have them, thereby eventually creating a path to a Malibu purchase.

Strong Dealer Network. We have worked diligently with our dealers to cultivate one of the strongest distribution networks in the recreational powerboat industry. We believe that our distribution network allows us to distribute our products more broadly and effectively than our competitors. We continually review our geographic coverage to identify opportunities for expansion and improvement, and will, where necessary, add dealer locations to address previously underserved markets or replace underperforming dealers.

Highly Recognized Brands. We believe our Malibu, Axis and Cobalt brands are widely recognized in the recreational powerboat industry, which helps us reach a growing number of target consumers. For over 30 years, our Malibu brand has generated a loyal following of recreational boaters and water sports enthusiasts who value the brand’s premium performance and features. Our Axis brand has grown rapidly as consumers have been drawn to its more affordable price point and available optional features. Our Cobalt brand has developed into one of the industry’s most recognizable and respected brands over its

50-year history. We believe that the appeal of our superior performance and innovative products combined with our history with boating enthusiasts and professional water sports athletes contributes to our brand awareness with dealers and consumers. We are able to build on this brand recognition and support through a series of marketing initiatives coordinated with our dealers or executed directly by us. Our marketing efforts are conducted using an array of strategies, which include digital advertising, social media engagement, advertisements in endemic media and the sponsorship of grass-roots boating and watersport events. Additionally, our boats, their innovative features, our sponsored athletes and our dealers all frequently win industry awards, which we believe further boosts our brand recognition and reputation for excellence. We believe our marketing strategies and accomplishments enhance our profile in the industry, strengthen our credibility with consumers and dealers, and increase the appeal of our brands.

Diverse Product Offering. We are able to engage consumers across multiple categories within the recreational powerboat industry. Malibu and Axis operates in the performance sport boat category, controlling the highest market share. Cobalt is the market leader in the 24’—29’ segment of the sterndrive category, and has recently expanded its product portfolio beyond traditional sterndrive boats with the introduction of its wake surfing and outboard product lines, increasing Cobalt’s addressable market. If we complete our pending acquisition of Pursuit, we will also offer products in another major industry category with our entry into the saltwater outboard fishing boat market.

Our Strategy

We intend to capitalize on the recovery in the recreational powerboat industry through the following strategies:

Continue to Develop New and Innovative Products in Our Categories. We intend to continue developing and introducing new and innovative products—both new boat models to better address a broader range of consumers and new features to deliver better performance, functionality, convenience, comfort and safety to our consumers. We believe that new products and features are important to the growth of our market share, the continued expansion of our categories and our ability to maintain attractive margins.

Our product development strategy consists of a two-pronged approach. First, we seek to introduce new boat models to target unaddressed or underserved segments of the recreational powerboat industry, while also updating and refreshing our existing boat models regularly. Second, we seek to develop and integrate innovative new or enhanced optional feature offerings into our boats. For our Malibu and Axis brands this includes Surf Gate, Malibu Command Center, Power Wedge III, and integrated Swim Step. For Cobalt, it includes launching reverse outboard propulsion models to expand its addressable market. Cobalt has been able to achieve growth in recent years partly by pivoting and expanding into the performance sport boat category through its new Cobalt Surf series, combining new surf features into successful preexisting models. We intend to continue releasing new products and features multiple times during the year, which we believe enhances our reputation as a leading-edge boat manufacturer and provides us with a competitive advantage.

Further Strengthen Our Dealer Network. Our goal is to achieve and maintain leading market share in each of the categories in which we operate. We continually assess our distribution network and believe we take the actions necessary to achieve our goal. We intend to strengthen our current footprint by selectively recruiting market-leading dealers who currently sell our competitors’ products. In addition, we plan to continue expanding our dealer network in certain geographic areas to increase consumer access and service in strategic markets. We believe our targeted initiatives to enhance and grow our dealer network across our three brands will increase unit sales in the future.

Continue to Seek Vertical Integration Opportunities. Over the past several years, we have focused on expanding our vertical integration capabilities, having brought in-house the production of towers and tower accessories, trailers, machined and billet parts, and, most recently, marinizing our own engines for our Malibu and Axis brand boats. Additional vertical integration opportunities exist across our product portfolio and we are aggressively monitoring these opportunities.

Selectively Pursue Strategic Acquisitions. One of our growth strategies is to drive growth in our business through targeted acquisitions that add value while considering our existing brands and product portfolio. We have focused on growth through acquisitions both domestically and abroad, as evidenced by our recent announcement of our entry into an agreement to acquire Pursuit, our acquisition of Cobalt in July 2017 and our acquisition of our Australian licensee in October 2014. The primary objectives of our acquisitions are to expand our presence in new or adjacent categories, to expand into other product lines and business that may benefit from our operating strengths, and to increase the size of our addressable market. When we identify potential acquisitions, we attempt to target companies with a leading market share, strong cash flows, and an experienced management team and workforce that provide a fit with our existing operations. After completing an acquisition, we focus on integrating the company with our existing business to provide additional value to the combined entity through cost savings and revenue synergies, such as the optimization of manufacturing operations, improved processes around product development, enhancement of our existing dealer distribution network, administrative cost savings, shared procurement, vertical integration and cross-selling opportunities.

Accelerate International Expansion. Based on our U.S. leadership position, brand recognition, diverse, innovative product offering and distribution strengths, we believe that we are well-positioned to increase our international sales. We believe we can increase our international sales both by promoting our products in developed markets where we have a well-established dealer base, such as Western Europe, and by penetrating new and emerging markets where we expect rising consumer incomes to increase demand for recreational products, such as Asia and South America.

Our Products and Brands

We design, manufacture and sell recreational powerboats, including performance sport boats, sterndrive and outboard boats across three world-renowned brands: Malibu, Axis, and Cobalt. We believe we deliver superior performance for general recreational purposes with a significant focus on water sports, including wakeboarding, water skiing and wake surfing. In addition, we also offer various accessories and aftermarket parts. The following table provides an overview of our product offerings by brand:

Brand	Number of Models	Lengths	Retail Price Range (In thousands)	Description
Malibu	11	20'-25'	$55-$180	Founded in 1982, Malibu targets consumers seeking a premium boating experience with our latest innovations in performance, comfort and convenience. Malibu is comprised of three product lines: • Wakesetter Series - Our line of highly-customizable boats offering our most innovative technologies and premium features, with the newest color options and interior finishes. • M Series - Our line of ultra-premium towboats, featuring the Malibu M235, loaded with every technologically innovative feature we offer including our Integrated Surf Platform, premium luxury interiors, most advanced helm in the industry, and our most powerful engine. • Response Series - Our line of high-performance water ski focused towboats completely redesigned in 2017.
Axis	5	20’-24’	$55-$105	Launched in 2009, Axis was formed to target a younger demographic by providing a more affordably priced, high quality, entry-level boat with high performance, functional simplicity and the option to upgrade key features such as Surf Gate. Axis currently features five models.
Cobalt	15	20’-40’	$55-$750	Founded in 1967, Cobalt is a premium luxury sterndrive and outboard boat manufacturer available in five product lines: • Gateway Series - Our entry level fiberglass sterndrive sporting the refined quality of Cobalt boats. The Gateway series is designed to allow for the comfort, convenience, and performance typically found on much larger Cobalt boats while allowing for an “athletic” use. • R Series - Our mid-range premium fiberglass sterndrive boat in the largest segment that has a sleek, powerful look with a smooth ride and exceptional performance. • A Series - Our super premium fiberglass sterndrive boat that blends yacht-like qualities with a unique, powerful look as well as a smooth ride and exceptional performance. • SC Series - Our line of outboard boats designed for increased saltwater durability and ease of maintenance. • WSS Surf Series - Focused on watersports and based on our Gateway Series and R Series. Features a sport tower for higher tow point, storage racks, integrated billet board racks, optional tower lights, ballast, surf systems and directional speakers with a look designed to appeal to our younger customers.

Innovative Features

In addition to the standard features included on all of our boats, we offer consumers a full selection of innovative optional features designed to enhance performance, functionality and the overall boating experience. We believe our innovative features drive our high average selling prices. Among our most successful and most innovative has been Surf Gate. Introduced in July 2012 and initially patented in September 2013, Surf Gate is available as an optional feature on all Malibu Wakesetter models and Axis brand boats. Surf Gate has revolutionized the increasingly popular sport of wake surfing. Prior to Surf Gate, boaters needed to empty ballast tanks on one side of the boat and shift passengers around to lean the boat to create a larger, more pronounced surf-quality wake. By employing precisely engineered and electronically controlled panels, Surf Gate alleviates this time-consuming and cumbersome process, allowing boaters to easily surf behind an evenly weighted boat without the need to wait for ballast changes. Recent enhancements to Surf Gate have improved upon the system's actuators, allowing for easier and faster transfer, as well as the installation of an indicator horn and optional light signaling, which alert riders to wave transfers. For the 2016 model year, we introduced our patented Surf Band technology that allows the rider to control the surf wave, shape, size and side. Some of our other notable innovations include Power Wedge III, G3/G4/GX Tower, Electronic Dashboard Controls, Swim Step, and TrueWave. We won the Boating Industry Magazine's "Top Product" award in 2018 for Surf Band and in 2016 for our ISP in 2016 as well as the "WSIA Innovation of Year" for our Malibu Command Center in 2017.

We also offer an array of less technological, but nonetheless value-added boat features such as gelcoat upgrades, upholstery upgrades, engine drivetrain enhancements (such as silent exhaust tips, propeller upgrades and closed cooling engine configuration), sound system upgrades, bimini tops, boat covers and trailers which further increase the level of customization afforded to consumers.

Our Dealer Network

We rely on independent dealers to sell our products. We establish performance criteria that our dealers must meet as part of their dealer agreements to ensure our dealer network remains the strongest in the industry. As a member of our network, dealers in North America may qualify for floor plan financing programs, rebates, seasonal discounts, promotional co-op payments and other allowances. In Europe, dealers may qualify for floor plan financing programs. We expect this will strengthen our dealers ability to sell our products in Europe. We believe our dealer network is the most extensive in the market.

North America

As of July 1, 2018, our dealer network consisted of over 220 dealer locations servicing the performance sport boat, sterndrive, and outboard markets strategically located throughout the U.S. and Canada. Approximately 50% of our dealers have been with us, or with Cobalt prior to our acquisition of Cobalt, for over ten years. We do not have a significant concentration of sales among our dealers. For fiscal year 2018, our top ten dealers accounted for approximately 30% of our units sold and none of our dealers accounted for more than 8% of our total sales volume. If we complete our acquisition of Pursuit, we will have approximately 40 additional dealer locations.

We consistently review our distribution network to identify opportunities to expand our geographic footprint and improve our coverage of the market. We believe that our diverse product offering and strong market position in each region of the United States will help us capitalize on growth opportunities as our industry continues to recover from the economic downturn. We have the ability to opportunistically add new dealers and new dealer locations to previously underserved markets and use data and performance metrics to monitor dealer performance. We believe our outstanding dealer network allows us to distribute our products more efficiently than our competitors.

International

We have an extensive international distribution network for our Malibu, Axis, and Cobalt brands. As of July 1, 2018, our dealer network consisted of over 80 dealer locations throughout Europe, Asia, Middle East, South America, South Africa, and Australia/New Zealand. We service our independent dealers in the Australian and New Zealand markets who sell our Malibu and Axis brand boats through our Australian operations acquired in October 2014.

Dealer Management

Our relationship with our dealers is governed through dealer agreements. Each dealer agreement has a finite term lasting between one and three years. Our dealer agreements also are typically terminable without cause by the dealer at any time and by us with 90 days' prior notice. We may also generally terminate these agreements immediately for cause upon certain events. Pursuant to our dealer agreements, the dealers typically agree to, among other things:

- represent our products at specified boat shows;
- market our products only to retail end users in a specific geographic territory;
- promote and demonstrate our products to consumers;
- place a specified minimum number of orders of our products during the term of the agreement in exchange for rebate eligibility that varies according to the level of volume they commit to purchase;
- provide us with regular updates regarding the number and type of our products in their inventory;
- maintain a service department to service our products, and perform all appropriate warranty service and repairs; and
- indemnify us for certain claims.

Our dealer network, including all additions, renewals, non-renewals or terminations, is managed by our sales personnel. Our sales teams operate using a semi-annual dealer review process involving our senior management team. Each individual dealer is reviewed semi-annually with a broad assessment across multiple key elements, including the dealer's geographic region, market share and customer service ratings, to identify underperforming dealers for remediation and to manage the transition process when non-renewal or termination is a necessary step.

We have developed a system of financial incentives for our dealers based on customer satisfaction and achievement of best practices. Our brands employ dealer incentive programs that have been refined through decades of experience at each brand and may, from time to time, include the following elements:

- Rebates and Discount. Our dealers agree to annual commitment volumes that places each dealer into a certain rebate or discount tier and determines its prospective rebate or discount amount. The structure of the dealer incentive depends on the brand represented. If a dealer meets its annual commitment volume as well as other terms of the rebate program, the dealer is entitled to the specified amounts subject to full compliance with our programs. Failure to meet the commitment volume or other terms of the program may result in partial or complete forfeiture of the dealer's rebate or discount.
- Co-op. Dealers of the Malibu and Axis product line may earn certain co-op reimbursements upon reaching a specified level of qualifying expenditures.
- Free flooring. Our dealers that take delivery of current model year boats in the offseason, typically July through spring, are entitled to have us pay the interest to floor the boat until the earlier of (1) the retail sale of the unit or (2) a date near the end of the current model year. This program is an additional incentive to encourage dealers to order in the offseason and helps us balance our seasonal production.

Our dealer incentive programs are also structured to promote more evenly distributed ordering throughout the fiscal year, which allows us to achieve better level-loading of our production and thereby generate plant operating efficiencies. In addition, these programs may offer further rewards for dealers who are exclusive to our brands.

Floor Plan Financing

Our North American dealers often purchase boats through floor plan financing programs with third-party floor plan financing providers. During fiscal year 2018, approximately 80% of our North American shipments were made pursuant to floor plan financing programs through which our dealers participate. These programs allow dealers across our brands to establish lines of credit with third-party lenders to purchase inventory. Under these programs, a dealer draws on the floor plan facility upon the purchase of our boats and the lender pays the invoice price of the boats. As is typical in our industry, we have entered into repurchase agreements with certain floor plan financing providers to our dealers. Under the terms of these arrangements, in the event a lender repossesses a boat from a dealer that has defaulted on its floor financing arrangement and is able to deliver the repossessed boat to us, we are obligated to repurchase the boat from the lender. Our obligation to repurchase such repossessed products for the unpaid balance of our original invoice price for the boat is subject to reduction or limitation based on the age and condition of the boat at the time of repurchase, and in certain cases by an aggregate cap on repurchase obligations associated with a particular floor financing program.

Our exposure under repurchase agreements with third-party lenders is mitigated by our ability to reposition inventory with a new dealer in the event that a repurchase event occurs. The primary cost to us of a repurchase event is any loss on the resale of a repurchased unit, which is often less than 10% of the repurchase amount. For fiscal year 2018 and 2017, we did not repurchase any boats under our repurchase agreements. For fiscal year 2016, we agreed to repurchase three units from the lender of two of our former dealers.

Marketing and Sales

We believe that providing a high level of service to our dealers and end consumers is essential to maintaining our reputation. Our sales personnel receive training on the latest Malibu, Axis and Cobalt products and technologies, as well as training on our competitors' products and technologies, and attend trade shows to increase their market knowledge. This training is then passed along to our dealers to ensure a consistent marketing message and leverage our marketing expenditures. Malibu, Axis and Cobalt enjoy strong brand awareness, as evidenced by our substantial market share in their respective categories.

Our marketing strategy focuses on strengthening and promoting Malibu and Axis brands in the performance sport boat marketplace and the Cobalt brand in the outboard and sterndrive marketplaces. In addition to the Malibu, Axis and Cobalt websites and traditional marketing channels such as print advertising and tradeshows, we maintain an active digital advertising and social media platform for all brands, including use of Facebook and Twitter to increase brand awareness, foster loyalty and build a community of users. In addition, we benefit from various Cobalt, Malibu and Axis user-generated videos and photos that are uploaded to websites including YouTube, Vimeo and Instagram.

Product Development and Engineering

We are strategically and financially committed to innovation, as reflected in our dedicated product development and engineering teams located in Tennessee, Kansas, and California and evidenced by our track record of new product introduction. These individuals bring to our product development efforts significant expertise across core disciplines, including boat design, trailer design, computer-aided design, electrical engineering and mechanical engineering. They are responsible for execution of all facets of our new product strategy, including designing new and refreshed boat models and new features, engineering these designs for manufacturing and integrating new features into our boats. In addition, our Chief Executive Officer and Chief Operating Officer are actively involved in the product development process and integration into manufacturing. We take a disciplined approach to the management of our product development strategy. We use a formalized phase gate process, overseen by a dedicated project manager, to develop, evaluate and implement new product ideas for both boat models and innovative features. Application of the phase gate process requires management to establish an overall timeline that is sub-divided into milestones, or "gates," for product development. Setting milestones at certain intervals in the product development process ensures that each phase of development occurs in an organized manner and enables management to become aware of and address any issues in timely fashion, which facilitates on-time, on-target release of new products with expected return on investment. Extensive testing and coordination with our manufacturing group are important elements of our product development process, which we believe enable us to minimize the risk associated with the release of new products. Our phase gate process also facilitates our introduction of new boat models and features throughout the year, which we believe provides us with a competitive advantage in the marketplace. Finally, in addition to our process for managing new product introductions in a given fiscal year, we also engage in longer-term product life cycle and product portfolio planning.

Manufacturing

Malibu has four manufacturing facilities located in three U.S. states and Australia. We produce performance sport boats through our Malibu and Axis brands at our Tennessee and Australia manufacturing facilities and sterndrive and outboard boats through out Cobalt brand at our Kansas manufacturing facility. For our Malibu and Axis brands, we manufacture towers, tower accessories and stainless steel and aluminum billet at our California facility and trailers at our Tennessee facility. If we complete our acquisition of Pursuit, we will add a manufacturing facility in Fort Pierce, Florida.

Our boats are built through a continuous flow manufacturing process that encompasses fabrication, assembly, quality management and testing. Each boat is produced on an established cycle depending on model that includes the fabrication of the hull and deck through gelcoat application and fiberglass lamination, grinding and hole cutting, installation of components, rigging, finishing, detailing and on-the-water testing. Production of cruisers occurs on a dedicated line that allows for the increased time needed to add the additional content required for production of larger boats. Trailers are also produced in a continuous flow manufacturing process involving cutting and bending of the main frame from raw top grade carbon steel, painting using our state of the art system and installation of components. We manufacture certain components and subassemblies for our boats, such as upholstery, stainless steel and aluminum billet and towers. We procure other components, such as electronic controls, from third-party vendors and install them on the boat. As noted elsewhere, we are in the process of marinizing our own engines for our Malibu and Axis brands and have successfully incorporated them in select models. Our tower-related manufacturing in California uses multiple computer-controlled machines to cut all of the aluminum parts required for tower assembly. We are the only performance sport boat company that manufacturers towers in-house. We believe that the vertical integration of these components is a distinct competitive advantage that allows us to control key design elements of our boats and generate higher margins.

We are committed to continuous improvement in our operations, and we believe our efforts in this regard have resulted in higher gross margins. Specifically, we have increased labor efficiency and reduced cost of materials. Our production engineers evaluate and seek to optimize the configuration of our production line given our production volumes and model mix. We use disciplined mold maintenance procedures to maintain the usable life of our molds and to reduce surface defects that would require rework. We have instituted scrap material reduction and recovery processes, both internally and with our supplier base, helping to manage our material costs. Finally, we have implemented a quality management system to ensure that proper procedures and control measures are in place to deliver consistent, high-quality product, especially as our production volumes have increased.

Suppliers

We purchase a wide variety of raw materials from our supplier base, including resins, fiberglass, hydrocarbon feedstocks and steel, as well as product parts and components, such as engines and electronic controls, through a sales order process. The most significant component used in manufacturing our boats, based on cost, are engines. While we maintain a strong and long-standing relationship with our primary supplier of engines, we, through our vertical integration initiative to manufacture our own engines, entered into an engine supply agreement with General Motors

LLC ("General Motors") in November 2016 for the supply of engines to us for use in our Malibu and Axis brand boats beginning as early as model year 2019 through model year 2023. We will be solely responsible for integrating the engines for marine use. We intend to continue to purchase engines from one of our current engine suppliers for at least model year 2019. We adopted this strategy in order to more directly control product path (design, innovation, calibration and integration) of our largest dollar procured part, to differentiate our product from our competitors, and to increase our ability to respond to ongoing changes in the marketplace.

Pursuant to the engine supply agreement, we will submit purchase orders for engines to General Motors and, so long as we are not in breach of the engine supply agreement, General Motors will deliver engines pursuant to the purchase orders. No minimum amount of engines is required to be ordered by us and the parties must discuss any potential capacity increases above 7,000 engines annually.

The engine supply agreement will expire on November 14, 2023, unless terminated earlier by either party as permitted under the terms of the agreement. General Motors may terminate the engine supply agreement due to market conditions with at least eighteen (18) months' advanced written notice. Either party may terminate the agreement as a result of a change of control of Malibu Boats, Inc., as defined in the agreement, with at least eighteen (18) months' advanced written notice. Either party may also terminate the engine supply agreement due to breach of the other party upon written notice and after providing 60 days to cure any breach. General Motors may also suspend engine deliveries to Malibu Boats in the event of a force majeure, as defined in the engine supply agreement.

General Motors will provide up to a one-year warranty on the engines supplied to us and we have agreed to indemnify General Motors for claims and costs arising from or relating to the engines resulting from our actions.

In August 2018, we entered into an agreement with Yamaha Motor Corporation, U.S.A., or Yamaha, that becomes effective only if we complete our acquisition of Pursuit. Under our agreement with Yamaha, we will be obligated to purchase Yamaha outboard engines for use in at least 90% of all of our boats equipped with outboard motors, which would include boats under our Cobalt brand and Pursuit brand, if that acquisition is completed. We will be required to purchase a minimum volume of engines from Yamaha for the term of the agreement or refund unearned funds to Yamaha.

We have not experienced any material shortages in any of our raw materials, product parts or components. Temporary shortages, when they do occur, usually involve manufacturers of these products adjusting model mixes, introducing new product lines or limiting production in response to an industry-wide reduction in boat demand.

Insurance and Product Warranties

We carry various insurance policies, including policies to cover general products liability, workers' compensation and other casualty and property risks, to protect against certain risks of loss consistent with the exposures associated with the nature and scope of our operations. Our policies are generally based on our safety record as well as market trends in the insurance industry and are subject to certain deductibles, limits and policy terms and conditions.

Our Malibu and Axis brands have a limited warranty for a period up to five years. Prior to 2016, we provided a limited warranty for a period of up to three years for our Malibu brand boats and two years for our Axis boats. For our Cobalt brand boats, we provide a structural warranty of up to ten years which covers hull/deck joints, bulkheads, floor, transom, stringers, and motor mount. In addition, we provide a five year bow-to-stern warranty on all components manufactured or purchased (excluding hull and deck structural components), including canvas and upholstery. Gelcoat is covered up to three years for Cobalt and one year for Malibu and Axis. Some materials, components or parts of the boat that are not covered by our limited product warranties are separately warranted by their manufacturers or suppliers. These other warranties include warranties covering engines purchased from suppliers and other components. Malibu does provide for a limited warranty of up to five years or five-hundred hours on engines that it manufacturers.

If we complete our acquisition of Pursuit, we will continue to provide warranties for Pursuit boats, which provide limited warranty for a period of up to five years on structural components such as the hull, deck and fiberglass fuel tanks and defects in the gelcoat surface of the hull bottom, and up to two years for components and accessories, subject to certain exclusions. In addition, we will be assuming any warranty claims on Pursuit boats manufactured prior to our acquisition of Pursuit.

Intellectual Property

We rely on a combination of patent, trademark and copyright protection, trade secret laws, confidentiality procedures and contractual provisions to protect our rights in our brand, products and proprietary technology. This is an important part of our business and we intend to continue protecting our intellectual property. We currently hold 25 U.S. patents, 4 Australian patents, and 4 pending U.S. patent applications.

We own 35 registered trademarks in various countries around the world. Such trademarks may endure in perpetuity on a country-by-country basis, provided that we comply with all statutory maintenance requirements, including continued use of each trademark in each such country. We currently do not own any registered copyrights.

Competition

The recreational powerboat industry, including the performance sport boat, sterndrive and outboard categories, is highly competitive for consumers and dealers. Competition affects our ability to succeed in the markets we currently serve and new markets that we may enter in the future. We compete with several large manufacturers that may have greater financial, marketing and other resources than we do. We compete with large manufacturers who are represented by dealers in the markets in which we now operate and into which we plan to expand. We also compete with a wide variety of small, independent manufacturers. Competition in our industry is based primarily on brand name, price and product performance.

Environmental, Safety and Regulatory Matters

Our operations and products are subject to extensive environmental, health and safety regulation under various federal, commonwealth, state, and local statutes, ordinances, rules and regulations in the United States and Australia where we manufacture our boats, and in other foreign jurisdictions where we sell our products. We believe we are in material compliance with those requirements. However, we cannot be certain that costs and expenses required for us to comply with such requirements in the future, including for any new or modified regulatory requirements, or to address newly discovered environmental conditions, will not have a material adverse effect on our business, financial condition, operating results, or cash flow. The regulatory programs to which we are subject include the following:

Hazardous Materials and Waste

Certain materials used in our manufacturing, including the resins used in production of our boats, are toxic, flammable, corrosive or reactive and are classified as hazardous materials by the national, state and local governments in those jurisdictions where we manufacture our products. The handling, storage, release, treatment and recycling or disposal of these substances and wastes from our operations are regulated in the United States by the United States Environmental Protection Agency (“USEPA”), and state and local environmental agencies. The handling, storage, release, treatment and recycling or disposal of these substances and wastes from our operations are regulated in Australia by the Australian Department of Environment and Energy, the New South Wales Environmental Protection Agency and other state and local authorities. Failure by us to properly handle, store, release, treat, recycle or dispose of our hazardous materials and wastes could result in liability for us, including fines, penalties, or obligations to investigate and remediate any contamination originating from our operations or facilities. We are not aware of any material contamination at our current or former facilities for which we could be liable under environmental laws or regulations, and we currently are not undertaking any remediation or investigation activities in connection with any contamination. Future spills or accidents or the discovery of currently unknown conditions or non-compliance could, however, could give rise to investigation and remediation obligations or related liabilities.

Air Quality

In the United States, the federal Clean Air Act (“CAA”) and corresponding state and local laws and rules regulate emissions of air pollutants. Because our manufacturing operations involve molding and coating of fiberglass materials, which involves the emission of certain volatile organic compounds, hazardous air pollutants, and particulate matter, we are required to maintain and comply with a CAA operating permit (Title V permit) for our Tennessee facility and local air permits for our California facilities. Our air permits generally require us to monitor our emissions and periodically certify that our emissions are within specified limits. To date, we have not had material difficulty complying with those limits.

The USEPA and the California Air Resources Board (“CARB”) have adopted regulations stipulating that many marine propulsion engines and watercraft meet certain air emission standards. Some of these standards require fitting a catalytic converter to the engine. These regulations also require, among other things, that engine manufacturers provide a warranty that their engines meet USEPA and CARB emission standards. The engines used in our products are subject to these regulations. CARB also recently adopted an evaporative emissions regulation that applies to all model year 2019 spark-ignition marine watercraft with permanently installed fuel tanks sold in California. The new regulation requires subject boat manufacturers to use specific CARB-certified components for the fuel systems in their boats, or to certify the boat meets a related performance standard. The USEPA and CARB emissions regulations have increased the cost to manufacture our products.

OSHA

In the United States, the Occupational Safety and Health Administration (“OSHA”) standards limit the amount of emissions to which an employee may be exposed without the need for respiratory protection or upgraded plant ventilation. Our facilities are regularly inspected by OSHA and by state and local inspection agencies and departments. We believe that our facilities comply in all material aspects with these regulations. Although capital expenditures related to compliance with environmental laws are expected to increase, we do not currently anticipate any material expenditure will be required to continue to comply with existing OSHA environmental or safety regulations in connection with our existing manufacturing facilities.

At our New South Wales, Australia (“NSW”) facility, employee health and safety is regulated by SafeWork NSW, which also has requirements that limit the amount of certain emissions to which an employee may be exposed without the need for

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respiratory protection or upgraded plant ventilation. In addition, SafeWork NSW provides licensing and registration for potentially dangerous work, investigates workplace incidents, and enforces work health and safety laws in NSW. Our NSW facilities are regularly inspected by SafeWork NSW. We believe that our facilities comply in all material aspects with these requirements.

Boat Design and Manufacturing Standards

Powerboats sold in the United States must be manufactured to meet the standards of certification required by the United States Coast Guard. In addition, boats manufactured for sale in the European Community must be certified to meet the European Community's imported manufactured products standards. These certifications specify standards for the design and construction of powerboats. We believe that all of our boats meet these standards. In addition, safety of recreational boats in the United States is subject to federal regulation under the Boat Safety Act of 1971, which requires boat manufacturers to recall products for replacement of parts or components that have demonstrated defects affecting safety. We have instituted recalls for defective component parts produced by certain of our third-party suppliers. None of the recalls has had a material adverse effect on our Company.

Employees

As of July 31, 2018, 2017 and 2016, we had approximately 1,345, 1,240, and 540 employees worldwide, respectively. None of our employees are party to a collective bargaining agreement. We believe that our relations with our employees are good.

Organizational Structure

Malibu Boats, Inc. was incorporated as a Delaware corporation on November 1, 2013 in anticipation of our IPO to serve as a holding company that owns only an interest in Malibu Boats Holdings, LLC. Immediately after the completion of our IPO and the recapitalization we completed in connection with our IPO, Malibu Boats, Inc. held approximately 49.3% of the economic interest in the LLC, which has since increased to approximately 95.2% of the economic interest in the LLC as of June 30, 2018.

The certificate of incorporation of Malibu Boats, Inc. authorizes two classes of common stock, Class A Common Stock and Class B Common Stock. Holders of our Class A Common Stock and our Class B Common Stock have voting power over Malibu Boats, Inc., the sole managing member of the LLC, at a level that is consistent with their overall equity ownership of our business. In connection with our IPO and the recapitalization we completed in connection with our IPO, Malibu Boats, Inc. issued to each pre-IPO owner, for nominal consideration, one share of Class B Common Stock of Malibu Boats, Inc., each of which provides its owner with no economic rights but entitles the holder to one vote on matters presented to stockholders of Malibu Boats, Inc. for each LLC Unit held by such holder. Pursuant to our certificate of incorporation and bylaws, each share of Class A Common Stock entitles the holder to one vote with respect to each matter presented to our stockholders on which the holders of Class A Common Stock are entitled to vote. Each holder of Class B Common Stock is entitled to the number of votes equal to the total number of LLC units held by such holder multiplied by the exchange rate specified in the exchange agreement with respect to each matter presented to our stockholders on which the holders of Class B Common Stock are entitled to vote. Accordingly, the holders of LLC Units collectively have a number of votes that is equal to the aggregate number of LLC Units that they hold. As the LLC members sell LLC Units to us or subsequently exchange LLC Units for shares of Class A Common Stock of Malibu Boats, Inc. pursuant to the exchange agreement described below, the voting power afforded to them by their shares of Class B Common Stock is automatically and correspondingly reduced. Subject to any rights that may be applicable to any then outstanding preferred stock, our Class A and Class B Common Stock vote as a single class on all matters presented to our stockholders for their vote or approval, except as otherwise provided in our certificate of incorporation or bylaws or required by applicable law. In addition, subject to preferences that may apply to any shares of preferred stock outstanding at the time, the holders of our Class A Common Stock are entitled to share equally, identically and ratably in any dividends or distributions (including in the event of any voluntary or involuntary liquidation, dissolution or winding up of our affairs) that our board of directors may determine to issue from time to time, while holders of our Class B Common Stock do not have any right to receive dividends or other distributions.

As noted above, Malibu Boats, Inc. is a holding company with a controlling equity interest in the LLC. Malibu Boats, Inc., as sole managing member of the LLC, operates and controls all of the business and affairs and consolidates the financial results of the LLC. The limited liability company agreement of the LLC provides that it may be amended, supplemented, waived or modified by the written consent of Malibu Boats, Inc., as managing member of the LLC, in its sole discretion without the approval of any other holder of LLC Units, except that no amendment may materially and adversely affect the rights of a holder of LLC Units, other than on a pro rata basis with other holders of LLC Units, without the consent of such holder (unless more than one holder is so affected, then the consent of a majority of such affected holders is required). Pursuant to the limited liability company agreement of the LLC, Malibu Boats, Inc. has the right to determine when distributions (other than tax distributions) will be made to the members of the LLC and the amount of any such distributions. If Malibu Boats, Inc.

authorizes a distribution, such distribution will be made to the members of the LLC (including Malibu Boats, Inc.) pro rata in accordance with the percentages of their respective LLC Units.

The diagram below depicts our current organizational structure, as of June 30, 2018:

Our organizational structure allows the LLC members to retain their equity ownership in the LLC, an entity that is classified as a partnership for U.S. federal income tax purposes, in the form of LLC Units. Holders of Class A Common Stock, by contrast, hold their equity ownership in Malibu Boats, Inc., a Delaware corporation that is a domestic corporation for U.S. federal income tax purposes, in the form of shares of Class A Common Stock. The holders of LLC Units, including Malibu Boats, Inc., will incur U.S. federal, state and local income taxes on their proportionate share of any taxable income of the LLC. Net profits and net losses of the LLC will generally be allocated to the LLC’s members (including Malibu Boats, Inc.) pro rata in accordance with the percentages of their respective limited liability company interests. The limited liability company agreement provides for cash distributions to the holders of LLC Units if Malibu Boats, Inc. determines that the taxable income of the LLC will give rise to taxable income for its members. In accordance with the limited liability company agreement, we intend to cause the LLC to make cash distributions to the holders of LLC Units for purposes of funding their tax obligations in respect of the income of the LLC that is allocated to them. Generally, these tax distributions will be computed based on our estimate of the taxable income of the LLC allocable to such holder of LLC Units multiplied by an assumed tax rate equal to the highest effective marginal combined U.S. federal, state and local income tax rate prescribed for an individual or corporate resident in Los Angeles, California (taking into account the nondeductibility of certain expenses and the character of our income). For purposes of determining the taxable income of the LLC, such determination will be made by generally disregarding any adjustment to the taxable income of any member of the LLC that arises under the tax basis adjustment rules of the Internal Revenue Code of 1986, as amended, or the Code and is attributable to the acquisition by such member of an interest in the LLC in a sale or exchange transaction.

Exchanges and Other Transactions with Holders of LLC Units

In connection with our IPO and the recapitalization we completed in connection with our IPO, we entered into an exchange agreement with the pre-IPO owners of the LLC under which (subject to the terms of the exchange agreement) each pre-IPO owner (or its permitted transferee) has the right to exchange its LLC Units for shares of our Class A Common Stock on a one-for-one basis, subject to customary conversion rate adjustments for stock splits, stock dividends and reclassifications, or, at our option, except in the event of a change in control, for a cash payment equal to the market value of the Class A Common Stock. The exchange agreement provides, however, that such exchanges must be for a minimum of the lesser of 1,000 LLC Units, all of the LLC Units held by the holder, or such amount as we determine to be acceptable. The exchange agreement also provides that an LLC member will not have the right to exchange LLC Units if Malibu Boats, Inc. determines that such exchange would be prohibited by law or regulation or would violate other agreements with Malibu Boats, Inc. to which the LLC member may be subject or any of our written policies related to unlawful or insider trading. The exchange agreement also provides that Malibu Boats, Inc. may impose additional restrictions on exchanges that it determines to be necessary or advisable so that the LLC is not treated as a “publicly traded partnership” for U.S. federal income tax purposes. In addition, pursuant to the limited liability company agreement of the LLC, Malibu Boats, Inc., as managing member of the LLC, has the right to require all members of the LLC to exchange their LLC Units for Class A Common Stock in accordance with the terms of the exchange agreement, subject to the consent of the holders of a majority of outstanding LLC Units other than those held by Malibu Boats, Inc.

As a result of exchanges of LLC Units into Class A Common Stock and purchases by Malibu Boats, Inc. of LLC Units from holders of LLC Units, Malibu Boats, Inc. will become entitled to a proportionate share of the existing tax basis of the assets of the LLC at the time of such exchanges or purchases. In addition, such exchanges and purchases of LLC Units are expected to result in increases in the tax basis of the assets of the LLC that otherwise would not have been available. These increases in tax basis may reduce the amount of tax that Malibu Boats, Inc. would otherwise be required to pay in the future. These increases in tax basis may also decrease gains (or increase losses) on future dispositions of certain capital assets to the extent tax basis is allocated to those capital assets. We have entered into a tax receivable agreement with the pre-IPO owners (or their permitted assignees) that provides for the payment by Malibu Boats, Inc. to the pre-IPO owners (or their permitted assignees) of 85% of the amount of the benefits, if any, that Malibu Boats, Inc. is deemed to realize as a result of (1) increases in tax basis and (2) certain other tax benefits related to our entering into the tax receivable agreement, including tax benefits attributable to payments under the tax receivable agreement. These payment obligations are obligations of Malibu Boats, Inc. and not of the LLC.

Available Information

Our Annual Report on Form 10-K, Quarterly Reports on Form 10-Q, Current Reports on Form 8-K and amendments to reports filed or furnished pursuant to Sections 13(a) and 15(d) of the Securities Exchange Act of 1934, as amended, or the Exchange Act are available on our web site at www.malibuboats.com, free of charge, as soon as reasonably practicable after the electronic filing of these reports with, or furnishing of these reports to, the Securities and Exchange Commission, or the SEC. Any materials we file with the SEC are available at the SEC’s Public Reference Room at 100 F Street, NE, Washington, DC 20549. Additional information about the operation of the Public Reference Room can also be obtained by calling the SEC at 1-800-SEC-0330. In addition, the SEC maintains a web site at www.sec.gov that contains reports, proxy and information statements, and other information regarding issuers that file electronically with the SEC, including us.

Item 1A. Risk Factors

The following describes the risks and uncertainties that could cause our actual results to differ materially from those presented in our forward-looking statements. The risks and uncertainties described below are not the only ones we face but do represent those risks and uncertainties that we believe are material to us. Additional risks and uncertainties not presently known to us or that we currently deem immaterial may also harm our business.

Risks Related to Our Business

General economic conditions, particularly in the United States, affect our industry, demand for our products, and our business and results of operations.

Demand for new recreational powerboats has been significantly influenced in the past by weak economic conditions, low consumer confidence and high unemployment and increased market volatility worldwide, especially in the United States. In times of economic uncertainty and contraction, consumers tend to have less discretionary income and defer or avoid expenditures for discretionary items, such as our products. Sales of our products are highly sensitive to personal discretionary spending levels, and our success depends on general economic conditions and overall consumer confidence and personal income levels. Any deterioration in general economic conditions that diminishes consumer confidence or discretionary income may reduce our sales and adversely affect our business, financial condition and results of operations. We cannot predict the duration or strength of an economic recovery, either in the United States or in the specific markets where we sell our products.

Consumers often finance purchases of our products and accordingly, consumer credit market conditions also influence demand for our boats. If credit conditions worsen, and adversely affect the ability of consumers to finance potential purchases at acceptable terms and interest rates, it could result in a decrease in the sales of our products.

We have signed an agreement to purchase substantially all of the assets of the Pursuit division of S2 Yachts, Inc., which is subject to closing conditions. If we are unable to complete this acquisition we will not be able to realize any anticipated benefits of the acquisition.

On August 21, 2018, we entered into an agreement with S2 Yachts, Inc. and other parties thereto to acquire the Pursuit division, or Pursuit, of S2 Yachts, Inc. Although we currently expect the acquisition of Pursuit to close in the fourth quarter of calendar 2018, the acquisition is subject to closing conditions and there can be no assurance that it will be completed as expected or at all. If the acquisition of Pursuit is not completed, we will be subject to a number of risks without realizing the anticipated benefits of having completed the acquisition, including the following:

- the market price of our securities could decline to the extent that the current market price reflects a market assumption that the acquisition of Pursuit will be completed, or to the extent that investors believe that the acquisition of Pursuit is material to our business strategy;
- we will be required to pay our costs relating to the acquisition of Pursuit, such as legal, accounting, financing and financial advisory fees, whether or not the acquisition of Pursuit is completed; and
- a delay in the closing or inability to close may require more time of our management that could be used for ongoing operational matters.

We continue to grow our business through acquisitions or strategic alliances and new partnerships, such as our pending acquisition of Pursuit and our recent acquisition of Cobalt, and we may not be successful in completing or integrating these acquisitions in a way that fully realizes their expected benefits to our business.

We continue to grow our business through acquisitions and strategic alliances, including our pending acquisition of Pursuit, our acquisition of Cobalt in 2017 and of our Australian licensee in 2015. We believe these acquisitions will enable us to acquire complementary skills and capabilities, offer new products, expand our consumer base, enter new product categories or geographic markets and obtain other competitive advantages. We cannot assure you, however, that we will fully realize these benefits. Once integrated, acquired operations may not achieve anticipated levels of sales or profitability, or otherwise perform as expected. Acquisitions also involve special risks, including risks associated with unanticipated challenges, liabilities and contingencies, and diversion of management attention and resources from our existing operations. Further, we may not be able to identify future acquisition candidates or strategic partners as part of our growth strategy that are suitable to our business, or we may not be able to obtain financing on satisfactory terms to complete such acquisitions.

Our results after the acquisition of Cobalt and, if completed, our acquisition of Pursuit may suffer if we do not effectively manage our expanded operations following the acquisitions.

The size of our business increased significantly as a result of our acquisition of Cobalt and may increase further as a result of our pending acquisition of Pursuit. Our future success depends, in part, upon our ability to manage this expanded business, which will pose substantial challenges for management, including challenges related to the management and monitoring of additional operations and associated increased costs and complexity. There can be no assurances we will be successful or that we will realize the benefits from our acquisition of Cobalt or the expected benefits currently anticipated from the completion of our acquisition of Pursuit.

We have incurred and will continue to incur significant acquisition-related integration costs and transaction expenses in connection with the acquisition of Cobalt and pending acquisition of Pursuit.

We incurred non-recurring, acquisition-related integration costs with the integration of Cobalt into our business, and we anticipate that we will incur similar charges in connection with the integration of Pursuit if we complete that acquisition. We cannot currently identify the timing, nature and amount of the integration related cost we will incur with our anticipated integration of Pursuit. We have also incurred and will continue to incur significant transaction costs related to the negotiation and completion of our acquisition of Pursuit. These integration costs and transaction expenses will be charged as an expense in the period incurred. The significant transaction costs and integration costs could materially affect our results of operations in the period in which such charges are recorded. Although we believe that the elimination of duplicative costs, as well as the realization of other efficiencies related to the integration of the business, will offset incremental transaction and integration costs over time, this net benefit may not be achieved in the near term, or at all.

The Cobalt and Pursuit businesses may underperform relative to our expectations.

Although Cobalt has been a part of our business since July 2017, we are still integrating its business into our operations. We will also need to integrate the operations of Pursuit if we complete that acquisition. We may not be able to maintain the levels of revenue, earnings or operating efficiency that we, Cobalt and Pursuit have achieved or might achieve separately. The business and financial performance of Cobalt and Pursuit are subject to certain risks and uncertainties, including the risk of the loss of, or changes to, its relationships with its dealers and suppliers, increased product liability and warranty claims, and negative publicity or other events that could diminish the value of the Cobalt and Pursuit brands. We may be unable to achieve the same growth, revenues and profitability that Cobalt and Pursuit has each achieved in the past.

Our growth strategy may require us to secure significant additional capital, the amount of which will depend upon the size, timing, and structure of future acquisitions or vertical integrations and our working capital and general corporate needs.

Our growth strategy could include acquiring businesses, similar to our acquisition of Cobalt in July 2017 and our pending acquisition of Pursuit, and the integration of new product lines or related products to our boats, similar to our integration of the manufacturing of our own trailers beginning with model year 2016 and our initiative to integrate the production of our own engines as soon as model year 2019. These actions may require us to secure significant additional capital through the borrowing of money or the issuance of equity. For instance, we are increasing the amount available to borrow under our existing revolving credit facility by an incremental $50.0 million to fund a portion of our purchase price of Pursuit. Any borrowings made to finance future strategic initiatives could make us more vulnerable to a downturn in our operating results, a downturn in economic conditions, or increases in interest rates on borrowings that are subject to interest rate fluctuations. If our cash flow from operations is insufficient to meet our debt service requirements, we could then be required to sell additional equity securities, refinance our obligations or dispose of assets in order to meet our debt service requirements. Adequate financing may not be available if and when we need it or may not be available on terms acceptable to us. The failure to obtain sufficient financing on favorable terms and conditions could have a material adverse effect on our growth prospects.

Further, we could choose to finance acquisitions or other strategic initiatives, in whole or in part through the issuance of our Class A Common Stock or securities convertible into or exercisable for our Class A Common Stock. If we do so, existing stockholders will experience dilution in the voting power of their Class A Common Stock and earnings per share could be negatively impacted. The extent to which we will be able and willing to use our Class A Common Stock for acquisitions and other strategic initiatives will depend on the market value of our Class A Common Stock and the willingness of potential third parties to accept our Class A Common Stock as full or partial consideration. Our inability to use our Class A Common Stock as consideration, to generate cash from operations, or to obtain additional funding through debt or equity financings in order to pursue our strategic initiatives could materially limit our growth.

Our annual and quarterly financial results are subject to significant fluctuations depending on various factors, many of which are beyond our control.

Our sales and operating results can vary significantly from quarter to quarter and year to year depending on various factors, many of which are beyond our control. These factors include, but are not limited to:

- seasonal consumer demand for our products;
- discretionary spending habits;
- changes in pricing in, or the availability of supply in, the used powerboat market;
- failure to maintain a premium brand image;
- disruption in the operation of our manufacturing facilities;
- variations in the timing and volume of our sales;
- the timing of our expenditures in anticipation of future sales;
- sales promotions by us and our competitors;
- consumer preferences and competition for consumers’ leisure time; and
- changes in competitive and economic conditions generally;
- consumer preferences and competition for consumers’ leisure time; and
- changes in the cost or availability of our labor.

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As a result, our results of operations may decline quickly and significantly in response to changes in order patterns or rapid decreases in demand for our products. We anticipate that fluctuations in operating results will continue in the future.

In addition to the factors noted above, unfavorable weather conditions may have a material adverse effect on our business, financial condition, and results of operations, especially during the peak boating season.

Adverse weather conditions in any year in any particular geographic region may adversely affect sales in that region, especially during the peak boating season. Sales of our products are generally stronger just before and during spring and summer, which represent the peak boating months in most of our markets, and favorable weather during these months generally has a positive effect on consumer demand. Conversely, unseasonably cool weather, excessive rainfall, reduced rainfall levels, or drought conditions during these periods may close area boating locations or render boating dangerous or inconvenient, thereby generally reducing consumer demand for our products. Our annual results would be materially and adversely affected if our net sales were to fall below expected seasonal levels during these periods. We may also experience more pronounced seasonal fluctuation in net sales in the future as we continue to expand our businesses. Additionally, to the extent that unfavorable weather conditions are exacerbated by global climate change or otherwise, our sales may be affected to a greater degree than we have previously experienced. There can be no assurance that weather conditions will not have a material effect on the sales of any of our products.

We depend on our network of independent dealers, face increasing competition for dealers and have little control over their activities.

Substantially all of our sales are derived from our network of independent dealers. We have agreements with the dealers in our network that typically provide for one-year terms, although some agreements have a term of up to three years. For fiscal years 2018, 2017 and 2016, our top ten dealers for Malibu and Axis brands accounted for 37.3%, 40.6% and 31.9%, respectively, of our total units sold. For Cobalt's fiscal years 2018, 2017 and 2016, Cobalt's top ten dealers account for 44.4%, 41.8%, and 39.2%, respectively, of Cobalt's total units sold. The loss of a significant number of these dealers could have a material adverse effect on our financial condition and results of operations. The number of dealers supporting our products and the quality of their marketing and servicing efforts are essential to our ability to generate sales. Competition for dealers among recreational powerboat manufacturers continues to increase based on the quality, price, value and availability of the manufacturers' products, the manufacturers' attention to customer service and the marketing support that the manufacturer provides to the dealers. We face intense competition from other recreational powerboat manufacturers in attracting and retaining dealers, and we cannot assure you that we will be able to attract or retain relationships with qualified and successful dealers. We cannot assure you that we will be able to maintain or improve our relationship with our dealers or our market share position. In addition, independent dealers in the recreational powerboat industry have experienced significant consolidation in recent years, which could result in the loss of one or more of our dealers in the future if the surviving entity in any such consolidation purchases similar products from a competitor. A substantial deterioration in the number of dealers or quality of our network of dealers, including our network of Cobalt dealers, would have a material adverse effect on our business, financial condition and results of operations.

Our success depends, in part, upon the financial health of our dealers and their continued access to financing.

Because we sell nearly all of our products through dealers, the financial health of our dealers is critical to our success. Our business, financial condition and results of operations may be adversely affected if the financial health of the dealers that sell our products suffers. Their financial health may suffer for a variety of reasons, including a downturn in general economic conditions, rising interest rates, higher rents, increased labor costs and taxes, compliance with regulations and personal financial issues.

In addition, our dealers require adequate liquidity to finance their operations, including purchases of our products. Dealers are subject to numerous risks and uncertainties that could unfavorably affect their liquidity positions, including, among other things, continued access to adequate financing sources on a timely basis on reasonable terms. These sources of financing are vital to our ability to sell products through our distribution network. Access to floor plan financing generally facilitates our dealers’ ability to purchase boats from us, and their financed purchases reduce our working capital requirements. If floor plan financing were not available to our dealers, our sales and our working capital levels would be adversely affected. The availability and terms of financing offered by our dealers’ floor plan financing providers will continue to be influenced by:

- their ability to access certain capital markets and to fund their operations in a cost-effective manner;
- the performance of their overall credit portfolios;
- their willingness to accept the risks associated with lending to dealers; and

•the overall creditworthiness of those dealers.

We may be required to repurchase inventory of certain dealers.

Many of our dealers have floor plan financing arrangements with third-party finance companies that enable the dealers to purchase our products. In connection with these agreements, we may have an obligation to repurchase our products from a finance company under certain circumstances, and we may not have any control over the timing or amount of any repurchase obligation nor have access to capital on terms acceptable to us to satisfy any repurchase obligation. This obligation is triggered if a dealer defaults on its debt obligations to a finance company, the finance company repossesses the boat and the boat is returned to us. Our obligation to repurchase a repossessed boat for the unpaid balance of our original invoice price for the boat is subject to reduction or limitation based on the age and condition of the boat at the time of repurchase, and in certain cases by an aggregate cap on repurchase obligations associated with a particular floor plan financing program. For fiscal year 2016, we agreed to repurchase three units from the lender of two of our former dealers resulting in combined losses of \$0.03 million. Other than these repurchase commitments, we have not repurchased any units from lenders since July 1, 2010. There is no assurance that a dealer will not default on the terms of a credit line in the future. In addition, applicable laws regulating dealer relations may also require us to repurchase our products from our dealers under certain circumstances, and we may not have any control over the timing or amount of any repurchase obligation nor have access to capital on terms acceptable to us to satisfy any repurchase obligation. If we were obligated to repurchase a significant number of units under any repurchase agreement or under applicable dealer laws, our business, operating results and financial condition could be adversely affected.

If we fail to manage our manufacturing levels while still addressing the seasonal retail pattern for our products, our business and margins may suffer.

The seasonality of retail demand for our products, together with our goal of balancing production throughout the year, requires us to manage our manufacturing and allocate our products to our dealer network to address anticipated retail demand. Our dealers must manage seasonal changes in consumer demand and inventory. If our dealers reduce their inventories in response to weakness in retail demand, or if new models or product introductions are expected to replace or reduce demand
for older models or products, we could be required to reduce our production, resulting in lower rates of absorption of fixed costs in our manufacturing and, therefore, lower margins. As a result, we must balance the economies of level production with the seasonal retail sales pattern experienced by our dealers. Failure to adjust manufacturing levels adequately may have a material adverse effect on our financial condition and results of operations.

We have a large fixed cost base that will affect our profitability if our sales decrease.

The fixed cost levels of operating a recreational powerboat manufacturer can put pressure on profit margins when sales and production decline. Our profitability depends, in part, on our ability to spread fixed costs over a sufficiently large number of products sold and shipped, and if we make a decision to reduce our rate of production, gross or net margins could be negatively affected. Consequently, decreased demand or the need to reduce production can lower our ability to absorb fixed costs and materially impact our financial condition or results of operations.

Our industry is characterized by intense competition, which affects our sales and profits.

The recreational powerboat industry, and in particular the performance sport boat category, is highly competitive for consumers and dealers. We also compete against consumer demand for used boats. Competition affects our ability to succeed in both the markets we currently serve and new markets that we may enter in the future, including the saltwater outboard
fishing boat market in which Pursuit competes. Competition is based primarily on brand name, price, product selection and product performance. We compete with several large manufacturers that may have greater financial, marketing and other resources than we do and who are represented by dealers in the markets in which we now operate and into which we plan to expand. We also compete with a variety of small, independent manufacturers. We cannot assure you that we will not face greater competition from existing large or small manufacturers or that we will be able to compete successfully with new competitors. Our failure to compete effectively with our current and future competitors would adversely affect our business, financial condition and results of operations.

Our sales may be adversely impacted by increased consumer preference for used boats or the supply of new boats by competitors in excess of demand.

During the economic downturn that commenced in 2008, we observed a shift in consumer demand toward purchasing more used boats, primarily because prices for used boats are typically lower than retail prices for new boats. If this were to occur again, it could have the effect of reducing demand among retail purchasers for our new boats. Also, while we have taken steps designed to balance production volumes for our boats with demand, our competitors could choose to reduce the price of their products, which could have the effect of reducing demand for our new boats. Reduced demand for new boats could lead to reduced sales by us, which could adversely affect our business, results of operations or financial condition.

Our sales and profitability depend, in part, on the successful introduction of new products.

Market acceptance of our products depends on our technological innovation and our ability to implement technology in our boats. Our sales and profitability may be adversely affected by difficulties or delays in product development, such as an inability to develop viable or innovative new products. Our failure to introduce new technologies and product offerings that our markets desire could adversely affect our business, financial condition and results of operations. Also, we believe we have been able to achieve higher margins in part as a result of the introduction of new features or enhancements to our existing boat models. If we fail to introduce new features or those we introduce fail to gain market acceptance, our margins may suffer.

In addition, some of our direct competitors and indirect competitors may have significantly more resources to develop and patent new technologies. It is possible that our competitors will develop and patent equivalent or superior technologies and other products that compete with ours. They may assert these patents against us and we may be required to license these patents on unfavorable terms or cease using the technology covered by these patents, either of which would harm our competitive position and may materially adversely affect our business.

We also cannot be certain that our products or technologies have not infringed or will not infringe the proprietary rights of others. Any such infringement could cause third parties, including our competitors, to bring claims against us, resulting in significant costs and potential damages.

We compete with a variety of other activities for consumers’ scarce leisure time.

Our boats are used for recreational and sport purposes, and demand for our boats may be adversely affected by competition from other activities that occupy consumers’ leisure time and by changes in consumer life style, usage pattern or taste. Similarly, an overall decrease in consumer leisure time may reduce consumers’ willingness to purchase and enjoy our products.

Our success depends upon the continued strength of our brands — Malibu, Axis, and Cobalt — and the value of our brands and sales of our products could be diminished if we, the athletes who use our products or the sports and activities in which our products are used, are associated with negative publicity.

We believe that our brands —, Malibu, Axis, and Cobalt — are significant contributors to the success of our business and that maintaining and enhancing our brands are important to expanding our consumer and dealer base. Failure to continue to protect our brands may adversely affect our business, financial condition and results of operations.

Negative publicity, including that resulting from severe injuries or death occurring in the sports and activities in which our products are used, could negatively affect our reputation and result in restrictions, recalls or bans on the use of our products. Further, actions taken by athletes associated with our products that harm the reputations of those athletes could also harm our brand image and adversely affect our financial condition. If the popularity of the sports and activities for which we design, manufacture and sell products were to decrease as a result of these risks or any negative publicity, sales of our products could decrease, which could have an adverse effect on our net revenue, profitability and operating results. In addition, if we become exposed to additional claims and litigation relating to the use of our products, our reputation may be adversely affected by such claims, whether or not successful, including by generating potential negative publicity about our products, which could adversely impact our business and financial condition.

We may not be able to execute our manufacturing strategy successfully, which could cause the profitability of our products to suffer.

Our manufacturing strategy is designed to improve product quality and increase productivity, while reducing costs and increasing flexibility to respond to ongoing changes in the marketplace. To implement this strategy, we must be successful in our continuous improvement efforts, which depend on the involvement of management, production employees and suppliers. In addition, we began manufacturing our own trailers for model year 2016 and have entered into an engine supply agreement with General Motors LLC for the development of our own engines. Because the integration of our trailer manufacturing is relatively new to us, we must continue to seek ways to improve our trailer production. Further, our vertical integration strategy for our engines may not be successful. Any inability to achieve these objectives could adversely impact the profitability of our products and our ability to deliver desirable products to our consumers.

Our engine integration strategy will require significant cash expenditures and we may not be able to execute our strategy successfully, which could cause our profitability to suffer.

In November, 2016, we entered an engine supply agreement with General Motors LLC for the supply of engines to us

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for use in our Malibu and Axis brand performance sports boats beginning as early as model year 2019 through model year 2023. Unlike our current strategy that purchases engines prepared for marine use, we will be solely responsible for integrating the engines purchased from General Motors for marine use. We adopted this strategy in order to more directly control product path (design, innovation, calibration and integration) of our largest dollar procured part, to differentiate our product from our competitors, and to increase our ability to respond to ongoing changes in the marketplace.

This strategy will require significant additional capital. We purchased an additional facility adjacent to our current manufacturing facility for the production of our engines. We expect a total investment through expenditures, working capital, and capital expenses of approximately $18.0 million for the three years since entering the engine supply agreement in November 2016, which we have financed and intend to continue to finance with cash from operations and our revolving credit facility. In addition, this strategy will increase the fixed costs of our operations. And, because the integration of engines into our manufacturing process is new to us, we must be successful in continuous improvement efforts, which depend on the involvement of management, production employees and suppliers. If we are not successful in our engine integration strategy, it could adversely impact the profitability of our products and our ability to deliver desirable products to our consumers.

We have entered into an agreement with Yamaha Motor Corporation, U.S.A. that will require us to purchase substantially all of our outboard motors from Yamaha if we complete our acquisition of Pursuit, which will make us reliant on Yamaha for our supply of outboard engines.

In August 2018, we entered into an agreement with Yamaha Motor Corporation, U.S.A., or Yamaha, that becomes effective only if we complete our acquisition of Pursuit. Under our agreement with Yamaha, we will be obligated to purchase Yamaha outboard engines for use in at least 90% of all of our boats equipped with outboard motors, which would include boats under our Cobalt brand and Pursuit brand, if that acquisition is completed. While we believe that this agreement with Yamaha will provide the engines we need for our Cobalt boats and Pursuit boats, if the acquisition of Pursuit is completed, Yamaha could potentially exert significant bargaining power over price, quality, warranty claims, or other terms relating to the outboard engines we use. We will also be required to purchase a minimum volume of engines from Yamaha for the term of the agreement or refund unearned funds to Yamaha. While we believe such minimum amount is achievable at our current volumes, there can be no assurance that we will continue to maintain such volumes in the future.

As a result of our engine integration strategy, we will rely solely on General Motors for the supply of Malibu and Axis engines, which we will then integrate for marine use.

The availability and cost of engines used in the manufacture of our boats are critical. For fiscal years 2018, 2017 and 2016, we purchased approximately 66%, 64% and 60%, respectively, of the engines for our Malibu and Axis boats from a single supplier. These engines were prepared for marine use as purchased. We have begun purchasing engines from General Motors LLC for our Malibu and Axis boats and we will prepare the engines for marine use. We expect to be purchasing engines solely from General Motors as soon as model year 2020. If we are required to replace General Motors for any reason, it could cause a decrease in products available for sale or an increase in our cost of sales, either of which could adversely affect our business, financial condition and results of operations.

We rely on third-party suppliers and may be unable to obtain adequate raw materials and components.

We depend on third-party suppliers to provide components and raw materials essential to the construction of our boats. Historically, we have not entered into long-term agreements with our suppliers, but have developed 90-day forecast models with our major suppliers to minimize disruptions in our supply chain. While we believe that our relationships with our current suppliers are sufficient to provide the materials necessary to meet present production demand, we cannot assure you that these relationships will continue or that the quantity or quality of materials available from these suppliers will be sufficient to meet our future needs, irrespective of whether we successfully implement our growth strategy.

In particular, the availability and cost of engines used in the manufacture of our boats are critical. For fiscal years 2018, 2017 and 2016 we purchased approximately 66%, 64% and 60%, respectively, of the engines for our Malibu and Axis boats from a single supplier. Even with our engine integration strategy, we intend to continue to purchase engines for our Malibu and Axis boats from our engine supplier through at least model year 2019. If we are required to replace these suppliers or the supplier of any other key components or raw materials, it could cause a decrease in products available for sale or an increase in the cost of sales, either of which could adversely affect our business, financial condition and results of operations even as our engines development initiative continues.

Termination or interruption of informal supply arrangements could have a material adverse effect on our business or results of operations.

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We have informal supply arrangements with many of our suppliers. In the event of a termination of the supply arrangement, there can be no assurance that alternate supply arrangements will be made on satisfactory terms. If we need to enter into supply arrangements on unsatisfactory terms, or if there are any delays to our supply arrangements, it could adversely affect our business and operating results.

Our ability to meet our manufacturing workforce needs is crucial to our results of operations and future sales and profitability.

We rely on the existence of an available hourly workforce to manufacture our boats. We cannot assure you that we will be able to attract and retain qualified employees to meet current or future manufacturing needs at a reasonable cost, or at all. Although none of our employees is currently covered by collective bargaining agreements, we cannot assure you that our employees will not elect to be represented by labor unions in the future. Additionally, competition for qualified employees could require us to pay higher wages to attract a sufficient number of employees. Significant increases in manufacturing workforce costs could materially adversely affect our business, financial condition or results of operations.

Product liability, warranty, personal injury, property damage and recall claims may materially affect our financial condition and damage our reputation.

We are engaged in a business that exposes us to claims for product liability and warranty claims in the event our products actually or allegedly fail to perform as expected or the use of our products results, or is alleged to result, in property damage, personal injury or death. In the past, we have provided limited product warranties, generally covering periods from 12 to 36 months for Malibu brand boats and 12 to 24 months for Axis brand boats. Effective July 1, 2015, we began providing a limited warranty for a period up to five years to our consumers for both our Malibu and Axis brand boats manufactured after this point in time. We expect the extension of our warranty coverage period to increase our obligations to cover warranty claims over time resulting in an increase in our reserve to cover these warranty claims.

For Cobalt boats, we provide limited warranty for a period of up to ten years on structural components such as hull/deck joints, bulkheads, floor, transom, stringers, and motor mount, and up to five years on manufactured or purchased components, including canvas and upholstery. Gelcoat is covered up to three years for Cobalt and one year for Malibu and Axis. If we complete our acquisition of Pursuit, we will continue to provide warranties for Pursuit boats, which provide limited warranty for a period of up to five years on structural components such as the hull, deck and fiberglass fuel tanks and defects in the gelcoat surface of the hull bottom, and up to two years for components and accessories, subject to certain exclusions. In addition, we will be assuming any warranty claims on Pursuit boats manufactured prior to our acquisition of Pursuit.

Our standard warranties require us or our dealers to repair or replace defective products during such warranty periods at no cost to the consumer. Although we maintain product and general liability insurance of the types and in the amounts that we believe are customary for the industry, we are not fully insured against all such potential claims. We may experience legal claims in excess of our insurance coverage or claims that are not covered by insurance, either of which could adversely affect our business, financial condition and results of operations. Adverse determination of material product liability and warranty claims made against us could have a material adverse effect on our financial condition and harm our reputation. In addition, if any of our products are, or are alleged to be, defective, we may be required to participate in a recall of that product if the defect or alleged defect relates to safety. These and other claims we face could be costly to us and require substantial management attention.

We depend on key personnel and we may not be able to retain them or to attract, assimilate, and retain highly qualified employees in the future.

Our future success will depend in significant part upon the continued service of our senior management and our continuing ability to attract, assimilate, and retain highly qualified and skilled managerial, product development, manufacturing, and marketing and other personnel. The loss of services of any members of our senior management or key personnel or the inability to hire or retain qualified personnel in the future could adversely affect our business, financial condition, and results of operations.

Our reliance upon patents, trademark laws and contractual provisions to protect our proprietary rights may not be sufficient to protect our intellectual property from others who may sell similar products and may lead to costly

litigation. We are currently, and may be in the future, party to lawsuits and other intellectual property rights claims that are expensive and time-consuming.
We hold patents and trademarks relating to various aspects of our products and believe that proprietary technical know-how is important to our business. Proprietary rights relating to our products are protected from unauthorized use by third parties only to the extent that they are covered by valid and enforceable patents or trademarks or are maintained in confidence as trade secrets. We cannot be certain that we will be issued any patents from any pending or future patent applications owned by or licensed to us or that the claims allowed under any issued patents will be sufficiently broad to protect our technology. In the

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absence of enforceable patent or trademark protection, we may be vulnerable to competitors who attempt to copy our products, gain access to our trade secrets and know-how or diminish our brand through unauthorized use of our trademarks, all of which could adversely affect our business. Accordingly, we may need to engage in future litigation to enforce intellectual property rights to protect trade secrets or to determine the validity and scope of proprietary rights of others. For example, in May 2017 we settled two Tennessee lawsuits in which we were previously a plaintiff alleging infringement by a competitor of our patent rights in certain wake surfing technology. For more information, see Note 15 to our audited consolidated financial statements included elsewhere in this Annual Report.

We also rely on unpatented proprietary technology. It is possible that others will independently develop the same or similar technology or otherwise obtain access to our unpatented technology. To protect our trade secrets and other proprietary information, we require employees, consultants, advisors and collaborators to enter into confidentiality agreements. We cannot assure you that these agreements will provide meaningful protection for our trade secrets, know-how, or other proprietary information in the event of any unauthorized use, misappropriation, or disclosure of such trade secrets, know-how, or other proprietary information. If we are unable to maintain the proprietary nature of our technologies, we could be materially adversely affected.

In addition, others may initiate litigation or other proceedings to challenge the validity of our patents, or allege that we infringe their patents, or they may use their resources to design comparable products that do not infringe our patents. We may incur substantial costs if our competitors initiate litigation to challenge the validity of our patents, or allege that we infringe their patents, or if we initiate any proceedings to protect our proprietary rights. As an example, we entered into a settlement agreement in September 2014 and agreed to pay $20.0 million in cash for settlement of a lawsuit alleging patent infringement and related claims against us in connection with windshields installed in our boats that we purchased from a third party supplier. If the outcome of any litigation challenging our patents is unfavorable to us, our business, financial condition and results of operations could be adversely affected.

We rely on network and information systems and other technologies for our business activities and certain events, such as computer hackings, viruses or other destructive or disruptive software or activities may disrupt our operations, which could have a material adverse effect on our business, financial condition and results of operations.

Network and information systems and other technologies are important to our business activities and operations. Network and information systems-related events, such as computer hackings, cyber threats, security breaches, viruses, or other destructive or disruptive software, process breakdowns or malicious or other activities could result in a disruption of our services and operations or improper disclosure of personal data or confidential information, which could damage our reputation and require us to expend resources to remedy any such breaches. Moreover, the amount and scope of insurance we maintain against losses resulting from any such events or security breaches may not be sufficient to cover our losses or otherwise adequately compensate us for any disruptions to our businesses that may result, and the occurrence of any such events or security breaches could have a material adverse effect on our business and results of operations. The risk of these systems-related events and security breaches occurring has intensified, in part because we maintain certain information necessary to conduct our businesses in digital form stored on cloud servers. While we develop and maintain systems seeking to prevent systems-related events and security breaches from occurring, the development and maintenance of these systems is costly and requires ongoing monitoring and updating as technologies change and efforts to overcome security measures become more sophisticated. Despite these efforts, there can be no assurance that disruptions and security breaches will not occur in the future. Moreover, we may provide certain confidential, proprietary and personal information to third parties in connection with our businesses, and while we obtain assurances that these third parties will protect this information, there is a risk that this information may be compromised. The occurrence of any of such network or information systems-related events or security breaches could have a material adverse effect on our business, financial condition and results of operations.

The nature of our business exposes us to workers' compensation claims and other workplace liabilities.

Certain materials we use require our employees to handle potentially hazardous or toxic substances. While our employees who handle these and other potentially hazardous or toxic materials receive specialized training and wear protective clothing, there is still a risk that they, or others, may be exposed to these substances. Exposure to these substances could result in significant injury to our employees and damage to our property or the property of others, including natural resource damage. Our personnel are also at risk for other workplace-related injuries, including slips and falls. We have in the past been, and may in the future be, subject to fines, penalties, and other liabilities in connection with any such injury or damage. Although we currently maintain what we believe to be suitable and adequate insurance in excess of our self-insured amounts, we may be unable to maintain such insurance on acceptable terms or such insurance may not provide adequate protection against potential liabilities.

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Our international markets require significant management attention, expose us to difficulties presented by international economic, political, legal and business factors, and may not be successful or produce desired levels of sales and profitability.

We currently sell our products throughout the world. Our total sales outside North America were less than 10% of our total revenue for fiscal years 2018, 2017 and 2016. International markets have been, and will continue to be, a focus for sales growth. We believe many opportunities exist in the international markets, and over time we intend for international sales to comprise a larger percentage of our total revenue. Several factors, including weakened international economic conditions, could adversely affect such growth. The expansion of our existing international operations and entry into additional international markets require significant management attention. Some of the countries in which we market and our distributors or licensee sell our products are to some degree subject to political, economic or social instability. Our international operations expose us and our representatives, agents and distributors to risks inherent in operating in foreign jurisdictions. These risks include, but are not limited to:

- increased costs of customizing products for foreign countries;
- unfamiliarity with local demographics, consumer preferences and discretionary spending patterns;
- difficulties in attracting customers due to a reduced level of customer familiarity with our brand;
- competition with new, unfamiliar competitors;
- the imposition of additional foreign governmental controls or regulations, including rules relating to environmental, health and safety matters and regulations and other laws applicable to publicly-traded companies, such as the Foreign Corrupt Practices Act, or the FCPA;
- new or enhanced trade restrictions and restrictions on the activities of foreign agents, representatives and distributors, including the imposition of additional or new tariffs;
- the imposition of increases in costly and lengthy import and export licensing and other compliance requirements, customs duties and tariffs, license obligations and other non-tariff barriers to trade;
- laws and business practices favoring local companies;
- longer payment cycles and difficulties in enforcing agreements and collecting receivables through certain foreign legal systems; and
- difficulties in enforcing or defending intellectual property rights.

Our international operations may not produce desired levels of total sales, or one or more of the foregoing factors may harm our business, financial condition or results of operations.

Changes in currency exchange rates can adversely affect our results.

A portion of our sales are denominated in a currency other than the U.S. dollar. Consequently, a strong U.S. dollar may adversely affect reported revenues. We also maintain a portion of our manufacturing operations in Australia which partially mitigates the impact of a strengthening U.S. dollar in that country. A portion of our selling, general and administrative costs are transacted in Australian dollars as a result. We also sell U.S. manufactured products into certain international markets in U.S. dollars, including the sale of products into Canada, Europe and Latin America. Demand for our products in these markets may also be adversely affected by a strengthening U.S. dollar. For example, we have experienced decreased demand in Canada due to the weakening Canadian dollar and demand is weak in other areas of the world, notably South America, South Africa and Europe. We do not currently use hedging or other derivative instruments to mitigate our foreign currency risks.

An increase in energy and fuel costs may adversely affect our business, financial condition and results of operations.

Higher energy costs result in increases in operating expenses at our manufacturing facility and in the expense of shipping products to our dealers. In addition, increases in energy costs may adversely affect the pricing and availability of petroleum-based raw materials, such as resins and foams, that are used in our products. Also, higher fuel prices may have an adverse effect on demand for our boats, as they increase the cost of ownership and operation.

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We are subject to U.S. and other anti-corruption laws, trade controls, economic sanctions and similar laws and regulations, including those in the jurisdictions where we operate. Our failure to comply with these laws and regulations could subject us to civil, criminal and administrative penalties and harm our reputation.

Doing business on a worldwide basis requires us to comply with the laws and regulations of various foreign jurisdictions. These laws and regulations place restrictions on our operations, trade practices, partners and investment decisions. In particular, our operations are subject to U.S. and foreign anti-corruption and trade control laws and regulations, such as the FCPA, export controls and economic sanctions programs, including those administered by the U.S. Treasury Department's Office of Foreign Assets Control, or the OFAC. As a result of doing business in foreign countries and with foreign partners, we are exposed to a heightened risk of violating anti-corruption and trade control laws and sanctions regulations.

The FCPA prohibits us from providing anything of value to foreign officials for the purposes of obtaining or retaining business or securing any improper business advantage. It also requires us to keep books and records that accurately and fairly reflect our transactions.

Economic sanctions programs restrict our business dealings with certain sanctioned countries, persons and entities. In addition, because we act through dealers and distributors, we face the risk that our dealers, distributors or consumers might further distribute our products to a sanctioned person or entity, or an ultimate end-user in a sanctioned country, which might subject us to an investigation concerning compliance with OFAC or other sanctions regulations.

Violations of anti-corruption and trade control laws and sanctions regulations are punishable by civil penalties, including fines, denial of export privileges, injunctions, asset seizures, debarment from government contracts and revocations or restrictions of licenses, as well as criminal fines and imprisonment. We cannot assure you that all of our local, strategic or joint partners will comply with these laws and regulations, in which case we could be held liable for actions taken inside or outside of the United States, even though our partners may not be subject to these laws. Such a violation could materially and adversely affect our reputation, business, results of operations and financial condition. Our continued international expansion, including in developing countries, and our development of new partnerships and joint venture relationships worldwide, could increase the risk of FCPA or OFAC violations in the future.

If we are unable to comply with environmental and other regulatory requirements, our business may be exposed to material liability or fines.

We are subject to extensive regulation, including product safety, environmental and health and safety requirements under various federal, state, local and foreign statutes, ordinances and regulations. While we believe that we are in material compliance with all applicable federal, state, local and foreign regulatory requirements, we cannot assure you that we will be able to continue to comply with applicable regulatory requirements. Compliance with regulatory requirements could increase the cost of our products, which in turn, may reduce consumer demand, or could materially increase the cost of operations. The failure to comply with applicable regulatory requirements could cause us to incur significant fines or penalties, obligations to conduct remedial or corrective actions, or, in extreme circumstances, revocation of our permits or injunctions preventing some or all of our operations. In addition, the components of our boats must meet certain regulatory standards, including air emission standards for boat engines and fuel systems. Failure to meet these standards could result in an inability to sell our boats in key markets, which would adversely affect our business. In addition, legal requirements are constantly evolving, and changes in laws, regulations or policies, or changes in interpretations of the foregoing, could also increase our costs or create liabilities where none exists today.

As with boat construction in general, our manufacturing processes involve the use, handling, storage and contracting for recycling or disposal of hazardous substances and wastes. The failure to manage or dispose of such hazardous substances and wastes properly could expose us to material liability or fines, including liability for personal injury or property damage due to exposure to hazardous substances, damages to natural resources, or for the investigation and remediation of environmental conditions. Under certain environmental laws, we may be liable for remediation of contamination at sites where our hazardous wastes have been disposed or at our current or former facilities, regardless of whether such facilities are owned or leased or whether we caused the condition of contamination. Also, the components in our boats may become subject to more stringent environmental regulations. For example, boat engines and other emission producing components may be subject to more stringent emissions standards, which could increase

the cost of our engines, components and our products, which, in turn, may reduce consumer demand for our products.
A natural disaster or other disruption at our manufacturing facilities could adversely affect our business, financial condition and results of operations.
We rely on the continuous operation of manufacturing facilities in Tennessee, Kansas, California and Australia. If we

complete our acquisition of Pursuit, we will also have manufacturing facilities in southern Florida. Any natural disaster or other serious disruption to our facilities due to fire, flood, earthquake or any other unforeseen circumstances could adversely affect our business, financial condition and results of operations. Changes in climate could adversely affect our operations by limiting or increasing the costs associated with equipment or fuel supplies. In addition, adverse weather conditions, such as increased frequency and/or severity of storms, or floods could impair our ability to operate by damaging our facilities and equipment or restricting product delivery to customers. The occurrence of any disruption at our manufacturing facilities, even for a short period of time, may have an adverse effect on our productivity and profitability, during and after the period of the disruption. These disruptions may also cause personal injury and loss of life, severe damage to or destruction of property and equipment and environmental damage. Although we maintain property, casualty and business interruption insurance of the types and in the amounts that we believe are customary for the industry, we are not fully insured against all potential natural disasters or other disruptions to our manufacturing facilities.

Increases in income tax rates or changes in income tax laws or enforcement could have a material adverse impact on our financial results.

Changes in domestic and international tax legislation could expose us to additional tax liability and could impact the amount of our tax receivable agreement liability. Although we monitor changes in tax laws and work to mitigate the impact of proposed changes, such changes may negatively impact our financial results. In addition, any increase in individual income tax rates, such as those implemented in the United States at the beginning of 2013, would negatively affect our potential consumers' discretionary income and could decrease the demand for our products. While we do not expect the provisions of the Tax Cuts and Jobs Act of 2017, or the Tax Act to have a material adverse impact on our business or financial results, quantifying all of the impacts of the Tax Act requires significant judgment by our management, including the inherent complexities involved in determining the timing of reversals of our deferred tax assets and liabilities. Accordingly, we will continue to analyze the impacts of the Tax Act on our business and financial results and, if necessary, record any further adjustments to our deferred tax assets and liabilities and our tax receivable agreement liability in future periods. Such adjustments may negatively impact our financial results.

The credit agreement governing our revolving credit facility and term loan contains restrictive covenants which may limit our operating flexibility and may impair our ability to access sufficient capital to operate our business.

We have relied on and continue to rely on our term loan and revolving credit facility to provide us with adequate liquidity to operate our business. Our credit agreement governing our revolving credit facility and term loan contains restrictive covenants that limit our ability to, among other things, incur additional debt and additional liens on property and make future payments of dividends or distributions on our capital stock. Further, the credit agreement requires compliance with financial covenants, including a minimum ratio of EBITDA to fixed charges and a maximum ratio of total debt to EBITDA.

These covenants may affect our ability to operate and finance our business as we deem appropriate. Violation of these covenants could constitute an event of default under the credit agreement governing our revolving credit facility and term loan. If there were an event of default under the credit agreement, our lenders could reduce or terminate our access to amounts under our credit facilities or declare all of the indebtedness outstanding under our revolving credit facility and term loan immediately due and payable. We may not have sufficient funds available, or we may not have access to sufficient capital from other sources, to continue funding our operations or to repay any accelerated debt. Even if we could obtain additional financing, the terms of the financing may not be favorable to us. In addition, substantially all of our assets are subject to liens securing our revolving credit facility and term loan. If amounts outstanding under the revolving credit facility or term loan were accelerated, our lenders could foreclose on these liens and we could lose substantially all of our assets. Any event of default under the credit agreement governing our revolving credit facility and term loan could have a material adverse effect on our business, financial condition and results of operations.

Our variable rate indebtedness subjects us to interest rate risk, which could cause our debt service obligations to increase significantly.

Borrowings under our revolving credit facility and term loan are at variable rates of interest and expose us to interest rate risk. Interest rates are currently at relatively low levels. If interest rates increase, our debt service obligations on the variable rate indebtedness will increase even though the amount borrowed remains the same, and our net income and cash flows, including cash available for servicing our indebtedness, will correspondingly decrease. We manage our exposure to interest rate movements on our term loan through the use of an interest rate swap agreement on a notional amount of $39.3 million. We have elected not to designate our interest rate swap as a hedge; therefore, changes in the fair value of the derivative instrument may cause volatility in our interest expense based on fluctuations in interest rates. In the future, we may enter into similar interest rate swaps that involve the exchange of floating for fixed rate interest payments in order to reduce future interest rate volatility on the remaining unhedged portion of our term loan; however, there is no guarantee we may take such action and we may not fully mitigate our interest rate risk. A hypothetical 1% increase in LIBOR over the 1.52% floor could increase our annual interest expense and related cash flows by approximately $0.9 million based on the unhedged portion of the amounts outstanding under our credit facility as of June 30, 2018.

We are an "emerging growth company" and we cannot be certain if the reduced disclosure requirements applicable to emerging growth companies will make our Class A Common Stock less attractive to investors.

We are an "emerging growth company" as defined in the Jumpstart Our Business Startups Act, or the JOBS Act. We have taken, and for as long as we continue to be an emerging growth company, we may choose to take, advantage of certain exemptions from various reporting requirements applicable to other public companies but not to emerging growth companies, which includes, among other things:

- exemption from the auditor attestation requirements under Section 404 of the Sarbanes-Oxley Act;
- reduced disclosure obligations regarding executive compensation in our periodic reports and proxy statements;
- exemption from the requirements of holding non-binding stockholder votes on executive compensation arrangements; and
- exemption from any public rules requiring mandatory audit firm rotation and auditor discussion and analysis and, unless the SEC otherwise determines, any future audit rules that may be adopted by the Public Company Accounting Oversight Board.

We could be an emerging growth company until the last day of the fiscal year following the fifth anniversary after our initial public offering (June 30, 2019) or until the earliest of (1) the last day of the fiscal year in which we have annual gross revenue of $1.0 billion or more, (2) the date on which we have, during the previous three-year period, issued more than $1.0 billion in non-convertible debt or (3) the date on which we are deemed to be a large accelerated filer under the federal securities laws, which requires, among other things, the market value of our common stock held by non-affiliates to be at least $700.0 million as of the last business day of our second fiscal quarter. We would qualify as a large accelerated filer as of the first day of the first fiscal year after we have more than $700.0 million in our outstanding common equity held by our non-affiliates on the last business day of our second fiscal quarter. We expect that we will no longer qualify as an emerging growth company as of June 30, 2019.

Under the JOBS Act, emerging growth companies are also permitted to elect to delay adoption of new or revised accounting standards until companies that are not subject to periodic reporting obligations are required to comply, if such accounting standards apply to non-reporting companies. We have made an irrevocable decision to opt out of this extended transition period for complying with new or revised accounting standards.

We cannot predict if investors will find our Class A Common Stock less attractive if we rely on these exemptions. If some investors find our Class A Common Stock less attractive as a result, there may be less active trading market for our Class A Common Stock and our stock price may be more volatile.

Failure to maintain effective internal control over financial reporting or disclosure controls and procedures could have a material adverse effect on our business and stock price.

Section 404(a) of the Sarbanes-Oxley Act requires an annual management assessment of the effectiveness of our internal control over financial reporting. Management is similarly required to review disclosure controls, which are controls established to ensure that information required to be disclosed in SEC reports is recorded, processed, summarized and reported in a timely manner. Additionally, once we are no longer an emerging growth company, as defined by the JOBS Act, our independent registered public accounting firm will be required pursuant to Section 404(b) of the Sarbanes-Oxley Act to attest to the effectiveness of our internal control over financial reporting on an annual basis. We expect our independent registered public accounting firm to attest to the effectiveness of our internal control over financial reporting beginning with our fiscal year ending June 30, 2019.

If we fail to maintain the adequacy of our internal controls, as such standards are modified, supplemented or amended from time to time, we may not be able to ensure that we can conclude on an ongoing basis that we have effective internal control over financial reporting. The existence of any material weakness could require management to devote significant time and incur significant expense to remediate any such material weakness and management may not be able to remediate any such material weakness in a timely manner. The existence of any material weakness in our internal control over financial reporting could also result in errors in our financial statements that could require us to restate our financial statements, cause us to fail to meet our

reporting obligations, and cause stockholders to lose confidence in our reported financial information, all of which could materially and adversely affect our business and stock price. In addition, if our independent registered public accounting firm is
unable to provide an unqualified attestation report on our internal controls after we cease to be an emerging growth company, investors could lose confidence in our financial information and the price of our stock could decline.

We incur significant increased costs as a result of being a public company, and our management devotes substantial time to comply with the laws and regulations affecting public companies. We expect our costs to increase after we are no longer an emerging growth company.

We became a public company on January 30, 2014. As a public company, we have incurred significant legal, accounting and other expenses that we did not incur as a private company, including costs associated with public company reporting and corporate governance requirements, in order to comply with the rules and regulations imposed by the Sarbanes-Oxley Act, as well as rules implemented by the SEC and Nasdaq. We expect these costs to increase after we cease to qualify as an emerging growth company, which we expect to be on June 30, 2019. Our management and other personnel devote a substantial amount of time to these compliance initiatives and our legal and accounting compliance costs have increased. It is likely that we will need to hire additional staff in the areas of investor relations, legal and accounting as we continue to operate as a public company. We also believe it is more difficult and expensive for us to obtain director and liability insurance as a public company, and we may be required to accept reduced policy limits and coverage or incur substantially higher costs to obtain the same or similar coverage. As a result, it may be more difficult for us to attract and retain qualified individuals to serve on our board of directors or as executive officers. We are currently evaluating and monitoring developments with respect to these rules, and we cannot predict or estimate the amount of additional costs we may incur in the future or the timing of such costs.

The Sarbanes-Oxley Act requires, among other things, that we maintain effective internal controls over financial reporting and disclosure controls and procedures. In particular, as a public company, we are required to perform system and process evaluations and testing of our internal control over financial reporting to allow management and our independent registered public accounting firm to report on the effectiveness of our internal controls over financial reporting, as required by Section 404 of the Sarbanes-Oxley Act. As an emerging growth company, we are not required to comply with the auditor attestation provisions of Section 404 but we expect to comply beginning with our fiscal year ending June 30, 2019. Our testing, or the subsequent testing by our independent registered public accounting firm, may reveal deficiencies in our internal control over financial reporting that are deemed to be material weaknesses. Our compliance with Section 404 requires that we incur substantial accounting expense and management time on compliance-related issues. Moreover, if we are not able to comply with the requirements of Section 404 in a timely manner, or if we or our independent registered public accounting firm identify deficiencies in our internal control over financial reporting that are deemed to be material weaknesses, we could lose investor confidence in the accuracy and completeness of our financial reports, which could cause our stock price to decline.

When we cease to qualify as an emerging growth company, we expect to incur additional expenses and devote increased management effort toward ensuring compliance with them. We cannot predict or estimate the amount of additional costs we may incur as a result of becoming a public company or the timing of such costs.

Risks Related to Our Organizational Structure

Our only material asset is our interest in the LLC, and we are accordingly dependent upon distributions from the LLC to pay taxes, make payments under the tax receivable agreement or pay dividends.

Malibu Boats, Inc. is a holding company and has no material assets other than our ownership of LLC Units. Malibu Boats, Inc. has no independent means of generating revenue. We intend to cause the LLC to make distributions to its unit holders in an amount sufficient to cover all applicable taxes at assumed tax rates, payments under the tax receivable agreement and dividends, if any, declared by us. To the extent that we need funds, and the LLC is restricted from making such distributions under applicable law or regulation or under the terms of its financing arrangements, or is otherwise unable to provide such funds, it could materially adversely affect our liquidity and financial condition.

For example, our credit agreement generally prohibits the LLC, Malibu Boats, LLC, Malibu Australian Acquisition Corp., and Cobalt Boats, LLC from paying dividends or making distributions. Our credit agreement permits, however, (i) distributions based on a member’s allocated taxable income, (ii) distributions to fund payments that are required under the LLC's tax receivable agreement, (iii) purchase of stock or stock options of the LLC from former officers, directors or employees of loan parties or payments pursuant to stock option and other benefit plans up to $2.0 million in any fiscal year, and (iv) share repurchase payments up to $20.0 million in any fiscal year subject to one-year carry forward and compliance with other financial covenants. In addition, the LLC may make dividends and distributions of up to $6.0 million in any fiscal year, subject to compliance with other financial covenants.

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We will be required to pay the pre-IPO owners (or any permitted assignee) for certain tax benefits pursuant to our tax receivable agreement with them, and the amounts we may pay could be significant.

We entered into a tax receivable agreement with the pre-IPO owners (or their permitted assignees) that provides for the payment by us to the pre-IPO owners (or any permitted assignee) of 85% of the tax benefits, if any, that we are deemed to realize as a result of (1) the increases in tax basis resulting from our purchases or exchanges of LLC Units and (2) certain other tax benefits related to our entering into the tax receivable agreement, including tax benefits attributable to payments under the tax receivable agreement. These payment obligations are our obligations and not of the LLC. For purposes of the agreement, the benefit deemed realized by us will be computed by comparing our actual income tax liability (calculated with certain assumptions) to the amount of such taxes that we 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 we not entered into the tax receivable agreement. Estimating the amount of payments that may be made under the tax receivable agreement is by its nature imprecise, insofar as the calculation of amounts payable depends on a variety of factors. The actual increase in tax basis, as well as the amount and timing of any payments under the agreement, will vary depending upon a number of factors, including:

- the timing of purchases or exchanges-for instance, the increase in any tax deductions will vary depending on the fair value, which may fluctuate over time, of the depreciable or amortizable assets of the LLC at the time of each purchase or exchange;
- the price of shares of our Class A Common Stock at the time of the purchase or exchange-the increase in any tax deductions, as well as the tax basis increase in other assets, of the LLC is directly related to the price of shares of our Class A Common Stock at the time of the purchase or exchange;
- the extent to which such purchases or exchanges are taxable-if an exchange or purchase is not taxable for any reason, increased deductions will not be available; and
- the amount and timing of our income-the corporate taxpayer will be required to pay 85% of the deemed benefits as and when deemed realized. If we do not have taxable income, we generally will not be required (absent a change of control or other circumstances requiring an early termination payment) to make payments under the tax receivable agreement for that taxable year because no benefit will have been realized. However, any tax benefits that do not result in realized benefits in a given tax year will likely generate tax attributes that may be utilized to generate benefits in previous or future tax years. The utilization of such tax attributes will result in payments under the tax receivable agreement.

For more information see Note 2 to our audited consolidated financial statements included elsewhere in this Annual Report.

We expect that the payments that we may make under the tax receivable agreement may be substantial. Assuming no material changes in the relevant tax law, and that we earn sufficient taxable income to realize all tax benefits that are subject to the agreement, we expect that future payments under the tax receivable agreement relating to the purchases by Malibu Boats, Inc. of LLC Units will be approximately $55.0 million over the next eighteen (18) years. Future payments to pre-IPO owners (or their permitted assignees) in respect of subsequent exchanges or purchases would be in addition to these amounts and are expected to be substantial. The foregoing numbers are merely estimates and the actual payments could differ materially. It is possible that future transactions or events, such as changes in tax legislation, could increase or decrease the actual tax benefits realized and the corresponding tax receivable agreement payments. For example, during the second quarter of fiscal 2018, the U.S. Congress enacted tax legislation called the Tax Cuts and Jobs Act of 2017 ("the Tax Act") on December 22, 2017, which, among other provisions, lowered our U.S. corporate tax rate from 35% to 21%, effective January 1, 2018. The Tax Act lowered the estimated tax rate used to compute our future tax obligations and, in turn, reduced the future tax benefit expected to be realized by us related to increased tax basis from previous sales and exchanges of LLC Units by pre-IPO owners of the LLC. The change in the underlying tax rate assumptions used to estimate the tax receivable agreement liability, resulted in a decrease in the tax receivable agreement liability of $30.3 million during the second quarter of fiscal 2018. Refer to Note 10 for further information on the Tax Act. Also, during the first quarter of fiscal 2018, we acquired Cobalt, which expanded our footprint into new state tax jurisdictions. This change in the our state tax posture increased the estimated tax rate used in computing our future tax obligations and, in turn, increased the future tax benefit expected to be realized by us related to increased tax basis from previous sales and exchanges of LLC Units by pre-IPO owners of the LLC. The change in the underlying tax rate assumptions used to estimate the tax receivable agreement liability resulted in an increase in the tax receivable agreement liability of $6.0 million during the first quarter of fiscal year 2018. During the fourth quarter of fiscal year 2017, the state of Tennessee enacted tax legislation, which lowered the estimated tax rate used in computing our future tax obligations and, in turn, reduced the future tax benefit expected to be realized by us related to increased tax basis from previous sales and exchanges of LLC Units by pre-IPO owners. The change in the underlying tax rate assumptions used to estimate our tax

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receivable agreement liability resulted in a decrease in such liability of $8.1 million during the fourth quarter of fiscal year 2017.

Further, there may be a material negative effect on our liquidity if distributions to us by the LLC are not sufficient to permit us to make payments under the tax receivable agreement after we have paid taxes. For example, we may have an obligation to make tax receivable agreement payments for a certain amount while receiving distributions from the LLC in a lesser amount, which would negatively affect our liquidity. The payments under the tax receivable agreement are not conditioned upon the pre-IPO owners' (or any permitted assignees’) continued ownership of us. We are required to make a good faith effort to ensure that we have sufficient cash available to make any required payments under the tax receivable agreement. The limited liability company agreement of the LLC requires the LLC to make “tax distributions” which, in the ordinary course, will be sufficient to pay our actual tax liability and to fund required payments under the tax receivable agreement. If for any reason the LLC is not able to make a tax distribution in an amount that is sufficient to make any required payment under the tax receivable agreement or we otherwise lack sufficient funds, interest would accrue on any unpaid amounts at the London Interbank Offered Rate, or LIBOR, plus 500 basis points until they are paid.

In certain cases, payments under the tax receivable agreement to the pre-IPO owners (or any permitted assignees) of LLC Units may be accelerated or significantly exceed the actual benefits we realize in respect of the tax attributes subject to the tax receivable agreement.

The tax receivable agreement provides that, in the event that we exercise our right to early termination of the tax receivable agreement, or in the event of a change in control or a material breach by us of our obligations under the tax receivable agreement, the tax receivable agreement will terminate, and we will be required to make 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, which lump-sum payment would be based on certain assumptions, including those relating to our future taxable income. The change in control payment and termination payments to the pre-IPO owners (or any permitted assignees) could be substantial and could exceed the actual tax benefits that we receive as a result of acquiring the LLC Units because the amounts of such payments would be calculated assuming that we would have been able to use the potential tax benefits each year for the remainder of the amortization periods applicable to the basis increases, and that tax rates applicable to us would be the same as they were in the year of the termination. In these situations, our obligations under the tax receivable agreement could have a substantial negative impact on our liquidity. There can be no assurance that we will be able to finance our obligations under the tax receivable agreement.

Payments under the tax receivable agreement will be based on the tax reporting positions that we determine. Although we are not aware of any issue that would cause the Internal Revenue Service, or the IRS, to challenge a tax basis increase, Malibu Boats, Inc. will not be reimbursed for any payments previously made under the tax receivable agreement. As a result, in certain circumstances, payments could be made under the tax receivable agreement in excess of the benefits that Malibu Boats, Inc. actually realizes in respect of (1) the increases in tax basis resulting from our purchases or exchanges of LLC Units and (2) certain other tax benefits related to our entering into the tax receivable agreement, including tax benefits attributable to payments under the tax receivable agreement.

Risks Related to Our Class A Common Stock

Our stock price may be volatile and stockholders may be unable to sell shares at or above the price at which they purchased them.

Our stock price ranged from $25.00 per share to $46.49 per share during fiscal year 2018. The market price of our Class A Common Stock could be subject to wide fluctuations in response to the many risk factors listed in this section, and others beyond our control, including:

- our ability to continue to integrate our acquisition of Cobalt and the possible integration of our pending acquisition of Pursuit into our business;
- our ability to complete our acquisition of Pursuit;
- actual or anticipated fluctuations in our financial condition and results of operations;
- addition or loss of consumers or dealers;
- actual or anticipated changes in our rate of growth relative to our competitors;

- additions or departures of key personnel;
- failure to introduce new products, or for those products to achieve market acceptance;
- disputes or other developments related to proprietary rights, including patents, litigation matters and our ability to obtain intellectual property protection for our technologies;
- announcements by us or our competitors of significant acquisitions, strategic partnerships, joint ventures or capital commitments;
- fluctuations in the valuation of companies perceived by investors to be comparable to us;
- changes in applicable laws or regulations;
- issuance of new or updated research or reports by securities analysts;
- sales of our Class A Common Stock by us or our stockholders; and
- share price and volume fluctuations attributable to inconsistent trading volume levels of our shares.

Further, the stock markets may experience extreme price and volume fluctuations that can affect the market prices of equity securities. These fluctuations can be unrelated or disproportionate to the operating performance of those companies. These broad market and industry fluctuations, as well as general economic, political and market conditions such as recessions, interest rate changes or international currency fluctuations, could harm the market price of our Class A Common Stock.

In the past, companies that have experienced volatility in the market price of their stock have been subject to securities class action litigation. We may be the target of this type of litigation in the future. Securities litigation against us could result in substantial costs and divert our management's attention from other business concerns, which could harm our business.

If securities or industry analysts do not publish research or reports about our business, or publish negative reports about our business, our share price and trading volume could decline.

The trading market for our Class A Common Stock may depend on the research and reports that securities or industry analysts publish about us or our business. We do not have any control over these analysts. If one or more of the analysts who cover us downgrade our shares or change their opinion of our shares, our share price would likely decline. If one or more of these analysts cease coverage of our company or fail to regularly publish research or reports on us, we could lose visibility in the financial markets, which could cause our stock price or trading volume to decline.

Future sales of our Class A Common Stock in the public market could cause our share price to fall; furthermore, you may be diluted by future issuances of Class A Common Stock in connection with our incentive plans, acquisitions or otherwise.

Sales of a substantial number of shares of our Class A Common Stock in the public market, in particular sales by our directors, officers or other affiliates,, or the perception that these sales might occur, could depress the market price of our Class A Common Stock and could impair our ability to raise capital through the sale of additional equity securities. Furthermore, any Class A Common Stock that we issue in connection with our Long-Term Incentive Plan or other equity incentive plans that we may adopt in the future, our acquisitions or otherwise would dilute the percentage ownership of holders of our Class A Common Stock.

Our governing documents and Delaware law could prevent a takeover that stockholders consider favorable and could also reduce the market price of our stock.

Our certificate of incorporation and bylaws contain certain provisions that could delay or prevent a change in control. These provisions could also make it more difficult for stockholders to elect directors and take other corporate actions. These provisions include, without limitation:

- a classified board structure;
- a requirement that stockholders must provide advance notice to propose nominations or have other business considered at a meeting of stockholders;
- supermajority stockholder approval to amend our bylaws or certain provisions in our certificate of incorporation; and
- authorization of blank check preferred stock.

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In addition, we are subject to the provisions of Section 203 of the Delaware General Corporation Law. These provisions may prohibit large stockholders, in particular those owning 15% or more of our outstanding Class A Common Stock, from engaging in certain business combinations without the approval of substantially all of our stockholders for a certain period of time.

These and other provisions in our certificate of incorporation, bylaws and under Delaware law could discourage potential takeover attempts, reduce the price that investors might be willing to pay for shares of our Class A Common Stock in the future and result in the market price being lower than it would be without these provisions.

We currently do not intend to pay dividends on our Class A Common Stock and, consequently, the only opportunity for stockholders to achieve a return on their investment is if the price of our Class A Common Stock appreciates.

We currently do not plan to declare or pay dividends on shares of our Class A Common Stock in the foreseeable future. Further, because we are a holding company, our ability to pay dividends depends on our receipt of cash distributions from the LLC and the LLC also relies on its subsidiaries for receipt of cash for distributions. This may further restrict our ability to pay dividends as a result of the laws of the jurisdiction of organization of the LLC and its subsidiaries, agreements of the LLC or its subsidiaries or covenants under our, the LLC's or its subsidiaries' existing or future indebtedness. For example, our credit agreement generally prohibits the LLC, Malibu Boats, LLC, Malibu Australian Acquisition Corp. and Cobalt Boats, LLC. from paying dividends or making distributions. Our credit agreement permits, however, (i) distributions based on a member's allocated taxable income, (ii) distributions to fund payments that are required under the LLC's tax receivable agreement, (iii) purchase of stock or stock options of the LLC from former officers, directors or employees of loan parties or payments pursuant to stock option and other benefit plans up to $2.0 million in any fiscal year, and (iv) share repurchase payments up to $20.0 million in any fiscal year subject to one-year carry forward and compliance with other financial covenants. In addition, the LLC may make dividends and distributions of up to $6.0 million in any fiscal year, subject to compliance with other financial covenants. Consequently, for stockholders the only opportunity to achieve a return on the shares they purchase will be if the market price of our Class A Common Stock appreciates and they sell their shares at a profit.

Item 1B. Unresolved Staff Comments

Not applicable.

Item 2. Properties

Tennessee

Our Malibu and Axis boats are manufactured and tested on the lake at our 239,300 square-foot facility located in Loudon, Tennessee. Our Loudon facility also includes trailer manufacturing along with warehouse and office space and is leased pursuant to a lease agreement that has a term through March 31, 2028, with the option to extend for three additional terms of ten years each.

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On November 10, 2016, we completed the purchase of an additional facility in Loudon, Tennessee. The facility contains approximately 70,000 square feet of production, warehouse and office space and is utilized for our engine vertical integration initiatives. Both of our Loudon facilities are used in our Malibu U.S. segment.

Kansas

On July 6, 2017, we completed the acquisition of Cobalt and its manufacturing facilities. Cobalt boats are manufactured in Neodesha, Kansas with four locations providing 451,000 square feet of manufacturing space. Our Neodesha facility is used in our Cobalt segment.

California

We lease a 172,500 square-foot facility in Merced, California pursuant to a lease agreement that has a term through March 31, 2028, with the option to extend for three additional terms of ten years each. Our Merced site houses both our product development team that focuses on design innovations as well as our tower and tower accessory manufacturing operations. The components assembled at this site are delivered to our facilities in Tennessee and our Australian licensee. Our Merced site is used in both our Malibu U.S. and Malibu Australia segments.

Australia

We manufacture and test boats at two facilities in Albury, Australia with combined square-footage of 68,222. Each facility is leased pursuant to a lease agreement and each with a term through October 22, 2024, with two 5-year options to extend lease term. Our Albury facilities are used in our Malibu Australia segment.

Item 3. Legal Proceedings

The discussion of legal matters under the section entitled "Legal Proceedings" is incorporated by reference from Note 15 of our audited consolidated financial statements included elsewhere in this Annual Report on Form 10-K

Item 4. Mine Safety Disclosures

Not Applicable.

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PART II.

Item 5. Market for Registrant's Common Equity, Related Stockholder Matters and Issuer Purchases of Equity Securities

Market Information

Our Class A Common Stock has been listed on the Nasdaq Global Select Market under the symbol “MBUU” since January 31, 2014. Prior to that date, there was no public trading market for our Class A Common Stock. The following table sets forth, for the periods indicated, the high and low sales prices of our Class A Common Stock as reported by the Nasdaq Global Select Market since our initial public offering:

	High	Low
Fiscal Year 2017		
First Quarter	$16.78	$12.13
Second Quarter	$20.10	$14.12
Third Quarter	$22.95	$17.17
Fourth Quarter	$29.50	$21.39
Fiscal Year 2018		
First Quarter	$31.94	$25.00
Second Quarter	$33.35	$27.44
Third Quarter	$36.81	$27.85
Fourth Quarter	$46.49	$32.03

On September 5, 2018, the last reported sale price on the Nasdaq Global Select Market of our Class A Common Stock was $49.69 per share. As of September 5, 2018, we had approximately seven holders of record of our Class A Common Stock and 17 holders of record of our Class B Common Stock. The actual number of stockholders is greater than this number of record holders, and includes stockholders who are beneficial owners, but whose shares are held in street name by brokers and other nominees. This number of holders of record also does not include stockholders whose shares may be held in trust by other entities.

Dividends

Malibu Boats, Inc. has never declared or paid any cash dividends on its capital stock. We currently anticipate that we will retain all of our future earnings for use in the expansion and operation of our business and do not anticipate paying any cash dividends in the foreseeable future. Any future determination to declare cash dividends will be made at the discretion of our board of directors, subject to applicable law and will depend on our financial condition, results of operations, capital requirements, general business conditions and other factors that our board of directors may deem relevant. In addition, our credit facility restricts our ability to pay dividends on our capital stock in certain cases.

Malibu Boats, Inc. is a holding company and has no material assets other than its ownership of LLC Units. We intend to cause the LLC to make distributions to us in an amount sufficient to cover cash dividends, if any, declared by us. If the LLC makes such distributions to Malibu Boats, Inc., the other holders of LLC Units will be entitled to receive equivalent distributions on a pro rata basis.

Our credit agreement governing our credit facility generally prohibits the LLC and our other subsidiaries from paying dividends or making distributions to us. Our credit agreement permits, however, (i) distributions based on a member’s allocated taxable income, (ii) distributions to fund payments that are required under the LLC’s tax receivable agreement, (iii) purchase of stock or stock options of the LLC from former officers, directors or employees of loan parties or payments pursuant to stock option and other benefit plans up to $2.0 million in any fiscal year, and (iv) share repurchase payments up to $20 million in any fiscal year subject to one-year carry forward and compliance with other financial covenants. In addition, the LLC may make dividends and distributions of up to $6.0 million in any fiscal year, subject to compliance with other financial covenants.

Stock Performance Graph

The stock price performance graph below shall not be deemed soliciting material or to be filed with the SEC or subject to Regulation 14A or 14C under the Exchange Act or to the liabilities of Section 18 of the Exchange Act, nor shall it be

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incorporated by reference into any past or future filing under the Securities Act of 1933, as amended, or the Securities Act or the Exchange Act, except to the extent we specifically request that it be treated as soliciting material or specifically incorporate it by reference into a filing under the Securities Act or the Exchange Act.

The following graph shows the cumulative total stockholder return of an investment of $100 in cash at market close on January 31, 2014 (the first day of trading of our Class A Common Stock), through June 30, 2018 for (i) our Class A Common Stock, (ii) the Russell 2000 Index and (iii) the Dow Jones Recreational Product Index. Pursuant to applicable SEC rules, all values assume reinvestment of the full amount of all dividends, however no dividends have been declared on our Class A Common Stock to date. The stockholder return shown on the graph below is not necessarily indicative of future performance, and we do not make or endorse any predictions as to future stockholder returns.

Issuer Purchases of Equity Securities

We did not repurchase any stock during the quarter ended June 30, 2018. The stock repurchase program which was authorized by our Board of Directors on February 1, 2016 expired on February 8, 2017.

Unregistered Sales of Equity Securities

On June 1, 2018, in connection with the exchange of limited liability company interests of the LLC by a member of the LLC, we issued a total of 17,000 shares of our Class A Common Stock, par value $0.01 per share for nominal consideration to such member in reliance on the exemption under Section 4(a)(2) of the Securities Act.

On June 1, 2018, in connection with the exchange of limited liability company interests of the LLC by a member of the LLC, we issued a total of 5,978 shares of our Class A Common Stock, par value $0.01 per share for nominal consideration to such member in reliance on the exemption under Section 4(a)(2) of the Securities Act.

Equity Compensation Plan Information

Equity compensation plan information required by this Item 5 will be included in our definitive proxy statement for our annual meeting of stockholders, which will be filed with the SEC no later than 120 days after the end of our fiscal year ended June 30, 2018 (the "Proxy Statement"), and is incorporated herein by reference.

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Item 6. Selected Financial Data

The following table presents our selected financial data. The table should be read in conjunction with "Item 7. Management’s Discussion and Analysis of Financial Condition and Results of Operations," and "Item 8. Financial Statements and Supplementary Data," of this Annual Report on Form 10-K.

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	Fiscal Year Ended June 30,				
	2018	2017	2016	2015	2014 (1)
	(Dollars in thousands)				
Consolidated statement of operations and comprehensive income (loss) data:					
Net sales	$497,002	$281,937	$252,965	$228,621	$190,935
Cost of sales	376,660	206,899	186,145	168,192	140,141
Gross profit	120,342	75,038	66,820	60,429	50,794
Operating expenses:					
Selling and marketing	13,718	8,619	7,475	7,007	6,098
General and administrative	31,359	24,783	21,256	19,809	39,974
Amortization	5,198	2,198	2,185	2,463	5,177
Operating income (loss)	70,067	39,438	35,904	31,150	(455)
Other income (expense), net	19,320	9,230	(3,808)	696	(2,953)
Net income (loss) before income tax expense (benefit)	89,387	48,668	32,096	31,846	(3,408)
Income tax expense (benefit)	58,418	17,593	11,801	8,663	(2,220)
Net income (loss)	30,969	31,075	20,295	23,183	(1,188)
Net income attributable to non-controlling interest [2]	3,356	2,717	2,253	8,522	3,488
Net income (loss) attributable to Malibu Boats, Inc.	$27,613	$28,358	$18,042	$14,661	$(4,676)
Net income (loss) available to Class A Common Stock per share [3]:					For Period from February 5, 2014 to June 30, 2014
Basic	$1.37	$1.59	$1.01	$0.93	$(0.42)
Diluted	$1.36	$1.58	$1.00	$0.93	$(0.42)
Weighted average shares outstanding used in computing net income (loss) per share:					
Basic	20,179,381	17,846,894	17,934,580	15,732,531	11,055,310
Diluted	20,281,210	17,951,332	17,985,427	15,741,018	11,055,310
Consolidated balance sheet data:					
Total assets	$365,768	$223,663	$222,326	$200,314	$84,801
Total current liabilities	65,386	39,185	47,829	33,539	42,961
Total long-term liabilities	160,511	132,242	154,468	165,490	13,770
Total stockholders’/members' equity	139,871	52,236	20,029	1,285	28,070
Additional financial and other data:					
Unit volume	6,292	3,815	3,569	3,404	2,910
Gross margin	24.2 %	26.6 %	26.4 %	26.4 %	26.6 %
Adjusted EBITDA [4]	$92,718	$55,721	$48,231	$43,648	$37,272
Adjusted EBITDA margin [4]	18.7 %	19.8 %	19.1 %	19.1 %	19.5 %
Adjusted fully distributed net income per share [4]	$2.60	$1.56	$1.32	$1.11	$0.78

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(1) On February 5, 2014, we completed our initial public offering of Class A common stock. Immediately prior to the closing of the IPO, a new single class of LLC Units was allocated among the pre-IPO owners of the LLC in exchange for their prior membership interests of the LLC based upon the liquidation value of the LLC, assuming it was liquidated at the time of the IPO with a value implied by the initial public offering price of the shares of Class A Common Stock sold in the IPO. Immediately prior to the closing of the IPO, there were 17,071,424 LLC Units issued and outstanding.

(2) For the period after the IPO on February 5, 2014, the non-controlling interest represents the portion of earnings or (loss) attributable to the economic interest held by the non-controlling LLC Unit holders. The weighted average non-controlling interest attributable to ownership interests in the LLC was 5.3%, 7.0%, 11.1%, 36.8% and 50.7% for the fiscal years ended June 30, 2018, 2017, 2016, 2015 and for the period from February 5, 2014 (the date of our IPO) to June 30, 2014, respectively. The non-controlling interest was 4.8% as of June 30, 2018, 6.6% as of June 30, 2017, 7.4% as of June 30, 2016 and 2015 and 50.7% as of June 30, 2014, respectively. Since all of the earnings prior to February 5, 2014 were entirely allocable to the LLC Unit holders, we updated our historical presentation to attribute these earnings to the non-controlling interest accordingly.

(3) As noted above, all earnings (loss) prior to February 5, 2014, the date of completion of the IPO, were entirely allocable to the non-controlling interest. As a result, earnings (loss) per share information attributable to these historical periods is not comparable to earnings (loss) per share information attributable to the Company after the IPO and, as such, has been omitted.

(4) Adjusted EBITDA, adjusted EBITDA margin, and adjusted fully distributed net income per share are non-GAAP financial measures. For definitions of adjusted EBITDA, adjusted EBITDA margin, and adjusted fully distributed net income and a reconciliation of each to net income, see “Item 7. Management’s Discussion and Analysis of Financial Condition and Results of Operations-GAAP Reconciliation of Non-GAAP Financial Measures.”

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Item 7. Management's Discussion and Analysis of Financial Condition and Results of Operations

Overview

We are a leading designer, manufacturer and marketer of a diverse range of recreational powerboats, including performance sport boats, sterndrive and outboard boats under three brands: Malibu, Axis, and Cobalt. We have the #1 market share position in the United States in the performance sport boat category through our Malibu and Axis brands and the #1 market share position in the 24’-29’ segment of the sterndrive category in the United States through our Cobalt brand. Our product portfolio of premium brands are used for a broad range of recreational boating activities including, among others, water sports such as water skiing, wakeboarding and wake surfing, as well as general recreational boating. Our passion for consistent innovation, which has led to propriety technology such as Surf Gate, has allowed us to expand the market for our products by introducing consumers to new and exciting recreational activities.

Our flagship Malibu boats offer our latest innovations in performance, comfort and convenience, and are designed for consumers seeking a premium performance sport boat experience. . We launched our Axis boats in 2009 to appeal to consumers who desire a more affordable performance sport boat product but still demand high performance, functional simplicity and the option to upgrade key features.. Our Cobalt boats consist of mid to large-sized luxury cruisers and bowriders that we believe offer the ultimate experience in comfort, performance and quality. Retail prices for our boats typically range from $55,000 to $750,000.

We sell our boats through a dealer network that we believe is the strongest in the recreational powerboat category. As of July 1, 2018, our worldwide distribution channel consisted of over 300 dealer locations globally.

We have undergone significant growth since we were founded in 1982 and began building custom ski boats in a small shop in Merced, California. Beginning in 2009, under the leadership of new management, we implemented several measures designed to improve our cost structure, increase our operating leverage, enhance our product offerings and brands, and strengthen our dealer network. We have also continued to build on our legacy of innovation and invested in product development and process improvements from the evolution of our patented Power Wedge introduced in 2006, to the release of our patented Surf Gate technology in 2012, to the integration of the manufacturing of our towers and trailers and our current initiative to integrate our engine production. We believe our innovative features drive our high average selling prices.

As a result of our innovation, process improvements, acquisition strategy and strong dealer network and management team, among other reasons, we have achieved fiscal year 2018 net sales, net income and adjusted EBITDA of $497.0 million, $31.0 million and $92.7 million, respectively, compared to $281.9 million, $31.1 million and $55.7 million, respectively, for fiscal year 2017 and $253.0 million, $20.3 million and $48.2 million, respectively, for fiscal year 2016. For the fiscal year ended June 30, 2018, net sales increased 76.3%, gross margin as a percentage of sales increased to 24.2%, net income

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decreased 0.3% and adjusted EBITDA increased 66.4% compared to the fiscal year ended June 30, 2017. Our results for fiscal years 2018 include Cobalt since our acquisition on July 6, 2017. For the definition of adjusted EBITDA and a reconciliation to net income, see "GAAP Reconciliation of Non-GAAP Financial Measures."

Beginning in fiscal year 2018, we report our results of operations under three reportable segments: Malibu U.S., Malibu Australia, and Cobalt, based on our boat manufacturing operations. The Malibu U.S. and Malibu Australia segments participate in the manufacturing, distribution, marketing and sale of Malibu and Axis performance sport boats. The Malibu U.S. segment primarily serves markets in North America, South America, Europe, and Asia while the Malibu Australia operating segment principally serves the Australian and New Zealand markets. Our Cobalt segment participates in the manufacturing, distribution, marketing and sale of Cobalt boats throughout the world. Malibu U.S. is our largest segment and represented 59.0%, 91.8% and 91.8 % of our net sales for fiscal years 2018, 2017, and 2016 respectively. We acquired Cobalt in July 2017 and it represented 36.3% of our net sales for fiscal year 2018. Malibu Australia represented 4.7%, 8.2% and 8.2% of our net sales for fiscal years 2018, 2017 and 2016, respectively. See Note 17 to our consolidated financial statements included elsewhere in this Annual Report on Form 10-K for more information about our reporting segments.

Agreement to Acquire Pursuit and Related Financing

On August 21, 2018, Malibu Boats, LLC, our wholly owned indirect subsidiary, agreed to purchase the assets of Pursuit from S2 Yachts, Inc. for a purchase price of $100.0 million. Pursuit, located in Fort Pierce, Florida, is a leader in the saltwater outboard fishing boat market through its offering of 15 models of offshore, dual console and center console boats. The purchase price, which is subject to certain customary adjustments, is expected to be financed with Malibu's cash on hand and borrowings under its revolving credit facility. The acquisition is expected to close in the second quarter of fiscal 2019.

In connection with entering into the agreement to acquire Pursuit, Malibu Boats, LLC, as the borrower, entered into the First Incremental Facility Amendment and First Amendment to the Second Amended and Restated Credit Agreement with SunTrust Bank, as administrative agent, swingline lender and issuing bank on August 21, 2018. The amendment increased the amount available for borrowing under our revolving credit facility by $50.0 million from $35.0 million to $85.0 million. Revolving loans made pursuant to this incremental facility will have terms and conditions identical to our current revolving credit facility, except a ticking fee will accrue on the incremental $50.0 million borrowing capacity. We will be required to pay a ticking fee that will accrue at a rate of 0.30% per annum on the aggregate amount of the incremental borrowing capacity. The availability of the incremental borrowing capacity is subject to the satisfaction of certain conditions, including the closing of the acquisition of Pursuit.

Acquisition of Cobalt and Related Financing

On July 6, 2017, Malibu Boats, LLC, our wholly owned indirect subsidiary, completed the purchase of all of the outstanding equity interests of Cobalt for a purchase price of $130.0 million, subject to customary post-closing adjustments. We paid $1.0 million of the purchase price in 39,262 newly issued shares of our Class A common stock and the remainder of the purchase price was paid using cash and borrowings under our amended and restated credit agreement that we entered into in connection with the acquisition of Cobalt. The amended and restated credit agreement provided us with a term loan facility in an aggregate principal amount of $160.0 million, $55.0 million of which was drawn on June 28, 2017 to refinance the outstanding loans under our prior credit facility and $105.0 million of which was drawn on July 6, 2017 to fund the payment of the purchase price for our acquisition of Cobalt, as well as to pay certain fees and expenses related to entering into the credit agreement. The amended and restated credit agreement also provided for a revolving credit facility of up to $35.0 million.

Components of Results of Operations

Net Sales

We generate revenue from the sale of boats to our dealers. The substantial majority of our net sales are derived from the sale of boats, including optional features included at the time of the initial wholesale purchase of the boat. Net sales consists of the following:

- Gross sales from:
- Boat sales—consists of sales of boats to our dealer network. In addition, nearly all of our boat sales include optional feature upgrades purchased by the consumer, such as our Integrated Surf Platform for our Malibu and Axis boats that

includes Surf Gate and Power Wedge II/III and Swim Step for our Cobalt boats, which optional features increase the average selling price of our boats;

- Trailers, parts and accessories sales—consists of sales of boat trailers we manufacture for our Malibu and Axis boats and replacement and aftermarket boat parts and accessories to our dealer network; and

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- Royalty income—consists of royalties attributable to license agreements with various boat manufacturers, including Nautique, Chaparral, Mastercraft, and Tige related to the use of our intellectual property.
- Net sales are net of:
- Sales returns—consists primarily of contractual repurchases of boats either repossessed by the floor plan financing provider from the dealer or returned by the dealer under our warranty program; and
- Rebates, free flooring and discounts—consists of incentives, including rebates, volume discounts and free flooring, we provide to our dealers based on sales of eligible products. If a dealer meets its monthly or quarterly commitment volume based on tier, as well as other terms of the rebate program or discount tier, the dealer is entitled to a specified rebate or discount tied to each tier. Our dealers that take delivery of current model year boats in the offseason, typically July through April in the U.S., are entitled to have us pay the interest to floor the boat until the earlier of (1) the sale of the unit or (2) a date near the end of the current model year, which incentive we refer to as "free flooring." From time to time, we may extend the flooring program to eligible models beyond the offseason period. For more information, see "Item 1. Business - Dealer Management."

Cost of Sales

Our cost of sales includes all of the costs to manufacture our products, including raw materials, components, supplies, direct labor and factory overhead. For components and accessories manufactured by third-party vendors, such costs represent the amounts invoiced by the vendors. Shipping costs and depreciation expense related to manufacturing equipment and facilities are also included in cost of sales. Warranty costs associated with the repair or replacement of our boats under warranty are also included in cost of sales.

Operating Expenses

Our operating expenses include selling and marketing, and general and administrative costs. Each of these items includes personnel and related expenses, supplies, non-manufacturing overhead, third-party professional fees and various other operating expenses. Further, selling and marketing expenditures include the cost of advertising and various promotional sales incentive programs. General and administrative expenses include, among other things, salaries, benefits and other personnel related expenses for employees engaged in product development, engineering, finance, information technology, human resources and executive management. Other costs include outside legal and accounting fees, investor relations, risk management (insurance) and other administrative costs. General and administrative expenses also include product development expenses associated with our engines vertical integration initiative and acquisition or integration related expenses.

Other Income (Expense), Net

Other income (expense), net consists of interest expense and other income or expense, net. Interest expense consists of interest charged under our outstanding debt, interest on our interest rate swap arrangement, changes in the fair value of our interest rate swap we entered into on July 1, 2015, and amortization of deferred financing costs on our credit facilities. Other income includes a portion of the amounts received from the settlement of our litigation with Mastercraft Boat Company, LLC ("Mastercraft") entered into on May 2, 2017 and a fourth quarter of fiscal year 2017, and first and second quarter of fiscal year 2018 adjustment to our tax receivable agreement liability.

Income Taxes

Malibu Boats, Inc. is subject to U.S. federal and state income tax in multiple jurisdictions with respect to our allocable share of any net taxable income of the LLC. The LLC is a pass-through entity for federal purposes but incurs income tax in certain state jurisdictions. The income tax provision reflects a reported effective income tax rate of 65.4%, 36.2% and 36.8% attributable to Malibu Boats, Inc.'s share of income for fiscal years 2018, 2017 and 2016, respectively. Our blended statutory tax rate for fiscal year 2018 approximated 28% as a result of the change in U.S. corporate tax rate from 35% to 21%, effective January 1, 2018, in accordance with the Tax Cuts and Jobs Act of 2017 (the "Tax Act"). The reported effective tax rate for fiscal year 2018 differs from the blended statutory federal income tax rate of approximately 28% primarily due to the remeasurement of our deferred tax assets as a result of the change in tax law enacted with the Tax Act, totaling approximately $37.2 million.

Our effective tax rate is also impacted by the addition of new tax jurisdictions as a result of the Cobalt acquisition, the impact of the non-controlling interests in the LLC, the research and development tax credit, and the benefit of deductions under Section 199 of the Internal Revenue Code of 1986, as amended (the "Internal Revenue Code").

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Net Income Attributable to Non-controlling Interest

As of June 30, 2018 and 2017, we had a 95.2% and 93.4% controlling economic interest and 100% voting interest in the LLC. We consolidate the LLC's operating results for financial statement purposes. Net income attributable to non-controlling interest represents the portion of net income attributable to the LLC members.

Outlook

Industry-wide marine retail registrations continue to recover from the years following the global financial crisis. According to Statistical Surveys, Inc., domestic retail registration volumes of performance sport boats, fiberglass sterndrive and fiberglass outboards increased at a compound annual growth rate of approximately 6.5% between 2011 and 2017, for the 50 reporting states. This has been led by growth in our core market, performance sport boats, having produced a double digit compound annual growth rate over that period. Domestic retail demand growth has continued in performance sport boats for calendar year 2018 and, in fact, has accelerated versus 2017. Fiberglass sterndrive and outboard boats, the target markets for our Cobalt branded product, have seen their combined market grow at a 6.0% compound annual growth rate between 2011 and 2017. Cobalt's primary market for sterndrive propulsion has been challenged, but their performance has been helped by share gains and the overall market growth has been driven by outboard propulsion, where they are a new entrant. We expect the growing demand for our products to continue, and there are numerous variables that have the potential to impact our volumes, both positively and negatively. For example, we believe the substantial decrease in the price of oil and the broad strength of the U.S. dollar has resulted in reduced demand for our boats in certain markets. To date, growth in our domestic market has offset significantly diminished demand from economies that are driven by the oil industry and international markets. Consumer confidence, expanded or eroded, is a variable that could also impact demand in both directions. Other challenges that could impact demand for recreational powerboats include higher interest rates reducing retail consumer appetite for our product, the availability of credit to our dealers and retail consumers, fuel costs, the continued acceptance of our new products in the recreational boating market, our ability to compete in the competitive power boating industry, and the costs of labor and certain of our raw materials and key components.

Since 2008, we have increased our market share among manufacturers of performance sport boats due to new product development, improved distribution, new models, and innovative features. As the market for our product has recovered our competitors have become more aggressive in their product introductions, increased their distribution and begun to compete with our patented Surf Gate system. This competitive environment has continued throughout the past few years while we have once again achieved market share approaching 33% based on unit volume in the United States among manufacturers of performance sport boats. We continue to maintain a strong lead over our nearest competitor in terms of market position and believe that we are well positioned to maintain our industry leading position given our strong dealer network and new product pipeline. In addition, we continue to be the market share leader in both the premium and value-oriented product sub-categories.

We believe our track record of expanding our market share due to new product development, improved distribution, new models, and innovative features is directly transferable to our Cobalt acquisition. While Cobalt is the market share leader in the 24'-29' sterndrive market, we believe our experience positions us to execute a strategy to drive enhanced share in that core foot length segment as well as in other areas of opportunity with different foot lengths and different propulsion technologies, namely outboard boats. Our efforts to refine Cobalt's new product development efforts to maximize share gains will take time and our ability to influence near-term model introductions is limited, but we have already begun to execute on this strategy. We believe enhancing new product development combined with diligent management of the Cobalt dealer network positions us to meaningfully improve our share of the sterndrive and outboard markets over time.

Factors Affecting Our Results of Operations

We believe that our results of operations and our growth prospects are affected by a number of factors, which we discuss below.

Economic Environment and Consumer Demand

Our product sales are impacted by general economic conditions, which affect the demand for our products, the demand for optional features, the availability of credit for our dealers and retail consumers, and overall consumer confidence. Consumer spending, especially purchases of discretionary items, tends to decline during recessionary periods and tends to increase during expansionary periods. The recreational boating industry, which was adversely affected by the economic downturn in 2008 and 2009, has had a sustained recovery period since 2010. In 2017, domestic sales of new recreational powerboat increased by 10.1% compared to 2016, and sales increased 14.8% in 2016 compared to 2015. We have continued to hold the number one market share position, based on unit volume, in the United States among manufacturers of performance sport boats for each calendar year since 2010 including 2017. We have grown our U.S. market share in this category through our Malibu and Axis brands from 24.5% in 2010 to 32.6% in 2017. Furthermore, we also continue to hold the number one market share position in the 24'—29' segment of the sterndrive boat category, through our Cobalt brand. Since 2010, Cobalt has expanded its market share in this segment from 14.2% in 2010 to 32.1% in 2017.

While there is no guarantee that our market will continue to grow, we expect to benefit from the recovery in the boating industry and from improved consumer confidence levels.

New Product Development and Innovation

Our long-term revenue prospects are based in part on our ability to develop new products and technological enhancements that meet the demands of existing and new consumers. Developing and introducing new boat models and features that deliver improved performance and convenience are essential to leveraging the value of our Malibu, Axis, and Cobalt brands. By introducing new boat models, we are able to appeal to a new and broader range of consumers and focus on underserved or adjacent segments of the broader powerboat category. To keep product fresh and at the forefront of technological innovation in the boating industry, we aim to introduce a number of new boat models per year. We also believe we are able to capture additional value from the sale of each boat through the introduction of new features, which we believe permits us to raise average selling prices and enhances our margins. We allocate most of our product development costs to new model and feature designs, usually with a specific consumer base and market in mind. We use industry data to analyze our markets and evaluate revenue potential from each major project we undertake. Our product development cycle, or the time from initial concept to volume production, can be up to two years. As a result, our development costs, which may be significant, may not be offset by corresponding new sales during the same periods. Once new designs and technologies become available to our consumers, we typically realize revenue from these products from one year up to 15 years. We may not, however, realize our revenue expectations from each innovation. We believe our close communication with our consumers, dealers and sponsored athletes regarding their future product desires enhances the efficiency of our product development expenditures.

Product Mix

Historically, we have been successful in leveraging our robust product offering and features to enhance our sales growth and gross margins. Our product mix, as it relates to our brands, types of boats and features, not only makes our offerings attractive to consumers but also helps drive higher sales and margins. Historically, we have been able to realize higher sales and margins when we sell larger boats compared to our smaller boats, our premium Malibu brand compared to our entry-level Axis brand and our boats that are fully-equipped with optional features. We expect this to continue with the addition of our Cobalt brand. We will strive to continue to develop new features and models and maintain an attractive product mix that optimizes sales growth and margins.

Ability to Manage Manufacturing Costs, Sales Cycles and Inventory Levels

Our results of operations are affected by our ability to manage our manufacturing costs effectively and to respond to changing sales cycles. Our product costs vary based on the costs of supplies and raw materials, as well as labor costs. We have implemented various initiatives to reduce our cost base and improve the efficiency of our manufacturing process. For example, we re-engineered the manufacturing process in our Tennessee facility to reduce labor hours per boat produced and the amount of re-work required. We continuously monitor and review our manufacturing processes to identify improvements and create additional efficiencies. We expect to continue to introduce process improvements to our new Kansas facility that manufactures Cobalt boats as we integrate them into our operations and with our suppliers. We rely on our insights into the market gleaned from dealer inventory levels, industry reports about anticipated demand for our products in the upcoming sales cycle and our own estimates and assumptions in formulating our manufacturing plan for the following fiscal year. Throughout our consumer sales cycle, which reaches its peak from March through August each year, we adjust our manufacturing activities in order to adapt to variability in demand.

Dealer Network, Dealer Financing and Incentives

We rely on our dealer network to distribute and sell our products. We believe we have developed the strongest distribution network in the performance sport boat category. To improve and expand our network and compete effectively for dealers, we regularly monitor and assess the performance of our dealers and evaluate dealer locations and geographic coverage in order to identify potential market opportunities. Our acquisition of Cobalt has allowed us

to expand into Cobalt’s strong dealer network as well. We intend to continue to add dealers in new territories in the United States as well as internationally, which we believe will result in increased unit sales.
Our dealers are exposed to seasonal variations in consumer demand for boats. As discussed above under “Ability to Manage Manufacturing Costs, Sales Cycles and Inventory Levels,” we address anticipated demand for our products and manage our manufacturing in order to mitigate seasonal variations. We also use our dealer incentive programs to encourage

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dealers to order in the off-season by providing floor plan financing relief, which typically permits dealers to take delivery of current model year boats between July 1 and April 30 on an interest-free basis for a specified period. We also offer our dealers other incentives, including rebates, seasonal discounts, promotional co-op arrangements and other allowances. We facilitate floor plan financing programs for many of our dealers by entering into repurchase agreements with certain third-party lenders, which enable our dealers, under certain circumstances, to establish lines of credit with the third-party lenders to purchase inventory. Under these floor plan financing programs, a dealer draws on the floor plan facility upon the purchase of our boats and the lender pays the invoice price of the boats. During fiscal years 2018 and 2017, no units were repurchased. For fiscal year 2016, we agreed to repurchase three units from the lender of two of our former dealers resulting in combined losses of $0.03 million. We will continue to review and refine our dealer incentive offerings and monitor any exposures arising under these arrangements.

Vertical Integration

On November 14, 2016, we entered into an engine supply agreement with General Motors for the supply of engine blocks, with the intention of marinizing our own engines for use in our Malibu and Axis performance sports boats. This initiative provides us with the next significant vertical integration opportunity which will allow us to control the design, performance, and customization of future engine offerings, providing us direct access to the engine block manufacturer that has been supplying the industry for decades, making our engines unique to Malibu and Axis brands. We began using these engines on a limited basis in certain model year 2019 boats. We currently plan to invest up to $18.0 million for the three years after entering into the agreement with General Motors in November 2016. To facilitate the marinization of engines, we acquired a 70,000 square foot facility adjacent to our boat manufacturing operations in Loudon, Tennessee. Once fully operational, we believe our inboard engine manufacturing business will be the largest in the industry, providing the immediate operational advantages of scale. Our scale, along with our engineering team, will provide Malibu with the ability to provide an affordable and unique offering to our dealers and retail customers.

Results of Operations

The table below sets forth our consolidated results of operations, expressed in thousands (except unit volume and net sales per unit) and as a percentage of net sales, for the periods presented. Our consolidated financial results for these periods are not necessarily indicative of the consolidated financial results that we will achieve in future periods. Certain totals for the table below will not sum to exactly 100% due to rounding.

	Fiscal Year Ended June 30,					
	2018		2017		2016	
	$	% Revenue	$	% Revenue	$	% Revenue
Net sales	497,002	100.0 %	281,937	100.0 %	252,965	100.0 %
Cost of sales	376,660	75.8 %	206,899	73.4 %	186,145	73.6 %
Gross profit	120,342	24.2 %	75,038	26.6 %	66,820	26.4 %
Operating expenses:						
Selling and marketing	13,718	2.8 %	8,619	3.1 %	7,475	3.0 %
General and administrative	31,359	6.3 %	24,783	8.8 %	21,256	8.4 %
Amortization	5,198	1.0 %	2,198	0.8 %	2,185	0.9 %
Operating income	70,067	14.1 %	39,438	14.0 %	35,904	14.2 %
Other income (expense):						
Other	24,705	5.0 %	10,789	3.8 %	76	— %
Interest expense	(5,385)	(1.1)%	(1,559)	(0.6)%	(3,884)	(1.5)%
Other income (expense), net	19,320	3.9 %	9,230	3.3 %	(3,808)	(1.5)%
Net income before provision for income taxes	89,387	18.0 %	48,668	17.3 %	32,096	12.7 %
Income tax provision	58,418	11.8 %	17,593	6.2 %	11,801	4.7 %
Net income	30,969	6.2 %	31,075	11.0 %	20,295	8.0 %
Net income attributable to non-controlling interest	3,356	0.7 %	2,717	1.0 %	2,253	0.9 %
Net income attributable to Malibu Boats, Inc.	27,613	5.6 %	28,358	10.1 %	18,042	7.1 %

	Fiscal Year Ended June 30,					
	2018		2017		2016	
	Unit Volumes	% Total	Unit Volumes	% Total	Unit Volumes	% Total
Volume by Segment						
US	3,757	59.7 %	3,505	91.9 %	3,255	91.2 %
Cobalt	2,232	35.5 %	—	— %	—	— %
Australia	303	4.8 %	310	8.1 %	314	8.8 %
Total Units	6,292		3,815		3,569	
Volume by Brand						
Malibu	2,835	45.0 %	2,698	70.7 %	2,388	66.9 %
Axis	1,225	19.5 %	1,117	29.3 %	1,181	33.1 %
Cobalt	2,232	35.5 %	—	— %	—	— %
Total Units	6,292		3,815		3,569	
Net sales per unit	$78,990		$73,902		$70,878	

Comparison of the Fiscal Year Ended June 30, 2018 to the Fiscal Year Ended June 30, 2017

Net Sales

Net sales for fiscal year 2018 increased $215.1 million, or 76.3%, to $497.0 million, compared to fiscal year 2017. Unit volume for fiscal year 2018 increased 2,477 units, or 64.9%, to 6,292 units compared to fiscal year 2017. The increase in net sales and unit volumes was driven primarily by our acquisition of Cobalt in July 2017. Net sales and unit volumes attributable to Cobalt were $180.3 million and 2,232 units, respectively, for fiscal year 2018. Net sales attributable to our Malibu U.S. segment increased $34.3 million, or 13.2%, to $293.2 million for fiscal year 2018 compared to fiscal year 2017. Unit volumes attributable to our Malibu U.S. segment increased 252 units for fiscal year 2018 compared to fiscal year 2017. The increase in net sales and unit volume for our Malibu U.S. segment was driven primarily by continued strong demand for our new and larger models such as the Malibu Wakesetter 23 LSV and Axis

A24. Net sales from our Malibu Australia segment increased \$0.5 million, or 2.0%, to \$23.4 million for fiscal year 2018 compared to fiscal year 2017. Our overall net sales per unit increased 6.9% to \$78,990 per unit for fiscal year 2018 compared to fiscal year 2017. Net sales per unit for our Malibu U.S. segment increased 5.7% to \$78,052 per unit for fiscal year 2018 compared to fiscal year 2017, driven by mix of new and premium models sold, strong demand for optional features and year over year price increases. Net sales per unit for our Cobalt segment was \$80,786 per unit for the fiscal year 2018.

Cost of Sales

Cost of sales for fiscal year 2018 increased \$169.8 million, or 82.1%, to \$376.7 million compared to fiscal year 2017. The increase in cost of sales was driven primarily by our acquisition of Cobalt in July 2017 and an increase in unit volumes at our Malibu U.S. business.

Gross Profit

Gross profit for fiscal year 2018 increased \$45.3 million, or 60.4%, compared to fiscal year 2017. The increase in gross profit was due mainly to higher unit volumes attributable to our acquisition of Cobalt and our Malibu U.S. business mentioned above. Gross margin decreased 240 basis points from 26.6% in fiscal 2017 to 24.2% in fiscal year 2018 due to the acquisition of Cobalt, which included \$1.5 million of additional expense related to the fair value step up of inventory acquired and sold during the period.

Operating Expenses

Selling and marketing expense for fiscal year 2018 increased \$5.1 million, or 59.2%, to \$13.7 million compared to fiscal year 2017 primarily due to the acquisition of Cobalt. As a percentage of sales, selling and marketing expense decreased 30 basis points from 3.1% for fiscal year 2017 to 2.8% for fiscal year 2018. General and administrative expense for fiscal year 2018 increased \$6.6 million, or 26.5%, to \$31.4 million compared to fiscal year 2017. The increase in general and administrative expenses was largely due to higher general and administrative expenses attributable to Cobalt, which we acquired in July 2017, and higher development costs associated with our engines vertical integration initiative, and partially offset by lower acquisition related expenses and legal expenses related to previously settled litigation in fiscal year 2017. As a percentage of sales, general and administrative expenses decreased 250 basis points to 6.3% for the for fiscal year 2018 compared to fiscal year 2017. Amortization expense for fiscal year 2018 increased \$3.0 million, or 136.5%, compared to fiscal year 2017, due to additional amortization from intangible assets acquired as a result of the Cobalt acquisition.

Other Income (Expense), Net

Other income, net for fiscal year 2018 increased \$10.1 million to \$19.3 million compared to fiscal year 2017. The increase in other income (expense), net was primarily due to a \$24.6 million reduction in our tax receivable agreement liability, which resulted in us recognizing a corresponding amount as other income. The reduction of our tax receivable agreement liability primarily resulted from a decrease in the estimated tax rate used in computing our future tax obligations as a result of the Tax Act, which, in turn, decreased the future tax benefit we expect to realize related to our increased tax basis from previous sales and exchanges of LLC Units by our pre-IPO owners. Our increase in other income (expense), net was partially offset by the write-off of \$0.8 million in deferred financing costs due to our optional prepayment of \$50.0 million on our term loan in August 2017 and higher interest expense on our term loan, which had an overall higher average principal balance for fiscal year 2018 compared to fiscal year 2017.

Income Taxes

Our provision for income taxes for fiscal year 2018 increased \$40.8 million, to \$58.4 million compared to fiscal year 2017. As a result of the enactment of the Tax Act and new statutory rates effective as of January 1, 2018, our blended statutory tax rate for fiscal year 2018 is approximately 28%. For fiscal year 2018, we also recorded a non-cash adjustment to income tax expense of \$44.5 million for the remeasurement of deferred taxes on the enactment date of the Tax Act and deferred tax impact related to the reduction in the tax receivable agreement liability. Our reported effective tax rate was 65.4% for fiscal year 2018 compared to 36.2% for fiscal year 2017. The reported effective tax rate differs from the blended statutory federal income tax rate of approximately 28% primarily due to the impact of the Tax Act previously mentioned and the impact of the additional jurisdictions in which we are taxed as a result of the Cobalt acquisition. Our effective tax rate was also impacted by, to a lesser extent, the impact of non-controlling interests in the LLC, state income taxes attributable to the LLC, and the benefit of deductions under Section 199 of the Internal Revenue Code.

Non-controlling interest

Non-controlling interest represents the ownership interests of the members of the LLC other than us and the amount recorded as non-controlling interest in our consolidated statements of operations and comprehensive income is computed by multiplying pre-tax income for fiscal year 2017 by the percentage ownership in the LLC not directly attributable to us. For fiscal years 2018 and 2017, the weighted average non-controlling interest attributable to ownership interests in the LLC not directly attributable to us was 5.3% and 7.0%, respectively.

Comparison of the Fiscal Year Ended June 30, 2017 to the Fiscal Year Ended June 30, 2016

Net Sales

Net sales for fiscal year 2017 increased $29.0 million, or 11.5%, to $281.9 million, compared to fiscal year 2016. Included in net sales for fiscal years 2017 and 2016 were net sales of $23.0 million and $20.8 million, respectively, attributable to our Australian business. Unit volume for fiscal year 2017 increased 246 units, or 6.9%, to 3,815 units compared to fiscal year 2016. The increase in units was primarily driven by demand for our new models such as the Malibu Wakesetter 21 VLX and 22 and 24 MXZs and optional features. Net sales per unit for fiscal year 2017 increased 4.3% to $73,902 compared to fiscal year 2016, primarily driven by year over year price increases, a mix shift from Axis to Malibu, and lower discount activity, offset by higher rebate expense associated with our new rebate program for model year 2017. Net sales per unit in the U.S., excluding sales to our Australian operations, increased 3.6% to $73,878 for fiscal year 2017 as compared to fiscal year 2016.

Cost of Sales

Cost of sales for fiscal year 2017 increased $20.8 million, or 11.1%, to $206.9 million compared to fiscal year 2016. The increase in cost of sales was primarily driven by increased volumes, higher material content and labor hours driven by the mix shift from Axis to Malibu as well as higher warranty expense. Included in cost of sales were $0.3 million in costs related to our engines vertical integration initiative.

Gross Profit

Gross profit for fiscal year 2017 increased $8.2 million, or 12.3%, compared to fiscal year 2016. The increase in gross profit resulted primarily from higher volumes. Gross margin for fiscal year 2017 increased 20 basis points to 26.6% compared to fiscal year 2016 due primarily to lower material cost margin, offset partially by higher labor and warranty expenses.

Operating Expenses

Selling and marketing expense for fiscal year 2017 increased $1.1 million, or 15.3%, to $8.6 million compared to fiscal year 2016 primarily due to increased payroll, commissions and related costs attributable to additional headcount. As a percentage of sales, sales and marketing expense increased 10 basis points from 3.0% fiscal year 2016 to 3.1% for the fiscal year 2017. General and administrative expense for fiscal year 2017 increased $3.5 million, or 16.6%, to $24.8 million compared to fiscal year 2016. The increase in general and administrative expenses was driven in part by an increase in acquisition related expenses tied to our acquisition of Cobalt Boats on July 6, 2017, product development activities in connection with our engines vertical integration initiative, increased legal expenses for our Mastercraft litigation which was settled in the fourth quarter in fiscal year 2017, and higher incentive compensation, offset by a $1.1 million reduction in the Marine Power Holding, LLC (“Marine Power”) litigation judgment following a court verdict in the second quarter of fiscal year 2017 and lower stock compensation expense associated, in part, with share-based equity awards granted in the second quarter of fiscal year 2016.

Other Income (Expense), Net

Other income, net for fiscal year 2017 increased $13.0 million to $9.2 million compared to fiscal year 2016. The increase in other income, net was primarily due to a $8.1 million, net decrease in our tax receivable agreement liability related to tax legislation enacted during the fourth quarter of fiscal year 2017 which lowered the tax rate used to estimate the future tax benefit expected to be realized by us on increased tax basis from previous sales and exchanges of LLC Units by the pre-IPO owners. Included in other income, net was the settlement received from Mastercraft of $2.5 million under the Mastercraft Settlement and License Agreement entered into on May 2, 2017. The decrease in interest expense was primarily related to the change in the fair value of our interest rate swap we entered into on July 1, 2015 and lower interest expense on our term loan which had a lower average principal balance during fiscal year 2017 as compared to fiscal year 2016, primarily as a result of a principal payment of $15.0 million in the first quarter of fiscal year 2017.

Income Taxes

Our provision for income taxes for fiscal year 2017 increased $5.8 million, to $17.6 million compared to fiscal year 2016. The increase in our provision for income taxes reflects an increase in pre-tax book income for fiscal year 2017, as our effective tax rate was similar for fiscal year 2017 compared to fiscal year 2016, 36.2% and 36.8%, respectively. The reported effective tax rates differs from the statutory federal income tax rate of 35% primarily due to the impact of the non-controlling interest and state income taxes attributable to the LLC on our share of the LLC's income and also includes the benefit of deductions under Section 199 of the Internal Revenue Code.

Non-controlling interest

Non-controlling interest represents the ownership interests of the members of the LLC other than us and the amount recorded as non-controlling interest in our consolidated statements of operations and comprehensive income is computed by multiplying pre-tax income for fiscal year 2017 by the percentage ownership in the LLC not directly attributable to us. For fiscal years 2017 and 2016, the weighted average non-controlling interest attributable to ownership interests in the LLC not directly attributable to us was 7.0% and 11.1%, respectively.

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GAAP Reconciliation of Non-GAAP Financial Measures

Adjusted EBITDA

Adjusted EBITDA and adjusted EBITDA margin are non-GAAP financial measures that are used by management as well as by investors, commercial bankers, industry analysts and other users of our financial statements.

We define adjusted EBITDA as net income before interest expense, income taxes, depreciation, amortization and non-cash, non-recurring or non-operating expenses, including certain professional fees, litigation related expenses, acquisition and integration related expenses, non-cash compensation expense, expenses related to our engine development initiative, and adjustments to our tax receivable agreement liability. We define adjusted EBITDA margin as adjusted EBITDA divided by net sales. Adjusted EBITDA and adjusted EBITDA margin are not measures of net income as determined by GAAP. Management believes adjusted EBITDA and adjusted EBITDA margin allow investors to evaluate the company's operating performance and compare our results of operations from period to period on a consistent basis by excluding items that management does not believe are indicative of our core operating performance. Management uses Adjusted EBITDA to assist in highlighting trends in our operating results without regard to our financing methods, capital structure and non-recurring or non-operating expenses. We exclude the items listed above from net income in arriving at adjusted EBITDA because these amounts can vary substantially from company to company within our industry depending upon accounting methods and book values of assets, capital structures, the methods by which assets were acquired and other factors. Adjusted EBITDA has limitations as an analytical tool and should not be considered as an alternative to, or more meaningful than, net income as determined in accordance with GAAP or as an indicator of our liquidity. Certain items excluded from adjusted EBITDA are significant components in understanding and assessing a company's financial performance, such as a company's cost of capital and tax structure, as well as the historical costs of depreciable assets. Our presentation of adjusted EBITDA and adjusted EBITDA margin should not be construed as an inference that our results will be unaffected by unusual or non-recurring items. Our computations of adjusted EBITDA and adjusted EBITDA margin may not be comparable to other similarly titled measures of other companies.

The following table sets forth a reconciliation of net income as determined in accordance with GAAP to adjusted EBITDA and adjusted EBITDA margin for the periods indicated (dollars in thousands):

	Fiscal Year Ended June 30,		
	2018	2017	2016
Net income	$30,969	$31,075	$20,295
Income tax provision [1]	58,418	17,593	11,801
Interest expense	5,385	1,559	3,884
Depreciation	7,656	4,550	3,339
Amortization	5,198	2,198	2,185
Professional fees and litigation settlements [2]	26	1,038	1,111
Marine Power litigation judgment [3]	—	(1,093)	3,268
Acquisition and integration related expenses [4]	2,859	3,056	401
Stock-based compensation expense [5]	1,973	1,396	1,947
Engine development [6]	4,871	2,489	—
Adjustment to tax receivable agreement liability [7]	(24,637)	(8,140)	—
Adjusted EBITDA	$92,718	$55,721	$48,231
Adjusted EBITDA margin	18.7%	19.8%	19.1%

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(1) Provision for income taxes for fiscal year 2018 reflects the impact of the Tax Act adopted in December 2017, which among other items, lowered the U.S. corporate income tax rate from 35% to 21%, effective January 1, 2018. For fiscal year 2018, we recorded a non-cash adjustment to income tax expense of $44.5 million for the remeasurement of deferred taxes on the enactment date and the deferred tax impact related to the reduction in the tax receivables agreement liability. Refer to Note 10 of our consolidated financial statements included elsewhere in this Annual Report.

(2) Represents legal and advisory fees related to our litigation with MasterCraft offset by the settlement received from them in connection with the Mastercraft Settlement and License Agreement entered into on May 2, 2017. For more information, refer to Note 15 of our consolidated financial statements included elsewhere in this Annual Report.

(3) Represents a charge recorded in fiscal year 2016 related to a judgment rendered against us in connection with a lawsuit by Marine Power, a former engine supplier,on August 18, 2016 and the reduction of that charge to $2.2 million, the amount ultimately settled and paid in the fourth quarter of fiscal year 2017. For more information, refer to Note 15 of our consolidated financial statements included elsewhere in this Annual Report.

(4) Represents legal, professional, and advisory fees incurred in connection with our acquisition of Cobalt, which was completed on July 6, 2017, and our agreement to acquire Pursuit, which agreement we signed on August 21, 2018. Integration related expenses for fiscal year 2018 include post-acquisition adjustments to cost of goods sold of $1.5 million for the fair value step up of inventory acquired, most of which was sold during the first quarter of fiscal year 2018.

(5) Represents equity-based incentives awarded to certain of our employees under the Malibu Boats, Inc. Long-Term Incentive Plan and profit interests issued under the previously existing limited liability company agreement of the LLC. For more information, refer to Note 13 of our consolidated financial statements included elsewhere in this Annual Report.

(6) Represents costs incurred in connection with our vertical integration of engines including product development costs and supplier transition performance incentives.

(7) For fiscal year 2018, we recognized other income as a result of a decrease in our estimated tax receivable agreement liability. The reduction in our tax receivable agreement liability resulted from the adoption of the Tax Act, which decreased the estimated tax rate used in computing our future tax obligations and, in turn, decreased the future tax benefit we expect to realize related to increased tax basis from previous sales and exchanges of LLC Units by our pre-IPO owners. Refer to Note 9 of our consolidated financial statements included elsewhere in this Annual Report.

Adjusted Fully Distributed Net Income

We define Adjusted Fully Distributed Net Income as net income attributable to Malibu (i) excluding income tax expense, (ii) excluding the effect of non-recurring or non-cash items, (iii) assuming the exchange of all LLC units into shares of Class A Common Stock, which results in the elimination of non-controlling interest in the LLC, and (iv) reflecting an adjustment for income tax expense on fully distributed net income before income taxes at our estimated effective income tax rate. Adjusted Fully Distributed Net Income is a non-GAAP financial measure because it represents net income attributable to Malibu Boats, Inc., before non-recurring or non-cash items and the effects of non-controlling interests in the LLC.

We use Adjusted Fully Distributed Net Income to facilitate a comparison of our operating performance on a consistent basis from period to period that, when viewed in combination with our results prepared in accordance with GAAP, provides a more complete understanding of factors and trends affecting our business than GAAP measures alone.

We believe Adjusted Fully Distributed Net Income assists our board of directors, management and investors in comparing our net income on a consistent basis from period to period because it removes non-cash or non-recurring items, and eliminates the variability of non-controlling interest as a result of member owner exchanges of LLC Units into shares of Class A Common Stock.

In addition, because Adjusted Fully Distributed Net Income is susceptible to varying calculations, the Adjusted Fully Distributed Net Income measures, as presented in this Annual Report, may differ from and may, therefore, not be comparable to similarly titled measures used by other companies.

The following table shows the reconciliation of the numerator and denominator for net income available to Class A Common Stock per share to Adjusted Fully Distributed Net Income per Share of Class A Common Stock for the periods presented (in thousands except share and per share data):

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	Fiscal Year Ended June 30,		
	2018	2017	2016
Reconciliation of numerator for net income available to Class A Common Stock per share to Adjusted Fully Distributed Net Income per Share of Class A Common Stock:			
Net income attributable to Malibu Boats, Inc.	$27,613	$28,358	$18,042
Income tax provision [1]	58,418	17,593	11,801
Professional fees and litigation settlements [2]	26	1,038	1,111
Marine Power litigation judgment [3]	—	(1,093)	3,268
Acquisition and integration related expenses [4]	5,719	3,056	401
Fair value adjustment for interest rate swap [5]	(369)	(912)	863
Stock-based compensation expense [6]	1,973	1,396	1,947
Engine development [7]	4,871	2,489	—
Adjustment to tax receivable agreement liability [8]	(24,637)	(8,140)	—
Net income attributable to non-controlling interest [9]	3,356	2,717	2,253
Fully distributed net income before income taxes	76,970	46,502	39,686
Income tax expense on fully distributed income before income taxes [10]	20,908	16,508	14,089
Adjusted Fully Distributed Net Income	$56,062	$29,994	$25,597

	Fiscal Year Ended June 30,		
	2018	2017	2016
Reconciliation of denominator for net income available to Class A Common Stock per share to Adjusted Fully Distributed Net Income per Share of Class A Common Stock:			
Weighted average shares outstanding of Class A Common Stock used for basic net income per share:	20,189,879	17,844,774	17,934,580
Adjustments to weighted average shares of Class A Common Stock:			
Weighted-average LLC units held by non-controlling unit holders [11]	1,138,917	1,338,907	1,407,311
Weighted-average unvested restricted stock awards issued to management [12]	132,673	112,859	48,466
Adjusted weighted average shares of Class A Common Stock outstanding used in computing Adjusted Fully Distributed Net Income per Share of Class A Common Stock:	21,461,469	19,296,540	19,390,357

The following table shows the reconciliation of net income available to Class A Common Stock per share to Adjusted Fully Distributed Net Income per Share of Class A Common Stock for the periods presented:

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	Fiscal Year Ended June 30,		
	2018	2017	2016
Net income available to Class A Common Stock per share	$1.37	$1.59	$1.01
Impact of adjustments:			
Income tax provision [1]	2.89	0.99	0.66
Professional fees and litigation settlements [2]	—	0.06	0.06
Marine Power litigation judgment [3]	—	(0.06)	0.18
Acquisition and integration related expenses [4]	0.28	0.17	0.02
Fair value adjustment for interest rate swap [5]	(0.02)	(0.05)	0.05
Stock-based compensation expense [6]	0.10	0.08	0.11
Engine development [7]	0.24	0.14	—
Adjustment to tax receivable agreement liability [8]	(1.22)	(0.46)	—
Net income attributable to non-controlling interest [9]	0.17	0.15	0.13
Fully distributed net income per share before income taxes	3.81	2.61	2.21
Impact of income tax expense on fully distributed income before income taxes [10]	(1.04)	(0.92)	(0.79)
Impact of increased share count [13]	(0.17)	(0.13)	(0.11)
Adjusted Fully Distributed Net Income per Share of Class A Common Stock	$2.60	$1.56	$1.32

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(1) Provision for income taxes for fiscal year 2018 reflects the impact of the Tax Act adopted in December 2017, which among other items, lowered the U.S. corporate income tax rate from 35% to 21%, effective January 1, 2018. For fiscal year 2018, we recorded a non-cash adjustment to income tax expense of $44.5 million for the remeasurement of deferred taxes on the enactment date and the deferred tax impact related to the reduction in the tax receivables agreement liability. Refer to Note 10 of our consolidated financial statements included elsewhere in this Annual Report.

(2) Represents legal and advisory fees related to our litigation with MasterCraft offset by the settlement received from them in connection with the Mastercraft Settlement and License Agreement entered into on May 2, 2017. For more information, refer to Note 15 of our consolidated financial statements included elsewhere in this Annual Report.

(3) Represents a charge recorded in fiscal year 2016 related to a judgment rendered against us in connection with a lawsuit by Marine Power, a former engine supplier,on August 18, 2016 and the reduction of that charge to $2.2 million, the amount ultimately settled and paid in the fourth quarter of fiscal year 2017. For more information, refer to Note 15 of our consolidated financial statements included elsewhere in this Annual Report.

(4) Represents legal, professional, and advisory fees incurred in connection with our acquisition of Cobalt, which was completed on July 6, 2017, and our agreement to acquire Pursuit, which agreement we signed on August 21, 2018. Integration related expenses for fiscal year 2018 include post-acquisition adjustments to cost of goods sold of $1.5 million for the fair value step up of inventory acquired, most of which was sold during the first quarter of fiscal year 2018 and $3.0 million of amortization on intangibles acquired.

(5) Represents the change in the fair value of our interest rate swap entered into on July 1, 2015.

(6) Represents equity-based incentives awarded to certain of our employees under the Malibu Boats, Inc. Long-Term Incentive Plan and profit interests issued under the previously existing limited liability company agreement of the LLC. For more information, refer to Note 13 of our consolidated financial statements included elsewhere in this Annual Report.

(7) Represents costs incurred in connection with our vertical integration of engines including product development costs and supplier transition performance incentives.

(8) For fiscal year 2018, we recognized other income as a result of a decrease in our estimated tax receivable agreement liability. The reduction in our tax receivable agreement liability resulted from the adoption of the Tax Act, which decreased the estimated tax rate used in computing our future tax obligations and, in turn, decreased the future tax benefit we expect to realize related to increased tax basis from previous sales and exchanges of LLC Units by our pre-IPO owners. Refer to Note 9 of our consolidated financial statements included elsewhere in this Annual Report.

(9) Reflects the elimination of the non-controlling interest in the LLC as if all LLC members had fully exchanged their LLC Units for shares of Class A Common Stock.

(10) Reflects income tax expense at an estimated normalized annual effective income tax rate of 28.0% of income before taxes for fiscal year 2018 and 35.5% of income before income taxes for fiscal years ended June 30, 2017 and 2016, in each case assuming the conversion of all LLC Units into shares of Class A Common Stock. The estimated normalized annual effective income tax rate is based on the federal statutory rate plus a blended state rate adjusted for deductions under Section 199 of the Internal Revenue Code of 1986, as amended, state taxes attributable to the LLC, and foreign income taxes attributable to our Australian based subsidiary.

(11) Represents the weighted average shares outstanding of LLC Units held by non-controlling interests assuming they were exchanged into Class A Common Stock on a one-for-one basis.

(12) Represents the weighted average unvested restricted stock awards included in outstanding shares during the applicable period that were convertible into Class A Common Stock and granted to members of management.

(13) Reflects impact of increased share counts assuming the exchange of all weighted average shares outstanding of LLC Units into shares of Class A Common Stock and the conversion of all weighted average unvested restricted stock awards included in outstanding shares granted to members of management.

Quarterly Results of Operations

The table below sets forth our unaudited quarterly consolidated statements of operations and comprehensive income data for each of the eight quarters through the period ended June 30, 2018. The unaudited quarterly consolidated statements of operations and comprehensive income data were prepared on a basis consistent with the audited consolidated financial statements included elsewhere in this Annual Report on Form 10-K. In the opinion of management, the quarterly financial information reflects all adjustments, consisting only of normal recurring adjustments, necessary for a fair presentation of this data. This information should be read in conjunction with the audited consolidated financial statements and related notes included elsewhere in this Annual Report. The historical results presented below are not necessarily indicative of the results to be expected for any future period, and the results for any interim period may not necessarily be indicative of the results of operations for a full year. The numbers in this table may not foot due to rounding differences.

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	Three Months Ended (Unaudited)							
	June 30, 2018	Mar. 31, 2018	Dec. 31, 2017	Sept. 30, 2017	June 30, 2017	Mar. 31, 2017	Dec. 31, 2016	Sept. 30, 2016
Net sales	$138,659	$140,429	$114,373	$103,541	$75,106	$77,149	$67,661	$62,021
Gross profit	33,540	36,363	27,516	22,923	20,040	21,362	17,813	15,823
Operating income	19,513	23,947	15,655	10,952	7,965	13,026	11,661	6,786
Net income (loss)	13,343	16,796	(5,584)	6,414	10,266	8,846	7,737	4,226
Net income attributable to non-controlling interest	904	1,124	799	529	602	833	836	446
Net income (loss) attributable to Malibu Boats, Inc.	$12,439	$15,672	$(6,383)	$5,885	$9,664	$8,013	$6,901	$3,780

Liquidity and Capital Resources

Our primary sources of funds are cash provided by operating activities and borrowings under our revolving credit facility. Our primary use of funds has been for capital investments, debt repayments, acquisitions, and cash distributions to members of the LLC. The following table summarizes the cash flows from operating, investing and financing activities (dollars in thousands):

	Fiscal Year Ended June 30,		
	2018	2017	2016
Total cash provided by (used in):			
Operating activities	$58,455	$35,856	$35,602
Investment activities	(135,856)	(9,246)	(5,990)
Financing activities	106,202	(19,719)	(12,022)
Impact of currency exchange rates on cash balances	—	10	(56)
Increase in cash	$28,801	$6,901	$17,534

Comparison of the Fiscal Year Ended June 30, 2018 to the Fiscal Year Ended June 30, 2017

Operating Activities

Net cash from operating activities was $58.5 million for fiscal year 2018, compared to $35.9 million for the same period in 2017, an increase of $22.6 million. The increase in cash provided by operating activities primarily resulted from an increase in non-cash items included in net income, including a non-cash adjustment to our deferred tax assets, offset by a non-cash adjustment to our tax receivable agreement liability and a decrease in operating assets and liabilities of $7.5 million related to the timing of collections of accounts receivables, payments for accruals and payables, and purchases of inventory.

Investing Activities

Net cash used for investing activities was $135.9 million for fiscal year 2018 compared to $9.2 million for the same period in 2017, an increase of $126.7 million. The increase in cash used for investing activities for fiscal year 2018 was primarily related to our acquisition of Cobalt in July 2017, for cash consideration of $125.6 million, net of cash on hand. Remaining capital outlays consisted of normal purchases for manufacturing infrastructure and expansion activities, molds, and equipment.

Financing Activities

Net cash provided by financing activities was $106.2 million for fiscal year 2018 compared to net cash used in financing activities of $19.7 million for fiscal year 2016, an increase in cash of $125.9 million. During the fiscal year ended June 30, 2018, we received proceeds of $105.0 million from our credit facility to fund the acquisition of Cobalt and $55.3 million in proceeds from our equity offering, which we used to repay $50.0 million on our outstanding term debt. In connection with the term debt and equity offering, we paid $1.1 million and $0.7 million in legal and advisory costs, respectively. In addition, during the fiscal year ended June 30, 2018, we paid $1.6 million in distributions to LLC unit holders.

Comparison of the Fiscal Year Ended June 30, 2017 to the Fiscal Year Ended June 30, 2016
Operating Activities

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Net cash from operating activities was $35.9 million for fiscal year 2017, compared to $35.6 million for the same period in 2016, an increase of $0.3 million. The increase in cash provided by operating activities primarily resulted from changes in operating assets and liabilities of $0.9 million related to the timing of collections of accounts receivables, payments for accruals and payables, and purchases of inventory and by $1.3 million increase in net income (after consideration of non-cash items included in net income). Net cash from operating activities was reduced by $1.9 million for the settlement of a lawsuit with Marine Power, a former engine supplier, related to an amended judgment against us on August 18, 2016.

Investing Activities

Net cash used for investing activities was $9.2 million for fiscal year 2017 compared to $6.0 million for the same period in 2016, an increase of $3.3 million. The increase in cash used for investing activities was primarily due to the purchase of an additional facility in Loudon, Tennessee and related capital improvements and investments for our vertical integration initiatives. Remaining capital outlays consisted of normal purchases for manufacturing infrastructure, molds, and equipment.

Financing Activities

Net cash used in financing activities was $19.7 million for fiscal year 2017 compared to net cash used in financing activities of $12.0 million for fiscal year 2016, a decrease in cash of $7.7 million. During fiscal year 2017, we made principal payments on our prior term loan of $72.0 million and received proceeds of $55.0 million from our new term loan in connection with our Second Amended and Restated Credit Agreement entered into on June 28, 2017. In addition, during fiscal year 2017, we paid $1.5 million in distributions to LLC unit holders. During fiscal year 2016, we made principal payments on our prior term loan of $6.5 million, paid distributions to LLC unit holders of $1.4 million and repurchased $4.0 million of our Class A Common Stock under a share repurchase program.

Loans and Commitments

On June 28, 2017, Malibu Boats, LLC as the borrower (the "Borrower"), entered into a Second Amended and Restated Credit Agreement with SunTrust Bank, as the administrative agent, swingline lender and issuing bank, to refinance our prior credit facility and to provide funds for our purchase of Cobalt. The credit agreement provides the Borrower a term loan facility in an aggregate principal amount of $160.0 million, $55.0 million of which was drawn on June 28, 2017 to refinance the outstanding loans under our prior credit facility and $105.0 million of which was drawn on July 6, 2017 to fund the payment of the purchase price for our acquisition of Cobalt, as well as to pay certain fees and expenses related to entering into the credit agreement. The credit agreement also provides for a revolving credit facility that initially had borrowing capacity of up to $35.0 million. In August 2018, in connection with entering into the agreement to acquire Pursuit, the Borrower entered into the First Incremental Facility Amendment and First Amendment to the Second Amended and Restated Credit Agreement with SunTrust Bank, which increased the amount available for borrowing under our revolving credit facility by $50.0 million from $35.0 million to $85.0 million. Revolving loans made pursuant to this incremental facility will have terms and conditions identical to the initial revolving credit facility, except a ticking fee will accrue on the incremental $50.0 million borrowing capacity. The availability of the incremental borrowing capacity is subject to the satisfaction of certain conditions, including the closing of the acquisition of Pursuit. Each of the term loans and the revolving credit facility have a maturity date of July 1, 2022. The Borrower has the option to request lenders to obtain incremental term loans of up to $50.0 million, subject to the terms of the credit agreement and only if existing or new lenders choose to provide additional term loans.

Borrowings under our 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% (the "Base Rate") or (ii) LIBOR, in each case plus an applicable margin ranging from 1.75% to 3.00% with respect to LIBOR borrowings and 0.75% to 2.00% with respect to Base Rate borrowings. The applicable margin will be based upon the consolidated leverage ratio of the LLC and its subsidiaries calculated on a consolidated basis. As of June 30, 2018, the interest rate on our term loans was 4.09%. The Borrower will also be required to pay a commitment fee for the unused portion of the revolving credit facility and on the daily amount of the unused delayed draw term loan during the availability period, which will range from 0.25% to 0.50% per annum, depending on the LLC's and its subsidiaries' consolidated leverage ratio. If the conditions to the incremental borrowing capacity are satisfied, we will be required to pay a ticking fee that will accrue at a rate of 0.30% per annum on the aggregate amount of the incremental borrowing capacity. Malibu Boats, Inc. is not a party to the credit agreement, and the obligations of the Borrower under the credit agreement are guaranteed by the LLC, and, subject to certain exceptions, the present and future domestic subsidiaries of the Borrower, and all such obligations are secured by substantially all of the assets of the LLC, the Borrower and such subsidiary guarantors.

The credit agreement permits prepayment of the term loans without any penalties. The $55.0 million term loan is subject to quarterly installments of approximately $0.7 million per quarter until March 31, 2019, then approximately $1.0 million per quarter until June 30, 2021, and approximately $1.4 million per quarter through March 31, 2021. The $105.0 million term loan is subject to quarterly installments of approximately $1.3 million per quarter until March 31, 2019, then approximately $2.0

million per quarter until June 30, 2021, and approximately $2.6 million per quarter through March 31, 2022. The balance of both term loans is due on the scheduled maturity date of July 1, 2022. The credit agreement is also subject to 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 credit agreement. On August 17, 2017 the Borrower made a voluntary principal payment on the term loans in the amount of $50.0 million with a portion of the net proceeds from our equity offering completed on August 14, 2017. We exercised our option to apply the prepayment to principal installments on our term loans through December 31, 2021 and a portion of the principal installments due on March 31, 2022. As of June 30, 2018, the outstanding principal amount of our term loans was $110.0 million. We had no amounts outstanding under our revolving credit facility as of June 30, 2018; however, we intend to borrow from the revolving credit facility to pay for a portion of the purchase price of Pursuit, which is expected to close during the second quarter of fiscal year 2019.

The credit agreement 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 credit agreement also requires compliance with certain customary financial covenants, including a minimum ratio of EBITDA to fixed charges and a maximum ratio of total debt to EBITDA. The credit agreement contains certain restrictive covenants, which, among other things, place limits on certain activities of the loan parties under the credit agreement, such as the incurrence of additional indebtedness and additional liens on property and limit the future payment of dividends or distributions. For example, the credit agreement generally prohibits the LLC, the Borrower and the subsidiary guarantors from paying dividends or making distributions, including to the Company. The credit facility permits, however, (i) distributions based on a member's allocated taxable income, (ii) distributions to fund payments that are required under the LLC's tax receivable agreement, (iii) purchase of stock or stock options of the LLC from former officers, directors or employees of loan parties or payments pursuant to stock option and other benefit plans up to $2.0 million in any fiscal year, and (iv) share repurchase payments up to $20.0 million in any fiscal year subject to one-year carry forward and compliance with other financial covenants. In addition, the LLC may make dividends and distributions of up to $6.0 million in any fiscal year, subject to compliance with other financial covenants.

Future Liquidity Needs and Capital Expenditures

Management believes that our existing cash, borrowing capacity under our revolving credit facility and cash flows from operations will be sufficient to fund our operations for the next 12 months, including our purchase of Pursuit. Our future capital requirements will depend on many factors, including the general economic environment in which we operate and our ability to generate cash flow from operations. Factors impacting our cash flow from operations include, but are not limited to, our growth rate and the timing and extent of operating expenses.

We estimate that approximately $3.9 million will be due under the tax receivable agreement within the next 12 months. In accordance with the tax receivable agreement, the next payment is anticipated to occur approximately 75 days after filing the federal tax return which is due on April 15, 2019. Management expects minimal effect on our future liquidity and capital resources.

Capital Resources

Management expects our capital expenditures for fiscal year 2019 to be higher than our 2018 capital expenditures primarily driven by expected investment to further our engine vertical integration initiative and to integrate the operations of Pursuit into our business if our pending acquisition is completed. In addition, capital expenditures for fiscal year 2019 are expected to consist primarily of the finishing of our ongoing projects, new tooling, and expenditures to increase production capacity to accommodate future growth.

Off-Balance Sheet Arrangements

Repurchase Commitments

In connection with our dealers' wholesale floor plan financing of boats, we have entered into repurchase agreements with various lending institutions. The repurchase commitment is on an individual unit basis with a term from the date it is financed by the lending institution through payment date by the dealer, generally not exceeding two and a half years. Such agreements are customary in the industry and our exposure to loss under such agreements is limited by the resale value of the inventory which is required to be repurchased. Refer to Note 15 to the audited consolidated

financial statements included elsewhere in this Annual Report for further information on repurchase commitments.
Contractual Obligations and Commitments

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As of June 30, 2018, our contractual obligations were as follows:

	Payments Due by Period				
	Total	Less than 1 Year	1-3 Years	3-5 Years	More than 5 Years
	(In thousands)				
Term debt [1]	$110,000	$—	$—	$110,000	$—
Interest expense [2]	17,213	4,267	8,626	4,320	—
Operating leases [3]	21,763	2,349	4,623	4,634	10,157
Purchase obligations [4]	66,932	66,932	—	—	—
Payments pursuant to tax receivable agreement [5]	55,046	3,932	7,128	7,467	36,519
Total	$270,954	$77,480	$20,377	$126,421	$46,676

(1) Principal payments on our outstanding term loans under our credit agreement. We had no amounts outstanding under our revolving credit facility as of June 30, 2018. We may borrow up to $35.0 million (or $85.0 million if we complete our acquisition of Pursuit) under our revolving credit facility, which matures on July 1, 2022.

(2) Interest payments on our outstanding term loans under our credit agreement. Our term loan has variable rate interest. We have calculated future interest obligations based on the interest rate for our term loans as of June 30, 2018.

(3) We sold our two primary manufacturing and office facilities for a total of $18.3 million in 2008, which resulted in a gain of $0.7 million. Simultaneous with the sale, we entered into an agreement to lease back the buildings for an initial term of 20 years. The net gain of $0.2 million has been deferred and is being amortized in proportion to rent charged over the initial lease term.

(4) As part of the normal course of business, we enter into purchase orders from a variety of suppliers, primarily for raw materials, in order to manage our various operating needs. The orders are expected to be purchased throughout fiscal year 2019.

(5) Reflects amounts owed under our tax receivables agreement that we entered into with our pre-IPO owners at the time of our IPO. Under the tax receivables agreement, we pay the pre-IPO owners (or any permitted assignees) 85% of the amount of cash savings, if any, in U.S. federal, state and local income tax or franchise tax that we actually realize, or in some circumstances are deemed to realize, as a result of an expected increase in our share of tax basis in LLC’s tangible and intangible assets, including increases attributable to payments made under the tax receivable agreement. These obligations will not be paid if we do not realize cash tax savings. The amounts owed reflect adjustments in the tax receivables agreement liability as a result of the passage of the Tax Act in December 2017.

Our dealers have arrangements with certain finance companies to provide secured floor plan financing for the purchase of our products. These arrangements indirectly provide liquidity to us by financing dealer purchases of our products, thereby minimizing the use of our working capital in the form of accounts receivable. A majority of our sales are financed under similar arrangements, pursuant to which we receive payment within a few days of shipment of the product. We have agreed to repurchase products repossessed by the finance companies if a dealer defaults on its debt obligations to a finance company and the boat is returned to us, subject to certain limitations. Our financial exposure under these agreements is limited to the difference between the amounts unpaid by the dealer with respect to the repossessed product plus costs of repossession and the amount received on the resale of the repossessed product. During fiscal year 2016, we agreed to repurchase three units from the lender of two of our former dealers resulting in combined losses of $0.03 million. No units were repurchased for fiscal years 2018 and 2017. An adverse change in retail sales could require us to repurchase repossessed units upon an event of default by any of our dealers, subject to the annual limitation.

Seasonality

Our dealers experience seasonality in their business. Retail demand for boats is seasonal, with a significant majority of sales occurring during peak boating season, which coincides with our first and fourth fiscal quarters. In order to minimize the impact of this seasonality on our business, we manage our manufacturing processes and structure dealer incentives to tie our annual volume rebates program to consistent ordering patterns, encouraging dealers to purchase our products throughout the year. In this regard, we may offer free flooring incentives to dealers from the beginning of our model year through April 30 of each year. Further, in the event that a dealer does not consistently order units throughout the year, such dealer's rebate is materially reduced. We may offer off-season retail promotions to our dealers in seasonally slow months, during and ahead of boat shows, to encourage retail demand.

Emerging Growth Company

We are an "emerging growth company," as defined in the JOBS Act. For as long as we are an "emerging growth company," we may take advantage of certain exemptions from various reporting requirements that are applicable to other public companies that are not "emerging growth companies," including, but not limited to, not being required to comply with the

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auditor attestation requirements of Section 404(b) of the Sarbanes-Oxley Act, reduced disclosure obligations regarding executive compensation in our periodic reports and proxy statements and exemptions from the requirements of holding stockholder advisory “say-on-pay” votes on executive compensation and stockholder advisory votes on golden parachute compensation.

The JOBS Act also provides that an “emerging growth company” can utilize the extended transition period provided in Section 7(a)(2)(B) of the Securities Act, for complying with new or revised accounting standards. Pursuant to Section 107 of the JOBS Act, we have chosen to “opt out” of such extended transition period and, as a result, we will comply with new or revised accounting standards on the relevant dates on which adoption of such standards is required for companies that are not “emerging growth companies.” Under the JOBS Act, our decision to opt out of the extended transition period for complying with new or revised accounting standards is irrevocable.

We will continue to be an emerging growth company until the earliest to occur of (i) the last day of the fiscal year during which we had total annual gross revenues of at least $1 billion (as indexed for inflation), (ii) the last day of the fiscal year following the fifth anniversary of the closing of the IPO, (iii) the date on which we have, during the previous three-year period, issued more than $1 billion in non-convertible debt or (iv) the date on which we are deemed to be a "large accelerated filer," as defined under the Exchange Act. We expect to remain an "emerging growth company" until June 30, 2019.

Inflation

The market prices of certain materials and components used in manufacturing our products, especially resins that are made with hydrocarbon feedstocks, copper, aluminum and stainless steel, can be volatile. Historically, however, inflation has not had a material effect on our results of operations. Significant increases in inflation, particularly those related to wages and increases in the cost of raw materials, could have an adverse impact on our business, financial condition and results of operations.

New boat buyers often finance their purchases. Inflation typically results in higher interest rates that could translate into an increased cost of boat ownership. Should inflation and increased interest rates occur, prospective consumers may choose to forgo or delay their purchases or buy a less expensive boat in the event credit is not available to finance their boat purchases.

Critical Accounting Policies

Our discussion and analysis of our financial condition and results of operations are based upon our consolidated financial statements, which have been prepared in accordance with GAAP. These principles require us to make estimates and judgments that affect the reported amounts of assets, liabilities, expenses and cash flows, and related disclosure of contingent assets and liabilities. Our estimates include those related to business combinations, revenue recognition, income taxes, tax receivable agreement liability, and warranty claims. We base our estimates on historical experience and on various other assumptions that we believe to be reasonable under the circumstances. Actual results may differ from these estimates. To the extent that there are material differences between these estimates and our actual results, our future financial statements will be affected.

We believe that of our significant accounting policies, which are described in the notes to our audited consolidated financial statements appearing elsewhere in this Annual Report, the accounting policies listed below involve a greater degree of judgment and complexity. Accordingly, we believe these are the most critical to understand and evaluate fully our financial condition and results of operations.

Business Combinations

We account for business acquisitions under ASC 805, Business Combinations. The total purchase consideration for an acquisition is measured as the fair value of the assets given, equity instruments issued and liabilities assumed at the acquisition date. Costs that are directly attributable to the acquisition are expensed as incurred. Identifiable assets (including intangible assets) and liabilities assumed in an acquisition are measured initially at their fair values at the acquisition date. We recognize goodwill if the fair value of the total purchase consideration and any noncontrolling interests is in excess of the net fair value of the identifiable assets acquired and the liabilities assumed. We include the results of operations of the acquired business in the consolidated financial statements beginning on the acquisition date. We recognized goodwill of $19.8 million as of result of our acquisition of Cobalt in 2017 and had goodwill outstanding of $32.2 million on June 30, 2018.

When determining such fair values, we make significant estimates and assumptions. Critical estimates include, but are not limited to, future expected cash flows from the underlying assets and discount rates. Our estimate of fair values is based on assumptions believed to be reasonable but that are inherently uncertain and unpredictable. As a result, actual results may differ from our estimates. Furthermore, our estimates might change as additional information becomes available.

Revenue Recognition

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We generally manufacture products based on specific orders from dealers and often ship completed products only after receiving credit approval from third-party financial institutions or those participating in floor financing programs. Revenue associated with sales to dealers financed through either source is primarily recorded when all of the following conditions have been met:

- an order for a product has been received;
- a common carrier signs the delivery ticket accepting responsibility for the product; and
- the product is removed from our property for delivery.

These conditions are generally met when title passes, which is when boats are shipped to dealers in accordance with shipping terms, which are primarily free on board shipping point.

Dealers generally have no rights to return unsold boats. From time to time, however, we may accept returns in limited circumstances and at our discretion under our warranty policy, which generally limits returns to instances of manufacturing defects. We estimate the costs that may be incurred under our basic limited warranty and record a liability in the amount of such costs at the time the product revenue is recognized. We may also be obligated, in the event of default by a dealer, to accept returns of unsold boats under our repurchase commitment to floor financing providers, which are able to obtain such boats through foreclosure. We accrue estimated losses when a loss, due to the default of one of our dealers, is determined to be probable and the amount of the loss is reasonably estimable. Refer to Notes 7 and 15 to our audited consolidated financial statements included elsewhere in this Annual Report for more information related to our product warranty and repurchase commitment obligations, respectively.

Revenue from boat part sales is recorded as the product is shipped from our location, which is free on board shipping point. Revenue associated with sales of materials, parts, boats or engine products sold under our exclusive manufacturing and distribution agreement with our Australian licensee prior to the closing date of its acquisition were recognized under free-on-board port of disembarkment terms, the point at which the risks of ownership and loss passed to the licensee. Revenue from our Australia operations recognized after the acquisition date is eliminated in consolidation. We also earned royalties from our Australian licensee prior to its acquisition, which were accrued on a monthly basis based on a percentage of the licensee's gross sales. Royalties earned were paid to us on a quarterly basis. Royalty income earned after the acquisition date is eliminated in consolidation.

Revenue associated with sales to the independent representative responsible for international sales is recognized in accordance with free on board shipping point terms, the point at which the risks of ownership and loss pass to the representative. A fixed percentage discount is earned by the independent representative at the time of shipment to the representative as a reduction in the price of the boat and is recorded in our consolidated statement of operations as a reduction in sales.

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, our direct, wholly owned subsidiary, continues to operate in the United States as a partnership for U.S. federal income tax purposes.

We file various federal and state tax returns, including some returns that are consolidated with subsidiaries. We account for the current and deferred tax effects of such returns using the asset and liability method. Significant judgments and estimates are required in determining our current and deferred tax assets and liabilities, which reflect our best assessment of the estimated future taxes we will pay. These estimates are updated throughout the year to consider income tax return filings, our geographic mix of earnings, legislative changes and other relevant items.

We recognize deferred tax assets and liabilities based on the differences between the financial statement carrying amounts of assets and liabilities and the amounts applicable for income tax purposes. Deferred tax assets represent items to be realized as a tax deduction or credit in future tax returns. Realization of the deferred tax assets ultimately depends on the existence of sufficient taxable income of the appropriate character in either the carryback or carryforward period.

Each quarter we analyze the likelihood that our deferred tax assets will be realized. A valuation allowance is recorded if, based on the weight of all available positive and negative evidence, it is more likely than not (a likelihood of more than 50%) that some portion, or all, of a deferred tax asset will not be realized. A summary of our deferred tax assets is included in Note 10 to our audited consolidated financial statements included elsewhere in this Annual Report.

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On an annual basis, we perform a comprehensive analysis of all forms of positive and negative evidence based on year end results. During each interim period, we update our annual analysis for significant changes in the positive and negative evidence.

If we later determine that realization is more likely than not for deferred tax assets with a valuation allowance, the related valuation allowance will be reduced. Conversely, if we determine that it is more likely than not that we will not be able to realize a portion of our deferred tax assets, we will increase the valuation allowance.

We recognize a tax benefit associated with an uncertain tax position when, in our judgment, it is more likely than not that the position will be sustained based upon the technical merits of the position. For a tax position that meets the more-likely-than-not recognition threshold, we initially and subsequently measure the income tax benefit as the largest amount that we judge to have a greater than 50% likelihood of being realized. Our liability associated with unrecognized tax benefits is adjusted periodically due to changing circumstances, such as the progress of tax audits, case law developments and new or emerging legislation. Such adjustments are recognized entirely in the period in which they are identified. Our income tax provision includes the net impact of changes in the liability for unrecognized tax benefits.

We filed federal and state income tax returns that remain open to examination for years 2015 through 2017, while our subsidiaries, Malibu Boats Holdings, LLC and Malibu Boats Pty Ltd., remain open to examination for years 2014 through 2017. We are currently undergoing an IRS examination of our June 30, 2015 return which began in the fourth quarter of fiscal year 2017, which we hope to complete by the first half of fiscal year 2019. While it is often difficult to predict the final outcome or the timing of resolution of any particular tax matter, we believe our liability for unrecognized tax benefits described below is adequate.

We consider an issue to be resolved at the earlier of the issue being “effectively settled,” settlement of an examination, or the expiration of the statute of limitations. Upon resolution, unrecognized tax benefits will be reversed as a discrete event.

Our liability for unrecognized tax benefits is generally presented as noncurrent. However, if we anticipate paying cash within one year to settle an uncertain tax position, the liability is presented as current. We classify interest and penalties recognized on the liability for unrecognized tax benefits as income tax expense.

Tax Receivable Agreement

As a result of exchanges of LLC Units into Class A Common Stock and purchases by us of LLC Units from holders of LLC Units, we will become entitled to a proportionate share of the existing tax basis of the assets of the LLC at the time of such exchanges or purchases. In addition, such exchanges or purchases of LLC Units are expected to result in increases in the tax basis of the assets of the LLC that otherwise would not have been available. These increases in tax basis may reduce the amount of tax that we would otherwise be required to pay in the future. These increases in tax basis may also decrease gains (or increase losses) on future dispositions of certain capital assets to the extent tax basis is allocated to those capital assets.

In connection with our IPO and the recapitalization we completed in connection with our IPO, we entered into a tax receivable agreement with the pre-IPO owners of the LLC that provides for the payment by us to the pre-IPO owners (or any permitted assignees) of 85% of the amount of the benefits, if any, that we are deemed to realize as a result of (i) increases in tax basis and (ii) certain other tax benefits, including those attributable to payments, under the tax receivable agreement. These contractual payment obligations are our obligations and are not obligations of the LLC, and are accounted for in accordance with ASC 450, Contingencies, since the obligations were deemed to be probable and reasonably estimable. For purposes of the tax receivable agreement, the benefit deemed realized by us will be computed by comparing our actual income tax liability (calculated with certain assumptions) to the amount of such taxes that we 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 we not entered into the tax receivable agreement.

The timing and/or amount of aggregate payments due under the tax receivable agreement may vary based on a number of factors, including the amount and timing of the taxable income we generate in the future and the tax rate then applicable and amortizable basis.

The term of the tax receivable agreement will continue until all such tax benefits have been utilized or expired, unless we exercise our right to terminate the tax receivable agreement for an amount based on the agreed payments remaining to be made under the agreement. In certain mergers, asset sales or other forms of business combinations or other changes of control, we (or our successor) would owe to the pre-IPO owners of the LLC (or any permitted assignees) 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 all LLC Units and that we would have had sufficient

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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.

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. For our Cobalt brand boats, we provide a structural warranty of up to ten years which covers hull/deck joints, bulkheads, floor, transom, stringers, and motor mount. In addition, we provide a five year bow-to-stern warranty on all components manufactured or purchased (excluding hull and deck structural components), including canvas and upholstery. Gelcoat is covered up to three years for Cobalt and one year for Malibu and Axis. Some materials, components or parts of the boat that are not covered by our limited product warranties are separately warranted by their manufacturers or suppliers. These other warranties include warranties covering engines and other components.

Our standard warranties require us or our dealers to repair or replace defective products during the warranty period at no cost to the consumer. We estimate the costs that may be incurred under our basic limited warranty and record as a liability in the amount of such costs at the time the product revenue is recognized. Factors that affect our warranty liability include the number of units sold, historical and anticipated rates of warranty claims, and cost per claim. We utilize historical trends and analytical tools to assist in determining the appropriate warranty liability. The extension of our warranty coverage period is expected to continue to increase our obligations to cover warranty claims over time resulting in an increase in our reserve to cover these warranty claims. We periodically assess the adequacy of the recorded warranty liabilities by brand and will adjust the amounts as necessary based on the best available information and trends.

New Accounting Pronouncements

See "Part II, Item 8. Financial Statements and Supplementary Data—Note 1—Organization, Basis of Presentation, and Summary of Significant Accounting Policies—New Accounting Pronouncements.”

Item 7A. Quantitative and Qualitative Disclosures About Market Risk

Market risk represents the risk of loss that may impact our financial condition through adverse changes in financial market prices and rates and inflation. Changes in these factors could cause fluctuations in our results of operations and cash flows. In the ordinary course of business, we are primarily exposed to foreign exchange rate and interest rate risks. We manage our exposure to these market risks through regular operating and financing activities. In the past, we have also attempted to reduce our market risks through hedging instruments such as interest rate swaps.

Foreign Exchange Rate Risk

We have operations both within the United States and Australia, and we are exposed to market risks in the ordinary course of our business. These risks primarily include foreign exchange rate and inflation risks. Our Australian operations purchase key components from our U.S. operations, as well as other U.S. based suppliers, and pay for these purchases in U.S. dollars. Fluctuations in the foreign exchange rate of the U.S. dollar against the Australian dollar have resulted in a foreign currency transaction loss of $0.1 million, gain of $0.1 million and loss of $0.1 million for the fiscal years ended June 30, 2018, 2017 and 2016, respectively. We are also subject to risks relating to changes in the general economic conditions in the countries where we conduct business. To reduce certain of these risks to our Australian operations, we monitor, on a regular basis, the financial condition and position of the subsidiary. We do not use derivative instruments to mitigate the impact of our foreign exchange rate risk exposures.

Additionally, the assets and liabilities of our Australian subsidiary are translated at the foreign exchange rate in effect at the balance sheet date. Translation gains and losses are reflected as a component of accumulated other comprehensive loss in the stockholders’ equity section of the accompanying consolidated balance sheets. Revenues and expenses of our foreign subsidiary are translated at the average foreign exchange rate in effect for each month of the quarter. Certain assets and liabilities related to intercompany positions reported on our consolidated balance sheet that are denominated in a currency other than the functional currency are translated at the foreign exchange rates at the balance sheet date and the associated gains and losses are included in net income.

Interest Rate Risk

We are subject to interest rate risk in connection with borrowings under our revolving credit facility and term loans, which bear interest at variable rates. At June 30, 2018, we had $110.0 million of term loans outstanding under our term loan facility

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and no outstanding debt under our revolving credit facility. As of June 30, 2018, the undrawn borrowing amount under our revolving credit facility was $35.0 million. Borrowings under the term loans and revolving credit facility bear interest at our option of (i) the highest of the prime rate, the Federal Funds Rate plus 0.5%, or one-month LIBOR plus 1%, which is the Base Rate, or (ii) LIBOR, in each case plus an applicable margin ranging from 0.75% to 2.00% with respect to Base Rate borrowings and 1.75% to 3.00% with respect to LIBOR borrowings. Therefore, our income and cash flows will be exposed to changes in interest rates to the extent that we do not have effective hedging arrangements in place.

At June 30, 2018, the interest rate on our term loan was 4.09%. Based on a sensitivity analysis at June 30, 2018, assuming no amounts are outstanding under our revolving credit facility for a full year, a 100 basis point increase in interest rates would increase our annual interest expense by approximately $0.9 million.

On July 1, 2015, we entered into a 5-year floating to fixed interest rate swap with a certain counterparty to the previously existing credit agreement to mitigate the risk of interest rate fluctuations associated with our variable rate long term debt. The swap has an effective start date of July 1, 2015 and is based on a one-month LIBOR rate versus a 1.52% fixed rate on a notional value of $39.3 million, which was equal to 50% of the outstanding balance of our term loan at the time of the swap arrangement. For the fiscal year ended June 30, 2018, we recorded a gain of $0.4 million for the change in fair value of the interest rate swap, which is included in interest expense in the consolidated statements of operations and comprehensive income (loss).

Item 8. Financial Statements and Supplementary Data

INDEX TO FINANCIAL STATEMENTS

Report of Independent Registered Public Accounting Firm
To the Stockholders and Board of Directors
Malibu Boats, Inc.:

Opinion on the Consolidated Financial Statements

We have audited the accompanying consolidated balance sheets of Malibu Boats, Inc. and subsidiaries (the Company) as of June 30, 2018 and 2017, the related consolidated statements of operations and comprehensive income, stockholders' equity, and cash flows for each of the years in the three year period ended June 30, 2018, and the related notes (collectively, the consolidated financial statements). In our opinion, the consolidated financial statements present fairly, in all material respects, the financial position of the Company as of June 30, 2018 and 2017, and the results of its operations and its cash flows for each of the years in the three year period ended June 30, 2018, in conformity with U.S. generally accepted accounting principles.

Basis for Opinion

These consolidated financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these consolidated financial statements based on our audits. We are a public accounting firm registered with the Public Company Accounting Oversight Board (United States) (PCAOB) and are required to be independent with respect to the Company in accordance with the U.S. federal securities laws and the applicable rules and regulations of the Securities and Exchange Commission and the PCAOB.

We conducted our audits in accordance with the standards of the PCAOB. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the consolidated financial statements are free of material misstatement, whether due to error or fraud. The Company is not required to have, nor were we engaged to perform, an audit of its internal control over financial reporting. As part of our audits, we are required to obtain an understanding of internal control over financial reporting but not for the purpose of expressing an opinion on the effectiveness of the Company's internal control over financial reporting. Accordingly, we express no such opinion.

Our audits included performing procedures to assess the risks of material misstatement of the consolidated financial statements, whether due to error or fraud, and performing procedures that respond to those risks. Such procedures included examining, on a test basis, evidence regarding the amounts and disclosures in the consolidated financial statements. Our audits also included evaluating the accounting principles used and significant estimates made by management, as well as evaluating the overall presentation of the consolidated financial statements. We believe that our audits provide a reasonable basis for our opinion.

/s/ KPMG LLP

We have served as the Company's auditor since 2015.

Knoxville, Tennessee
September 6, 2018

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

	Fiscal Year Ended June 30,		
	2018	2017	2016
Net sales	$497,002	$281,937	$252,965
Cost of sales	376,660	206,899	186,145
Gross profit	120,342	75,038	66,820
Operating expenses:			
Selling and marketing	13,718	8,619	7,475
General and administrative	31,359	24,783	21,256
Amortization	5,198	2,198	2,185
Operating income	70,067	39,438	35,904
Other income (expense):			
Other	24,705	10,789	76
Interest expense	(5,385)	(1,559)	(3,884)
Other income (expense)	19,320	9,230	(3,808)
Net income before provision for income taxes	89,387	48,668	32,096
Income tax provision	58,418	17,593	11,801
Net income	30,969	31,075	20,295
Net income attributable to non-controlling interest	3,356	2,717	2,253
Net income attributable to Malibu Boats, Inc.	$27,613	$28,358	$18,042
Comprehensive income:			
Net income	$30,969	$31,075	$20,295
Other comprehensive income (loss), net of tax:			
Change in cumulative translation adjustment	(621)	469	(390)
Other comprehensive income (loss), net of tax	(621)	469	(390)
Comprehensive income, net of tax	30,348	31,544	19,905
Less: comprehensive income attributable to non-controlling interest, net of tax	3,328	2,758	2,214
Comprehensive income attributable to Malibu Boats, Inc., net of tax	$27,020	$28,786	$17,691
Weighted average shares outstanding used in computing net income per share:			
Basic	20,179,381	17,846,894	17,934,580
Diluted	20,281,210	17,951,332	17,985,427
Net income available to Class A Common Stock per share:			
Basic	$1.37	$1.59	$1.01
Diluted	$1.36	$1.58	$1.00

The accompanying notes are an integral part of these Consolidated Financial Statements.

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

	June 30, 2018	June 30, 2017
Assets		
Current assets		
Cash	$61,623	$32,822
Trade receivables, net	24,625	9,846
Inventories, net	44,268	23,835
Prepaid expenses and other current assets	3,298	2,470
Income tax receivable	100	1,111
Total current assets	133,914	70,084
Property and equipment, net	40,845	24,123
Goodwill	32,230	12,692
Other intangible assets, net	94,221	9,597
Deferred tax assets	64,105	107,088
Other assets	453	79